



MARKET-BASED MAN

Meet Charles G. Koch, Winner of the 2011 William E. Simon Prize for Philanthropic Leadership.

By James K. Glassman

Charles Koch stands out among the world's major philanthropists in the extent to which the principles and practices that animate his giving also animate his personal life, his politics, and his business. "Charles," says Richard Fink, who has worked with him for more than three decades, "is the most consistent person I have ever met." Kim Dennis, president of the Searle Freedom Trust, says of Koch, that, when it comes to promoting free markets, "he has done more by far than any other donor." It's this integration—this intensity, based on a set of bedrock ideals—that accounts for his remarkable success in advancing social progress through what he calls the "science of liberty."

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“Often people who make a lot of money feel like their philanthropy is a way of compensating for their business success,” says Kim Dennis. “But Charles is not ‘giving back.’ He is supporting the things that made his business success possible.” It’s all of a piece.

The Kochs of Kansas

Charles’ grandfather, Harry Koch (pronounced “coke”), was born in Holland, and moved to the United States in 1888. Three years later, he settled in Quanah, Texas. With a population of 1,651, it was a desolate railroad depot near the Oklahoma border. Harry had been a printer’s apprentice in the Netherlands, and he soon bought the town’s two weekly newspapers, merging them to form the *Tribune-Chief*, a paper still published today.

Charles’ father, Fred C. Koch, was born in 1900. Fred was an ambitious young man, who saw little future in dusty, hardscrabble Quanah. He left town, making his way to the Rice Institute and then the Massachusetts Institute of Technology. Fred graduated from MIT in 1922 with a degree in chemical engineering—and a turn as captain of the boxing team—before going to work for domestic and international oil companies. In 1925, he joined P. C. Keith, an MIT classmate, and Lewis E. Winkler in a firm in Wichita, Kansas. Keith left the firm shortly thereafter, which was renamed Winkler-Koch Engineering.

Business was difficult at first, until Fred developed a new and more efficient thermal cracking process for refining heavy petroleum into gasoline. A cartel of large oil refiners sued Winkler-Koch for patent infringement, crippling the company’s ability to compete in the United States. (In 23 years of litigation, Winkler-Koch lost exactly one lawsuit. The verdict was reversed when it was later discovered that the judge had been bribed.) The firm turned overseas. One of its first major sales was to the Soviet Union, whose government paid Winkler-Koch \$5 million to build 15 cracking units.

As he was building a business, Fred started to build a family. He married Mary Robinson in 1932 and had four sons. The eldest, Frederick, born in 1933, graduated from Harvard, served in the Navy, earned an M.F.A. from Yale, and has since spent his life supporting the arts. Charles was born in 1935, and the twins, David and William, arrived in 1940. Fred worked his boys hard.

The William E. Simon Prize for Philanthropic Leadership

The Philanthropy Roundtable is honored to have been asked by the William E. Simon Foundation to administer the William E. Simon Prize for Philan-

thropic Leadership. The foundation is named for its principal benefactor, the late financier, philanthropist, and Secretary of the Treasury, William E. Simon Sr.

The purpose of the William E. Simon Prize for Philanthropic Leadership is to highlight the power of philanthropy to promote positive change and to inspire others to support charities that achieve genuine results. The prize is intended to honor living philanthropists who have shown exemplary leadership through their own charitable giving, either directly or through foundations they have created.

The prize honors the ideals and principles which guided William E. Simon’s many philanthropic initiatives, including personal responsibility, resourcefulness, volunteerism, scholarship, individual freedom, faith in God, and helping people to help themselves.

The Philanthropy Roundtable would like to thank the 2011 Selection Committee, composed of Kimberly O. Dennis, Robert P. George, Russ Hall, Adam Meyerson, J. Peter Simon, William E. Simon Jr., Thomas J. Tierney, and Donn Weinberg.

“From the age of 9 on,” reported the *New York Times Magazine* in 1986, “Charles worked the family ranches, digging post holes and baling hay.” But, as Charles would later write, “by instilling a work ethic in me at an early age, my father did me a big favor, although it didn’t seem like a favor back then.”

All three of the younger sons followed their father to Cambridge, studying engineering at MIT. Charles earned three degrees, including masters in both nuclear and chemical engineering, and after graduation he joined Arthur D. Little, the Cambridge consulting firm. “I enjoyed what I was doing,” he says, “and I was learning a lot.” His father asked him to return to Wichita to run the company, Rock Island Oil & Refining, which held interests in ranching, refining, and crude oil gathering. Charles turned him down.

“About a year later, he called again,” says Charles. “He told me his health wasn’t good, he didn’t have the energy he once had, and that he wanted me to come back and run the company.” Charles told his father that he wanted to go to business school. “Son,” Charles recalls his father telling him, “I don’t think my health is that good. I would like you to come now. Either you come now or I’m going to sell the company.” Charles decided to return to Wichita.

His father’s first words to him: “Son, I hope your first deal is a loser, otherwise you will think you’re a lot smarter than you are.” Charles’ first assignment was to get a small equipment company’s European operations back on track. “I was too naïve to know that I was in way over my head, so I went over and did it, but I got lucky, and that worked out.” His father gave him more assignments. “He was tough. He was Dutch,” says Charles. “He was great with



In developing Market-Based Management, Koch's goal was to "discover or develop the mechanisms that would enable us to harness the power of the market economy within the company."

me. He kept giving me plenty of rope to hang myself, which I did a number of times."

