Charles Koch, the Cato Institute and the
Makings of a Right-Wing Empire

Charles Koch, the billionaire philanthropist who’s the source of much of the Right’s “dark money,” did not just become a convert to the ultra-capitalist radical right. He is the sole reason why this movement may yet alter the trajectory of the United States in ways that would be profoundly disturbing even to the somewhat undemocratic James Madison, I believe—and would unquestionably take the “demos” out of American democratic governance. How Koch came to know libertarianism is easy to answer: at his father’s dinner table. Less obvious is why he continued to pour untold millions of dollars into this cause, even as he later acknowledged that for some three decades it produced few results. He made clear he was looking for something, but what that something was, beyond a “technology” of revolution, remained unclear. When and where he found it is not: in the ideas of James Buchanan, the founder of the public choice school of political economy, sometimes called Virginia political economy, and the first U.S. Southerner to win the Nobel Prize in economics. In the eventual merger of Koch’s money and managerial talent and the Buchanan team’s decades of work monomaniacally identifying how the populace became more powerful than the propertied, a virtual fifth column movement would come into being, the likes of which no nation has ever seen.

At first it seems hard to imagine why a man who had so much would become consumed with a need to take down those who just wanted “some more” for themselves (in the immortal words of Oliver Twist). The answer, to the extent that one can be found in the mysteries of individual human personality, lies in a childhood in which fighting was a leitmotif and government was always the enemy.

Charles G. (de Ganahl) Koch was the second of four sons of Fred Chase Koch, a man who made his millions running an oil-refining business. Through much of his youth, Charles and his brothers watched their father fight round after round of what no doubt seemed to the family, despite its wealth, a David-and-Goliath-style legal battle. It lasted 23 years. On one side was a behemoth known as Universal Oil Products, which was owned by a group of major corporations, including what remained of John D. Rockefeller’s Standard Oil, and which had monopolistic tendencies. On the other was Fred Koch.  

As the plaintiff, Universal Oil claimed that the innovative technical process that had already made Fred Koch a wealthy man violated its patent rights. Koch was up against an adversary that had unlimited funds and therefore access to the best lawyers. They won virtually every lawsuit they filed for patent violations against new competitors. But Koch did not buckle. His attorney argued that his accusers kept control of the industry through a kind of government-backed blackmail, such that “a small refiner . . . is told that if he does not take a license [from the patent-owning company] he will suffer the penalty.” At trial, Koch lost. His appeals failed as well. But later he learned, as the investigative reporter Daniel Schulman has put it, that “the ruling that had sealed his company’s fate had been bought and paid for” by the company that sued him. The judge had been bribed. It took two decades and the exposure of that corruption, but Koch ultimately prevailed.

Universal Oil Products engaged in what Buchanan’s coauthor Gordon Tullock would later define as (and an adult Charles Koch would revile as) “rent-seeking behavior.” It referred to all attempts to extract benefits (financial or otherwise) through manipulation of the political or legal system that exceeded what those seeking these advantages would have been able to earn through their own productive activity. Of course, what happened to Fred Koch wasn’t rent-seeking behavior; it was criminal behavior. If Universal’s lawyers felt confident that the courts would have sustained their claims, then Universal would not have resorted to bribery. One can only wonder if the course of both Fred’s and Charles’s lives might have been somehow different had the judge in the case refused the bribe and heard the case on its merits.

Then again, there is no gainsaying the fact that Fred Koch did not need a lawsuit to lead him to the Right. When asked to describe his father, Charles called him “a John Wayne-type figure, charismatic and forceful,” someone who taught his boys to love liberty, venerate hard work, and passionately hate collectivism. “He was constantly speaking to us children about...
what was wrong with government,” recalled David Koch, one of Charles’s two younger brothers. But he was even more derogatory about those who turned to government for help, expressing his utter contempt for those who had a “dependence on government” or were even temporarily “feeding at the public trough.”

Making and enjoying money was never enough for Fred Koch, as it would not be enough for the son he groomed to be his successor. He had to have things his way. In 1958, after his victory against Universal Oil, Fred co-led a referendum drive to alter the state constitution in order to make it harder for unions to take root in Kansas. Fred was a passionate advocate of so-called right-to-work laws. Today he is most remembered as a founding member of the John Birch Society earlier the same year, declaring that he was “thoroughly disgusted with the Eisenhower variety of Republicanism.”

