Charles Rowley's Blog

A Classical Liberal Political Economy Perspective

Death of William A. Niskanen opens door for Koch takeover of Cato Institute

Bill Niskanen, one of the founding fathers of public choice, a trusted member of President Reagan's Council of Economic Advisors, long-time Chairman of the Cato Institute, and one of the world's leading classical liberal political economists, died in October 2011. His passing has been mourned by almost everyone who loves individual liberty, free markets, limited government, and the rule of law. I viewed Bill Niskanen as one of my closest friends and one of my most esteemed colleagues.

But Bill Niskanen's passing is not mourned, however, by everyone with a passing claim to classical liberal philosophy. For Charles and David Koch, Bill Niskanen's gentle journey into that good night is perceived to be a major opportunity to seize complete control over one of the world's most renowned libertarian organizations, the Cato Institute. If this hostile takeover turns out to be successful – as seems extremely likely – classical liberals will lose an important beacon of light in a rapidly metastasizing progressive world.

The Cato Institute was founded in San Francisco in 1974 by Ed. Crane – who still retains the presidency – and Charles Koch. It was named after its billionaire co-founder as The Charles Koch Foundation, and it was incorporated in the State of Kansas, where Koch Industries is headquartered. Unusually for a non-profit organization, the Foundation is controlled by shareholders. The shareholders can buy and sell their individual stakes for cash under an arrangement that is legal only in a handful of states, and that is frowned upon by the Internal Revenue Service. The idea behind the shareholder concept is to prevent organizations from drifting very far from the founders' original intent. But founders' views can change over time, just as can those of Boards of Directors. In this case, the change may well prove to be dramatic.

The Charles Koch Foundation relocated from San Francisco to Washington, DC during the early 1980s, having already been renamed during the mid-1970s as the Cato Institute, under the dynamic libertarian leadership of Ed Crane. Crane proved to be a first-class fund-raiser and policy entrepreneur who has built the Institute into a powerhouse of libertarian thinking. For many years, the Koch brothers, Charles and David, have offered little more than token financial support, not least because they play a much more overtly political role, using their wealth much more directly to lobby in order to influence both the executive and the legislative branches of the federal government.

For a number of years, Cato was protected from excessive influence by the Koch brothers because of shareholder balance. Charles and David Koch each held 16 $1 shares in the institute. George Pearson, a former Koch employee, held 16 such shares, as did Ed. Crane and Bill Niskanen. With Pearson regularly voting with Crane and Niskanen, control remained in the hands of scholarship. In 2007, George Pearson sold back his shares to Cato, and these were re-apportioned equally among the remaining shareholders. The balance thenceforth would be even, and the Kochs appointed 50 percent of the Directors to the Board pf the Cato Institute. The Koch appointees, by all accounts,are more focussed on political than on scholarly interests.

Under Kansas law, Bill Niskanen's widow, who inherited his Cato Institute shares, must offer to sell her 16 shares back to Cato at $1 per share, before she can retain them or sell them elsewhere. So far, for reasons that are obvious, she has declined so to do.

So Charles and David Koch are now suing Kathryn Washburn under Kansas law – talk about stacking the odds in their own favor – to force such an offer. With those shares redistributed evenly across the remaining shareholders, they would then enjoy a two-third shareholder majority, and the Cato Institute would become yet another tentacle through which the *Kochtopus* could engage in overt political lobbying and in opaque lobbying through borderline tax-exempt foundations, centers and institutes.

My expectation is that the lawsuit will succeed and the world will mourn not only the passing of Bill Niskanen, but also the passing of the Cato Institute, at least in any form that is worthy of remembrance across the worldwide community of scholars.