In November 1967, Fred went bird hunting in Utah. While in a duck blind, he began having heart palpitations. At last, a lone mallard flew overhead. Fred fired, dropping the bird from the sky. He turned to the gun-loader next to him and said, "Boy, that was a magnificent shot." He immediately collapsed, dead of a massive heart attack.

Charles was 32 years old. He instantly became chairman and chief executive officer of the company, which was later renamed Koch Industries in honor of his father.

Market-Based Man

When Charles Koch returned to Wichita in 1961, he developed an intense curiosity about many of the elemental questions of human existence. What is the nature of human freedom? How does freedom lead to human flourishing? He began to read widely and deeply, studying works of history, economics, philosophy, and psychology. In so doing, he immersed himself in what he refers to as the "science of human action." As an MIT-trained engineer, he understood the physical world to operate according to fixed, natural laws.

In the course of his reading, he gradually came to discover a set of similar laws governing societal wellbeing. Those laws, he proposed, could best be understood through what he calls the "science of liberty," which applies the science of human action to social organization.

Foremost among the insights of the science of liberty is the realization that widespread and sustainable prosperity is only possible in a free society. As Koch absorbed the implications of that insight, he began to test its applicability within his business. Drawing on this integration of theoretical concepts and practical application, he developed a holistic approach to management, intended to help organizations and individuals thrive in the face of growth and change. His goal, as Koch would later write, was to "discover or develop the mechanisms that would enable us to harness the power of the market economy within the company."

The result is his trademarked Market-Based Management, the science of human action applied within an organization. Koch coined the term in 1990, but the concepts underlying the approach have been subject to continued experimentation and refinement. In 2007, he outlined the contours of the approach in his book, *The Science of Success*. Mar-

ket-Based Management consists of five interdependent dimensions: vision, virtue and talents, knowledge processes, decision rights, and incentives.

The first dimension of Market-Based Management is vision. Successful companies begin by determining where and how they can best create value in society. Koch notes that it is a long-term, non-linear effort, one which undertakes a process of continuous experimental discovery. Moreover, companies that are dedicated to creating real and lasting value must be willing to embrace change. They must set priorities, anticipate competition, and commit to innovation and improvement. Perhaps most of all, adds Koch, they need to communicate the vision internally, so that it guides all of the company's activities.

When a shared vision inspires an organization, Koch explains, the virtues and talents of each individual can be harnessed to maximum effect. The second dimension of Market-Based Management works to build on vision by cultivating an ethos within the corporation. At Koch Industries, that ethos is distilled in a set of 10 guiding principles. With a shared framework of just conduct established, it then becomes necessary to ensure that every employee is placed into a position that will make the best possible use of his or her unique skills and talents.

But how to know what the best possible use of talent is? Koch observes that market economies succeed in large measure because their primary mechanisms—unconstrained pricing and free speech—are enormously efficient at creating useful knowledge. The challenge for organizations is creating similarly efficient feedback mechanisms. That is the exact concern of the third dimension of Market-Based Management, ensuring that knowledge is optimally acquired, shared, and applied, as well as measuring its effects wherever practical.

Property rights are an essential component of the market's knowledge creation; in the absence of private property, it is impossible to get reliable price information. Market-Based Management sees an analogous position within a company for decision rights. Rather than assets, employees "own" certain roles, responsibilities, expectations, and authorities. When these are clearly defined, all of the employees within a company will know what they are responsible for—and for what they will be held accountable.

The final dimension of Market-Based Management involves incentives. Koch Industries rewards employees according to the value they create for the company. It is an effort to align the interests of employees with those of the company—and those of society at large. When those interests align properly, Koch explains, the task of creating value is greatly facilitated. Individuals—incentivized to lead productive lives, realize their full potential, and find sat-



Market-Based Management grew symbiotically with Koch Industries, America's second-largest privately held company. (AP photo / Larry W. Smith)

isfaction in their work—benefit. The company benefits. And society as a whole benefits.

It is a profound mistake, Koch concludes, to treat Market-Based Management as a rigid formula. It is intended to guide thought and behavior, not prescribe a foreordained set of outcomes. He notes that the point of this approach is to provide a challenge, not a checklist. It is meant to be internalized, to become a new mental model, a new way of looking at the world. That process of internalization requires a focused and prolonged effort. It requires, writes Koch, "the most difficult and painful of all changes: A change in the way we think."

The Rise of Koch Industries

Market-Based Management grew symbiotically with Koch Industries. As Charles studied the social arrangements most conducive to human flourishing, he hypothesized that these same principles would be relevant to the wellbeing of miniature human societies, like corporations. Could Schumpeter's theory of creative destruction, Hayek's notion of spontaneous order, and Smith's idea of comparative advantage be integrated into a corporate ethos? If so, could that ethos be distilled, systematized, and taught to new employees? Koch was willing to try.