Charles was in graduate school at MIT at the time his father helped launch the society, and was keeping his distance from the stern hand of the family patriarch. By all accounts, Charles continued to be more interested in things—above all, how they worked and how to make them work more efficiently—than in philosophy; he earned three engineering degrees before departing from MIT. He liked living in Cambridge and chose to remain in the Boston area in a consulting job after graduation, beyond the reach of the man who had been so bent on hardening him that he had sent Charles, against his will, to a string of boarding schools as a preadolescent and then to an Indiana military academy far from home for high school. But Charles was raised to respect his parents. So when Fred Koch, ailing, called upon him to help with the family business—or see it sold off—the prodigal son returned to Wichita.

The company he gradually took over had, at the time he returned, annual revenues of more than $115 billion (well over a thousandfold increase from what it was when he took over) and some 67,000 employees in almost 60 nations. Indeed, within a decade of his assuming leadership, and at a time when America had only five billionaire families (four of whose fortunes went back to the Gilded Age), the Kochs had already reached the top 20 in wealth through Charles’s deft navigation of the family’s original industry, crude oil marketing, and smart expansion into other domains. Keeping the company private, he also maintained control.

Koch’s competitors learned never to underestimate his determination, his skill at seeing many moves beyond them, and his virtually infinite patience. Playing the long game is his forte, something other Americans are just beginning to understand.

As Koch was building his company into the behemoth it is today, he never stopped reading. Among his favorite authors was Ludwig von Mises, who, like Ayn Rand, wrote of entrepreneurs with reverence, treating them as the greatest heroes in human history. That sense of intellectual and even ethical superiority to others may help explain why Charles Koch bypassed the also libertarian but more empirically and practically minded economist Milton Friedman to make common cause with the more uncompromising James Buchanan. Koch referred to Friedman and the rest of the post–Hayek Chicago school of economics he led, as well as to Alan Greenspan, as “sellouts to the system,” in the words of journalist Brian Doherty. Why? Because they sought “to make government work more efficiently when the true libertarian should be tearing it out at the root.” They actually tried to help government deliver better results, which could only prolong the disease. Koch believed that only in its “radical, pure form,” without compromise, would the ideas “appeal to the brightest, most enthusiastic, most capable people.”

In the beginning, though, it was difficult to find bright and capable people who believed as he did. When “I started [bankrolling the cause],” Koch marveled, “we’d be lucky if we could get a half dozen professors or scholars.” Still, he continued to invest, undaunted by the eccentricities of the human raw material at hand. At one 1975 gathering of Institute for Humane Studies members in Hart-
er recalled, that an additional big car had
to be hired to port it all. It was, he remi-
nisced, like the “forming of a clan.” 14

It is hard to imagine such a clan up-
ending the known world within a few
decades, but chance won them a wider
hearing. It came with the troubling eco-
nomic events of the mid-1970s, which
undercut the credibility of the prevailing
approach to political economy. The worst
and longest recession since the Great De-
pression, followed by a mystifying period
of stagflation and compounded by new
competition from abroad, enabled the
wider Right to draw more and more cor-
porate leaders into action. They wanted
not just to rein in regulation and taxa-
tion, but also to dethrone the dominant
paradigm of Keynesian economics that
was at the core of the midcentury social
contract. 15

Although deeply interested in this very
project, Koch remained on the sidelines of
the energetic corporate mobilization
then under way. He simply did not trust
the big blue-chip, publicly traded com-
panies and established business associa-
tions that took the lead to stand on prin-
ciple (which, in fact, they did not, always
making exceptions for themselves), so
Koch kept his contributions separate. He
would not intermix his money with that
of the ideologically impure, those who
seemed likely to quit or cut a side deal
before the long game was won. As they
did. 16

As important, because he had assured
himself that his actions were solely mo-
tivated by principle, by allegiance to a
set of ideas that would create a better
society, he remained religious about the
need to discipline CEOs as well as social
movements and others who looked to
government. “How discrediting it is for
us to request [corporate] welfare for our-
selves,” Charles Koch chided his fellow
businessmen in 1978, “while attacking
[welfare] for the poor.” No wonder the
enemies of free enterprise called compa-
nies attacks on big government hypocriti-
cal. “We must practice what we preach,”
he intoned, and cease seeking special
privileges and subsidies.17