For five decades, Charles has worked to build Koch Industries according to the principles of Market-Based Management. The results have rather conclusively validated the experiment. Koch Industries ranks second on the Forbes list of the largest privately held companies in America. Today the company has annual revenues over \$100 billion and employs about 67,000 people in nearly 60 countries around the globe. Under Charles' leadership, the



*Koch outlined the principles of MBM in his 2007 book *The Science of Success*.*

value of Koch Industries has increased more than 2,800-fold. It now has holdings in sectors including energy, fertilizers, paper, plastics, ranching, commodity trading, finance, minerals transport, chemicals, and fibers. It produces household brand goods like Dixie Cups, Stainmaster carpet, Brawny paper towels, and Lycra fabrics. If Koch Industries were a publicly held corporation, it would rank 18th on the Fortune 500 list, just ahead of IBM.

Koch Industries has grown by continuously pursuing constructive change. It's a fundamental principle of Market-Based Management: change is the only constant in the marketplace. Success in the market goes to the individuals and groups that embrace change and work to capitalize on the

opportunities it presents. As a result, Koch Industries is committed to constant experimentation, always seeking to find innovations and efficiencies before its competitors.

Koch refers to the process as one of ongoing experimental discovery. Take, for instance, the 2005 acquisition of Georgia-Pacific, the forest-products giant, bought for \$21 billion. Koch Industries identified forest products as an industry that fit the company's capabilities, in part because it had excelled at managing other natural-resource businesses. Koch therefore decided to experiment—a "modest-sized investment"—buying two pulp mills from Georgia-Pacific in 2004. Only after the demonstrable success of the purchase did Koch Industries buy the entire company.

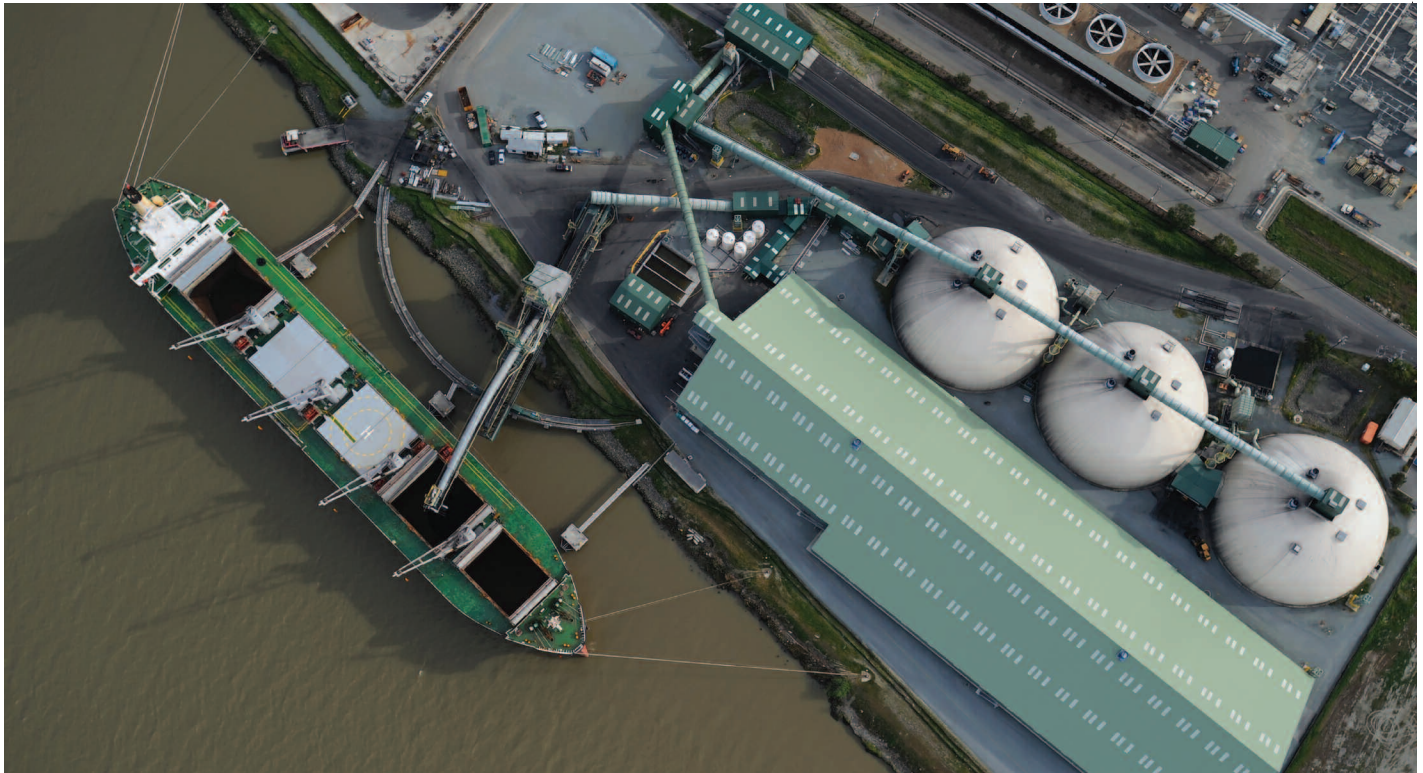
Complementing its commitment to experimental discovery, the company has a policy of reinvesting 90 percent of its profits. Of course, it helps that Koch does not have to deal with public shareholders. "By being private," he says, "we can focus almost solely on maximizing long-term value and applying our trademarked philosophy of Principled Entrepreneurship. A public company has to cope with the extreme focus of the analysts and the equities market on quarterly earnings."

This relentless focus on maximizing long-term value has made the two principal owners—Charles and David, who serves as executive vice president—very wealthy men. (In 1983, Charles and David bought out the shares of brothers Frederick and William, among others, for \$1.1 billion.) With an estimated net worth of \$25 billion each, the two brothers are now tied for fourth place on the 2011 listing of the Forbes 400.

Market-Based Philanthropy

The staggering success of Charles and David has made possible a wide range of philanthropic achievements. In some areas, they have worked together. In particular, they have collaborated on the decades-long project of convincing policymakers and the wider public that enlarging the scope of economic freedom redounds to the benefit of all people, especially the poor. They have worked together on efforts to study how free markets contribute to free, peaceful, and prosperous societies. They have cooperated on projects to advance the ideas and policies of a principled libertarianism in public policy debates.

Of course, not all of their philanthropy aligns. In some areas, the two brothers have worked separately. David, for example, is a noted ballet enthusi-



Under Koch's leadership, the value of Koch Industries has increased more than 2,800-fold, and includes holdings in sectors such as energy, fertilizers, paper, plastics, ranching, commodity trading, finance, minerals transport, chemicals, and fibers. Pictured here is Koch Carbon's transfer facility for petroleum coke in the San Francisco Bay area.

ast, as well as one of the nation's foremost patrons of the arts. He donated \$100 million to the New York State Theater, now the David H. Koch Theater. His lifelong fascination with science led to a \$20 million gift to the American Museum of Natural History, a \$15 million gift to the National Museum of Natural History, and a \$7 million gift to the PBS show *Nova*. A prostate cancer survivor since 1992, he has become one of the world's leading funders of cancer research. He has contributed \$30 million to the Memorial-Sloan Kettering Cancer Center and \$25 million to the M. D. Anderson Cancer Center. In 2007, he contributed \$100 million to MIT to build a center for integrative cancer research, where world-class engineers work with cutting-edge oncologists and biologists to revolutionize the diagnosis, monitoring, and treatment of cancer.

Charles has tended to focus his charitable giving more narrowly. Foremost among his philanthropic accomplishments has been his long-term, strategic investment in the promotion of economic freedom through academic research, public policy, and educational and career-development programs for young people. He has funded scholarships, particularly in the field of economics; he has supported the work of Nobel Prize-winning economists like James Buchanan, Friedrich Hayek, and Vernon L. Smith. He has played a pivotal role in building some of the nation's most innovative and influential think tanks. And he has supported efforts to

inspire at-risk young people to consider entrepreneurship, to teach American students the principles of limited government, and to connect recent graduates with market-oriented organizations, in an effort to launch their careers in public policy.

Decades of study and reflection have deeply informed Koch's understanding of how some societies prosper and why certain corporations succeed. They have also guided his philanthropy.

Vision

When Koch began grappling with the questions of human flourishing, two works proved especially influential: Ludwig von Mises' *Human Action* and F. A. ("Baldy") Harper's *Why Wages Rise*. They provided him with the beginnings of a theoretical framework, but perhaps more importantly, they helped provide him with a vision. Koch wanted to know where his charitable giving could create the greatest value. One answer, he decided, would be in systematically examining the question of why and how freedom, particularly economic freedom, seems to be the only route to sustainable, long-term prosperity.

Harper's book led Koch to the Institute for Humane Studies (IHS). Founded in 1961 by Harper, IHS was dedicated to "furthering the science of a free society" through research and education. Koch quickly recognized the importance of its mission, and became a major supporter of IHS starting in 1965. A year later, he joined the board of directors—

on which he has served continuously to the present day. In 1973, Harper died unexpectedly from complications of an auto accident. Koch stepped in briefly to serve as part-time president.

Throughout its early years, IHS hosted academic conferences, sponsored research, and published books. Among its most influential publications was the highly respected series *Studies in Economic Theory*. Invited to affiliate with George Mason University, IHS left its home in California in 1985 and relocated to Virginia. From the early 1980s, IHS increasingly focused on identifying and facilitating the development of young talent interested in advancing classical liberal ideas as they entered careers in higher education, journalism, and public policy.

Today, IHS hosts interdisciplinary liberty-themed seminars for undergraduate and graduate students, offers scholarships and fellowships for graduate students interested in advancing freedom, and makes grants for up-and-coming scholars to attend academic conferences. It runs two major internship programs for students and recent graduates. One program sponsors aspiring reporters with journalism internships. The other—the Charles G. Koch Summer Fellow Program—has supported more than 900 students during eight-week internships at public policy organizations, both in D.C. and around the country.

As IHS prospered, Koch continued his efforts to promote an intellectually rigorous focus on classical liberal ideas within American higher education. During the 1970s, he funded a series of on-campus programs at leading universities. Koch hoped to create or build university centers of excellence that would bring to American higher education a sophisticated understanding of how markets work. Today nearly 200 colleges and universities throughout the United States receive funding from the Charles Koch Foundation.