Given the interest of James Buchanan’s
team in what they called rent-seeking
and in new legal rules that might prevent
it, the man who jokingly referred to him-
selves as an “adopted Austrian,” and who
privately speculated about the benefits to
the Virginia school of political economy
he had founded of “assuming the role of
the American ‘Hayek,’” found himself
drawing closer to the people represent-
ing Koch’s political interests. And when
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foundation in 1974, Buchanan was invit-
ed to be the featured dinner speaker for
our first formal activity.” Held in Char-
lottessville, where kindred economists
and law school faculty were now working
so well together at the University of Vir-
ginia, it was the first of a series of gather-
ings that were not merely for the like-
minded to get acquainted. They featured
intense deliberations on topics ranging
from “The New Monetary Theory” to
“The Austrian View of Social Cost.” 18

Koch’s team knew of James Buchanan
not least because the libertarian milieu
was still so small. Earlier, they had wel-
comed the economist’s argument against
“appeasement” of campus protests, pub-
lishing a pamphlet-size version of Aca-
demia in Anarchy—in which Buchanan
and a co-author had applied Virginia
school analysis to explain the campus
upheaval of the 1960s as the result of un-
iversities not being run like corpora-
tions—to reach a broader audience than
the book had. Indeed, more than any-
thing else, it was Buchanan’s and Koch’s
shared commitment to school privatiza-
tion at every level that started a collabo-
rati on that deepened over the next two
decades. 19

Being an insatiable reader and an ex-
acting thinker, Koch was made to partner
with a man like Buchanan. His questions
at the early Charles Koch Foundation
seminars, which built community and

When William E. Simon, Nixon’s Treas-
ury Secretary and by 1978 the presi-
dent of the John M. Olin Foundation,
urged corporate leaders to “rush [funds]
by multimillions to the aid of liberty,”
by funding positions for pro-capitalist
faculty on university campuses, Charles
Koch needed little convincing—he was
already writing checks. 21 And he was
writing them not simply from a desire
to broaden public debate. He was seek-
ing the alchemy that might help him
take what was then a quirky backwater
of a movement and turn it into a rushing
river powerful enough to smash through
the dam of the 20th Century state. Which
explains his interest in Murray Rothbard,
one of the intellectuals Koch first subsi-
dized. It was Rothbard who explained to
him how small numbers could effect big
changes. Rothbard suggested that Koch
study Lenin. 22

“I grew up in a Communist culture,”
Rothbard later said of the extended “fam-
ily, friends, [and] neighbors” in the New
York City milieu he rebelled against.
Even as he despised their goals, he took
from their heated discussions in the 1930s
and 1940s, as well as his own wide
reading in the original sources, a deep
appreciation of the strategic and tacti-
cal genius of Vladimir Lenin, who led a
revolution in a place where others said it
simply could not be done. A champion
of “uncompromising libertarianism,”
Rothbard, like Lenin, believed that gov-
ernment was “our enemy.” He admired
Lenin’s daring leadership, but most of all
he saw that some of his techniques could
serve a wholly opposite purpose: namely,
to establish a kind of capitalism purer and less restrained than the world had ever known. 23

In 1976, over a weekend of discussion as Koch’s guest in Vail, Colorado, Rothbard explained to his host how a Lenin-like libertarian strategy might work. The Russian revolutionary had once said of the ranks of the revolutionary party, “Better fewer, but better.” To create a sound, disciplined movement, Rothbard explained, preparing a “cadre” must be the top priority. What his admiring biographer, a foot soldier himself, summed up as “the general flakiness and counter-culturalism” of so many libertarians had had its day, Rothbard told Koch. The survivalist-like stocking up on beans and science fiction novels to last years of exile, with backpacks at the ready to rush for the hills if the statists came, the visions of colonizing remote islands or even of other planets: all that had to go. A new seriousness was needed. It was time for the revolutionary cause to orient itself to Middle America. 24