The unifying objective of these programs is the study of free societies, with the goal of discovering how economic freedom advances the wellbeing of humankind. Koch's funding helps the programs

engage these questions from a variety of disciplines. At the University of Arizona, for example, David Schmidtz applies the conceptual rigor of normative philosophy to the questions surrounding political freedom. At Florida State University, economist James Gwartney has developed the *Economic Freedom of the World* reports, which measure the consistency over time between national policies and the principles of economic freedom. At Brown University, political scientist John Tomasi leads the Political Theory Project, which explores classical liberal approaches to traditional and contemporary issues in political philosophy.

For decades, Koch has supported such university-based programs quietly, seeking little or no credit and drawing little attention. In May, however, one such gift ignited a brief but intense controversy. Protests flared around a \$1.5 million grant from the Charles Koch Foundation to Florida State University to hire two faculty members for a new program on political economy and free enterprise. But what is really significant is not the opposition that Koch's academic efforts provoke. It is their widespread acceptance—in universities like Brown, Dart-

mouth, and Duke. The aim of the Koch-sponsored academic work is to encourage education and research that analyze free societies, rigorously and empirically, with a particular focus on how they advance the well-being of humankind. Koch may be convinced that freedom enhances prosperity, but he wants more research into why, and how.

Virtue and Talents

Koch, however, never intended to confine his giving to research and higher education. He understood that the principles of individual freedom were too large, and the threats which imperiled them were too immediate. He had determined that libertarians needed a strategy to bring about social change. As he later explained to historian Brian Doherty, the strategy would need to span “from idea creation to policy development to education to grassroots organization to lobbying to litigation to political action.



Charles' brother David Koch shares many philanthropic interests with Charles, but he is also one of the nation's foremost patrons of the arts and medical research.
(Getty Images / Jim Spellman)



Charles Koch has supported the work of Nobel laureate economists such as (from left) F. A. Hayek, James Buchanan, and Vernon Smith.

The limit was talent—finding somebody who could take on some piece and have some confidence that they would make something of it.”

Talent. Koch needed talented partners to help achieve his vision—partners like Ed Crane. Koch and Crane originally met in the early 1970s, when Crane was active in the libertarian movement. Years later, Koch approached him about the need to connect libertarian principles with public policy proposals. As a result of their conversations, Koch’s vision expanded. He realized the need for a full-spectrum libertarian think tank. Its goal would be to generate workable policy proposals that would enhance societal well-being. With funding from Koch, in 1977 the think tank began operations in San Francisco. Named in honor of Cato’s Letters, an enormously influential series of pamphlets among the American revolutionaries, it was the beginning of the Cato Institute.

Now a leading presence among Washington think tanks, Cato continues to assess policy proposals in light of their implications for individual liberty, limited government, free markets, and peace. Every year, the roughly 50 scholars and fellows from Cato write hundreds of articles, essays, monographs, and books, as well as appear on television and radio programs worldwide to argue for classical liberalism. The think tank hosts hundreds of events each year, and runs an annual weeklong series of seminars at what is known as Cato University. It also manages sober publications such as *Cato Journal*, *Regulation*, *Supreme Court Review*, and the *Cato Handbook for Policymakers*, as well as extensive electronic outreach, ranging from broadcasting to social media. And all because, some 40 years ago, Charles Koch saw potential in Ed Crane.

Koch saw the same potential in Richard Fink. “There are a lot of people who have ideas but they don’t know how to get it done,” Koch recently told Matthew Continetti of the *Weekly Standard*. “Rich

always had a sense for how to get something done and make it effective.” The relationship between Koch and Fink traces back to the late 1970s, when Fink was a professor of economics at Rutgers. Fink had launched a small, on-campus center for the study of Austrian school economics, called the Center for the Study of Market Processes. He approached Koch for funding, and was invited to Wichita for an interview. The meeting was brief; Fink assumed his request would be rejected. He flew back to New York, only to discover a few days later that the funding was approved.

In 1980, Fink left Rutgers, moving to George Mason University. The center moved with him. Fink worked hard throughout the 1980s to cultivate a cadre of rising free-market economists. (In 1999, the center was renamed *Mercatus*, the Latin word for activity associated with markets.) But Koch and Fink had another goal in mind. *Mercatus* would bridge two worlds. Like many of the on-campus centers that Koch has funded, it would continue to conduct original academic research, increasing the store of human knowledge on how institutions affect prosperity. At the same time, it would take advantage of its proximity to Washington, bringing its scholarship into direct contact with public policy.

Mercatus stands on the conviction that free market principles offer a powerful framework for understanding, and tool for solving, the nation’s and the world’s most daunting challenges. Against the default statist assumptions of many policy-makers, it proposes market-based alternatives. *Mercatus* scholars accordingly work on a broad range of topics, from reforming financial markets to rebuilding a post-Katrina New Orleans, from regulatory policy to economic development in Africa. They are free to pursue research that fits within the broad mission of *Mercatus*, balancing research with real-world, market-based solutions. The formula has yielded impressive results.



Ed Crane helped to expand Koch's vision, and Koch realized the need for a full-spectrum libertarian think tank—founding the Cato Institute in 1977.

Mercatus, proclaimed the *Wall Street Journal* in July 2004, is “the most important think tank you’ve never heard of.” The article explained how, in 2001, the newly inaugurated Bush Administration asked the public to suggest which federal regulations were in most urgent need of reform or repeal. Based on dozens of academic studies of regulations, Mercatus submitted a list of 44 candidates. When the White House released the 23 regulations on which it planned to focus, Washington insiders were astonished. It was considered a real accomplishment to get even one proposal green-lighted; not a single proposal from the National Association of Manufacturers, for example, made the list. The White House adopted 14 of Mercatus’ proposals.

Knowledge Processes

Market economies succeed largely because they are well-equipped to produce useful knowledge. Profit mechanisms and free speech provide critical feedback signals that allow participants to assess, reconsider, and improve their performance. Mercatus clearly had demonstrable success in having its policy proposals adopted by the Bush administration. But, points out Koch, philanthropy in general lacks the price signals that offer a critical feedback mechanism in the for-profit sector. So how to tell if you are succeeding?

“Unfortunately,” says Koch, “either in government or in the nonprofit world, people tend to measure what’s easy to measure.” Think tanks brag about how many op-eds their scholars have published; free-market programs at universities point to how many students take their courses. “For example, let’s say you have a magazine,” says Koch. “You have an article, and so many people read it. Well, that’s fine and good, but that’s a first step. That’s a starting measure. The real measure is: Did it change behavior?”

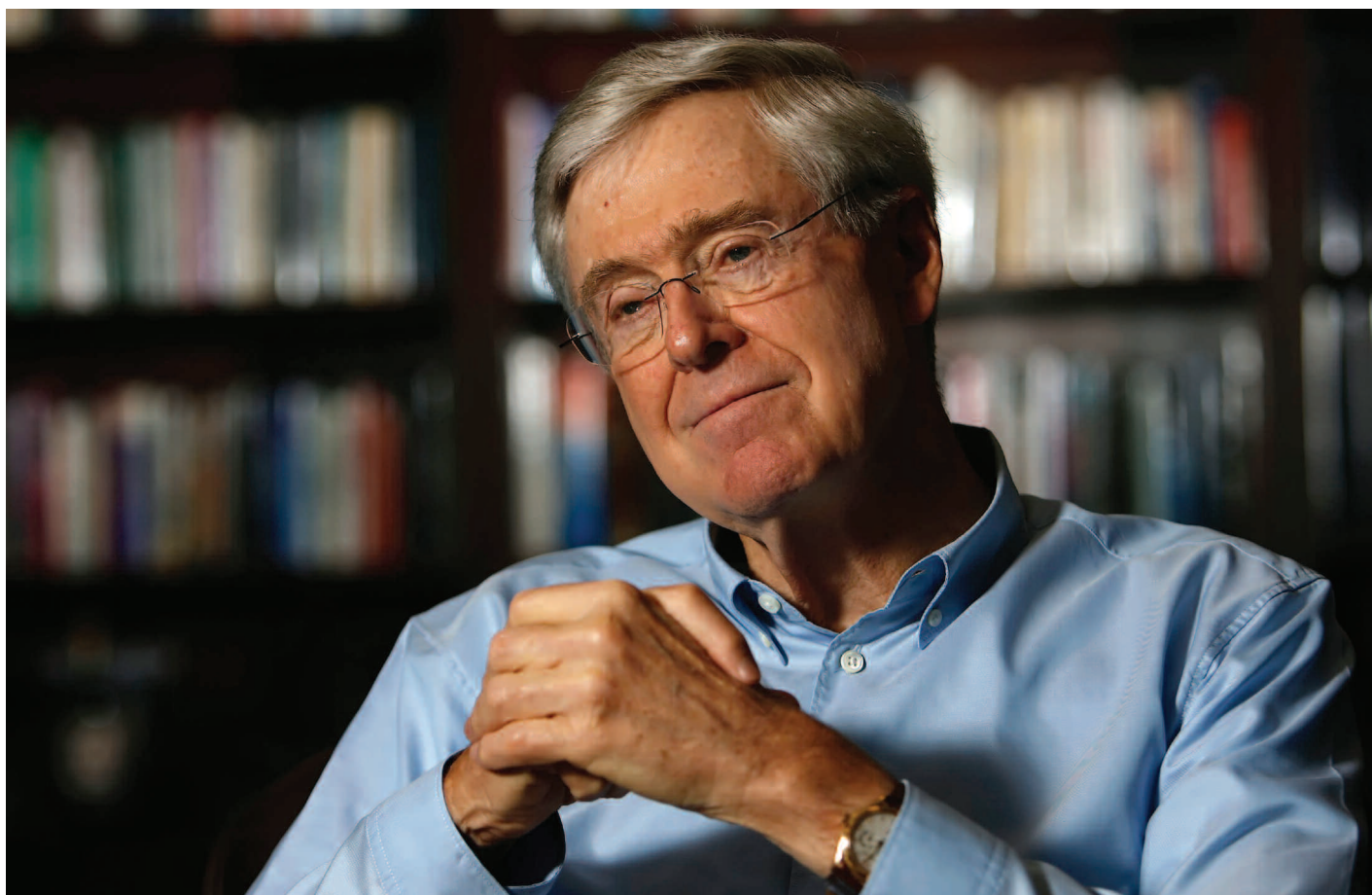
The objective is “having a society that has economic freedom and prosperity.” It can best be achieved by measuring the outputs tied to that objective. For activities—like philanthropy or politics—that are largely insensitive to price signals, the constant temptation is to measure inputs. That temptation must be overcome through diligent self-discipline. The vision must be the goal; activity cannot become its own end. When that happens, says Koch, “everything flows from that. When you have that, you’re in a position to get good health, a good environment, longevity, a high level of happiness and fulfillment, and all of the things most people would say constitute a good society.”