In a protracted fight to win, it would be crucial to stay on top of “nourishing, maintaining, and extending the libertarian cadre itself,” something Koch’s bottomless bank accounts would enable. 25 It was not hard to persuade the midwestern multinational capitalist that the many weirdos were not bringing success any closer. Liking what he’d heard, Charles Koch shushed the older advisers he had on retainer and bet on the brash visitor, who seemed so sure of what was to be done. 26 Not long after that, in one of the publications whose creation Rothbard had recommended as organizing tools, Koch wrote that over his own 15 years of active involvement, “our biggest problem has been the shortage of talent.” To become “an effective force for social change,” the CEO intoned, “we need a movement.” And to create a sound, disciplined movement, preparing a “cadre” must be the top priority. 27

The new urgency called for a think tank to be created to serve as a training and reinforcement institution for the cadre. To lead it, both men had their eyes on a steely fellow already in the ranks: Edward Crane III. 28 Crane had served as a precinct captain for Barry Goldwater in 1964, but he was disgusted by “how quickly Goldwater ran away from the issue of privatizing Social Security.” Blaming Goldwater’s retreat on his effort to win over the majority of voters (and recoiling, too, from the senator’s military adventurism), Crane went on to join the Libertarian Party, which had been summoned into being in a Denver living room in December 1971. Its founders sought a world in which liberty was preserved by the total absence of government coercion in any form. That entailed the end of public education, Social Security, Medicare, the U.S. Postal Service, minimum wage laws, prohibitions against child labor, foreign aid, the Environmental Protection Agency, prosecution for drug use or voluntary prostitution—and, in time, the end of taxes and government regulations of any kind. 29 And those were just the marquee targets.

Crane was as insistent as Rothbard and Koch about the need for a libertarian revolution against the statist world system of the 20th Century. “The Establishment” had to be overthrown—its conservative wing along with its liberal wing. Both suffered “intellectual bankruptcy,” the conservatives for their “militarism” and the liberals for their “false goals of equality.” The future belonged to the only “truly radical vision”: repudiating state power altogether. 30

Once Crane agreed to lead the training institute, all that was lacking was a name, which Rothbard eventually supplied: it would be called the Cato Institute. The name was a wink to insiders: while seeming to gesture toward the Cato’s Letters of the American Revolution, thus performing an appealing patriotism, it also alluded to Cato the Elder, the Roman leader famed for his declaration that “Carthage must be destroyed!” For this new Cato’s mission was also one of demolition: it sought nothing less than the annihilation of statism in America. 31


Nancy MacLean is the award-winning author of Behind the Mask of Chivalry (a New York Times “noteworthy” book of the year) and Freedom is Not Enough, which was called by the Chicago Tribune “contemporary history at its best.” The William Chafe Professor of History and Public Policy at Duke University, she lives in Durham, North Carolina.
Democracy in Chains, p. 16


2. The story of the long legal fight, central to family lore, is best told in Daniel Schulman, Sons of Wichita: How the Koch Brothers Become America's Most Powerful and Private Dynasty (New York: Grand Central, 2014) 27–35.

3. Ibid., quote 33.


5. Ironically, Schulman believes Koch would have lost in a fair trial because he and his partner had learned about the process as employees of Universal Oil before setting off on their own. Schulman, Sons of Wichita, 31, 34.


16. On the fracturing of the "business movement" into a state of ‘every man his own lobbyist,” see Waterhouse, Lobbying America, on page 232, also 230–51.


20. Charles G. Koch to Buchanan, February 19, 1977, BHA; also Pearson to Buchanan, October 22, 1975, BHA.


24. Raimondo, Enemy of the State, 211–17. For more on Rothbard's longstanding fascination with how Leninism could be made to serve the libertarian cause, a case he began making in the mid-1950s to the predecessor of Charles Koch's Institute for Human Studies, see Brian Doherty, Radicals for Capitalism (New York: Public Affairs, 2009), 248, 244.


27. Koch, "The Business Community. On Rothbard's call for such publications as vital tools for building and training the libertarian cadre, see Raimondo, Enemy of the State, 222–23.

28. Raimondo, Enemy of the State, 217.


31. Raimondo, Enemy of the State, 218. Buchanan worked with Catö from its founding to his death; see obituary at: www.catö.org/people/james- koch.