Take Youth Entrepreneurs (YE), for example. In 1991, Charles and Liz, his wife of 39 years, founded YE. Initially an eight-week program at Wichita High School North, YE has since grown into a two-semester entrepreneurship course taught at 28 high schools throughout Kansas and Missouri, as well as in 10 schools in Atlanta. The program is open to all students, but is targeted toward at-risk youth. In the 2010–11 school year, more than 1,100 students completed the class.

YE is intended to teach the fundamentals of entrepreneurship with real-world, hands-on experiences. During the two-semester sequence, every student writes a business plan and is encouraged to use it as the basis for launching a business. All participants receive academic credit for successfully completing the class, and alumni have opportunities to participate in internships at area businesses as well as receive venture capital and scholarship funding.

But to Koch the greatest concern is the outcomes. And the outcomes at YE align with his overarching vision of a more prosperous and peaceful society. Compared to their peers, YE alumni have been shown to have better business skills, to be more likely to pursue higher education, less likely to accept welfare, and more likely to start a business.

The success of YE led Koch to help launch the Bill of Rights Institute (BRI) in September 1999.



“Unfortunately, either in government or in the nonprofit world, people tend to measure what’s easy to measure,” says Koch. “Let’s say you have a magazine. You have an article, and so many people read it. Well, that’s fine and good, but that’s a first step. That’s a starting measure. The real measure is: Did it change behavior?”

Koch had come to believe that that too few primary and secondary school teachers had the necessary background to convey the principles of limited, constitutional government. He decided to create an organization that would improve American civic education, one that would, in the words of Richard Fink, “help students increase their awareness and knowledge of the liberties guaranteed in our founding documents and their relevance to modern society.”

BRI provides a number of services for both students and teachers. In 2006, it launched an annual “Being an American” student essay contest. This year’s question: “How does the Constitution establish and maintain a culture of liberty?” High school students are eligible to submit up to 1,000 words on the topic, competing for one of 15 cash prizes. Since its inception, more than 80,000 students have participated in the contest.

BRI also works with educators, who may attend its seminars on teaching founding principles or make use of its instructional materials. BRI offers professional development to more than 2,000 teachers annually, providing 16 sets of curricula for middle and high school teachers and offering seminars (and webinars) intended to increase knowledge of the

Constitution, the Bill of Rights, and the principles of limited government. Through its teacher development programs, BRI has influenced more than 17,000 educators—thereby reaching, by its estimate, more than 1.8 million students.

In his most recent effort to support young people, Koch launched the Koch Associate Program (KAP) in 2006. KAP works with early career college graduates, helping to place them four days per week in full-time positions at market-oriented nonprofits in Washington, D.C. (In fact, The Philanthropy Roundtable has employed several Koch Associates.) One day every week, the program’s participants gather to read and discuss some of the seminal writers on free-market economics, such as Hayek and Mises. The hope is that they will take the ideas and apply them to their nonprofit work. “We start with a deep dive to understand markets,” says Fink. “We then try to translate our findings into superior management systems, to capture the productive power of markets within nonprofit organizations.” When KAP greeted its first class in 2006–07, it consisted of 16 associates paired with seven organizations. Since then, the program has grown steadily, with more than 380 KAP participants having worked in about 70 nonprofits, both in D.C. and around the country.



Youth Entrepreneurs alumni—like those pictured here with YE chairman Liz Koch—have better business skills, are more likely to pursue higher education, are less likely to accept welfare, and are more likely to start a business.

Decision Rights

For all of his work shaping future generations of free market leaders, Koch sees a more immediate problem: Right now, the United States is “losing ground.” This political moment is something of a test, one that is challenging the nearly half-century of effort—and many millions of dollars—he has invested in the promotion of economic liberty. “Will this country be a free and prosperous society based on the Bill of Rights,” he asks, “or will it become a statist or collectivist society in which people are impoverished because one person is pitted against another as everyone attempts to gain by redistribution rather than producing goods and services that make people’s lives better?”

Koch points to the findings of the annual Economic Freedom of the World report published by the Fraser Institute, another organization which he supports. Across a variety of key indicators—govern-

ment spending and taxes, business regulation, property rights, monetary policy, and trade—the United States appears to be retreating from the vanguard of economic freedom. In 2000, the index ranked the United States the third-most free and open economy on earth, behind only Hong Kong and Singapore. In the latest study (based on 2009 data), the nation stands in 10th place. Koch fears we will soon fall much further. “We’re now less than a tenth of a point above Cyprus, in 18th place,” he says. “If we lose another half-point, we’ll be tied with Kuwait for 47th place. If past correlations hold true, this will be devastating for American prosperity.”

Given the urgency of the political moment, Koch has continued to supplement his philanthropy with contributions to a number of advocacy organizations. It represents an application of his notion of decision rights. In order to achieve his vision, he is committed to placing the right people in the right roles, based on their interests, values, and capabil-

ities. For some of the people he works with, that will mean operating in the world of nonpartisan nonprofits. For others, it will mean a more direct engagement with the world of politics.

It is not, of course, a new departure for Koch. For many years, he has supported a range of advocacy organizations, especially 501(c)(4) entities. (Unlike 501(c)(3) nonprofit public charities, (c)(4) entities may engage in lobbying, participate in political campaigns, and advocate for specific pieces of legislation. As a result, funds given to (c)(4) entities are not tax deductible as charitable contributions.)

In 1984, Charles Koch, Richard Fink, David Koch, and Jay Humphreys launched the Citizens for a Sound Economy Foundation (CSEF), a 501(c)(3) entity originally headed by Fink. An affiliated (c)(4) entity, Citizens for a Sound Economy (CSE), was set up afterwards, devised with the goal of cultivating grassroots engagement, supporting the volunteer activities of individual citizens who wanted to make a public case for lower taxes and reduced spending. “What we needed was a sales force that participated in political campaigns or town hall meetings, in rallies, to communicate to the public at large much of the information that these think tanks were creating,” David Koch recently explained to the *Weekly Standard*’s Continetti. (“Mary Kay meets von Mises,” as Continetti pithily put it.) It proved a remarkably effective model. CSE racked up an impressive number of achievements, perhaps most notably playing a key role in the 1993 defeat of President Clinton’s proposed BTU tax.

In 2004, CSEF and CSE formally discontinued their affiliation. CSE, the (c)(4) entity, became associated with FreedomWorks, another (c)(4) entity that had been founded in the late 1980s and was headed by former House Majority Leader Dick Armey. Meanwhile, CSEF, the (c)(3) organization, was renamed the Americans for Prosperity Foundation (AFPF), chaired by David Koch. AFPF in turn created a new affiliated (c)(4) entity, Americans for Prosperity (AFP).

Charles and David remain committed to both AFPF and AFP, although they do not now nor have they ever supported FreedomWorks. AFP is a (c)(4) group dedicated to educating and mobilizing American citizens. It focuses on promoting fiscal responsibility (chiefly through cutting taxes and reducing spending), removing needless barriers to business formation, and restoring a sense of balance to the tort system. At the same time, AFPF conducts research and policy analysis, offers grassroots education, and provides news on the state of freedom and free-enterprise in America. To date, AFP has motivated some 1.75 million Americans to help organize events, write letters to the editor, and petition their representatives to uphold freedom and prosperity.

Those numbers belie the frequently heard complaint that the Koch brothers use (c)(4) entities like AFP to “astroturf” the political landscape. “That’s nonsense,” Fink said during a recent interview with the *Washington Examiner*. “It’s clear from the very personal and passionate expressions of concern at these events that they haven’t been scripted or orchestrated. Tea parties reflect a spontaneous recognition by people that if they do not act, the government will bankrupt their families and their country. They’re absolutely right about that. Now, if our work over the past 30 or 40 years has helped stimulate some of those citizens who are becoming more active, that’s great, but it’s a far cry from pulling strings.”

As with his philanthropy, Koch’s political funding takes a variety of forms. During the 2010 elections, Koch donated to such victorious Republican Senators as Rob Portman of Ohio and Marco Rubio of Florida. Koch Industries backed winning Gov. Scott Walker of Wisconsin. No surprises there.

Other activities are perhaps more unconventional. He inaugurated the Koch Seminars, which started nearly a decade ago in Chicago. Twice each year, Koch Industries convenes some of the nation’s leading philanthropists, thinkers, and business leaders in order to share ideas for advancing free market policies. “This is a gathering of doers who are willing to engage in the hard work necessary to advance our shared principles,” wrote Koch in the invitation letter to a recent event.

Names of participants in the seminars are private, but published reports list Gov. Bob McDonnell of Virginia, Supreme Court Justices Antonin Scalia and Clarence Thomas, and Republican House leaders Eric Cantor and Paul Ryan as among the more than 200 attendees at one recent conference. The *Weekly Standard* reports that, at the end of each seminar, participants would pledge money to free-market initiatives. (One attendee told author Continetti that “the Kochs were among the best political fundraisers he’d ever seen.”) Crucially, it represents another application of Koch’s notion of decision rights: ensuring that the right people are in the right roles at the right times.

Whatever form it takes, whether it is philanthropic or political, there is an essential unity to what Charles Koch will fund. The overarching purpose of his giving is to increase the freedom of individuals, within a beneficial framework of clearly articulated and rigorously enforced rules of just conduct, so that they may each pursue their own interests. That, he believes, is the only truly sustainable way to promote ongoing societal well-being.

Incentives

Just as he has an overarching purpose, Charles Koch has an overarching process for both his philanthropic