

# The New York Times

## *The Koch Brothers, the Cato Institute and Why Nations Fail*

By SIMON JOHNSON

March 8, 2012, 5:00 AM

A dispute [has broken out](#) between the Cato Institute, a leading libertarian think tank, and two of its longtime backers — David and Charles Koch. The institute is not the usual form of nonprofit but actually a company with shares; the Koch brothers own two of the four shares and are arguing that they have the right to acquire additional shares and thus presumably exert more control. The institute and some of its senior staff members are pushing back.

According to Edward H. Crane, the president and co-founder of Cato, “This is an effort by the Kochs to turn the Cato Institute into some sort of auxiliary for the G.O.P.” Bob Levy, chairman of the Cato board, [told](#) David Weigel of Slate: “We would take closer marching orders. That’s totally contrary to what we perceive the function of Cato to be.”

Far from being just an unseemly row between prominent personalities on the right, this showdown reflects a much deeper set of concerns for American politics and society. And it raises what I regard as the central question of an important book, [“Why Nations Fail: The Origins of Power, Prosperity and Poverty,”](#) by Daron Acemoglu and James Robinson, which will be published on March 20.

Professors Acemoglu and Robinson assert that “institutions,” by which they mean the rule of law and constraints on government power, are critical to economic development — having great influence on which countries become rich and stay that way, and which countries over the last 200 years have failed to grow or collapsed into civil disorder. (Disclosure: I have done a great deal of joint research with Professors Acemoglu and Robinson, but I wasn’t involved in writing this book.)

At one level, the Acemoglu and Robinson argument lines up well with the standard Cato Institute — and libertarian — view of the world. At the back of Cato publications is the statement, “In order to maintain its independence, the Cato Institute accepts no government funding.” Without question, excessive power in the hands of governments can be bad for economic growth.

But the Acemoglu and Robinson point is not just about how things may become awful when the government goes off track (a right-wing point). They are also more deeply concerned about how powerful people fight to grab control of the state and otherwise compete to exert influence over the rest of society (a left-wing perspective).

The outcome to fear is some form of “extractive institutions,” meaning a setup in which most of society is pressed down by working arrangements — e.g., various forms of forced labor — or civil disorder or a more general lack of property rights. They provide many historical and contemporary examples of what this means in their book (and you can see previews of some items, nicely illustrated with photos, on [their blog](#)).

“Secure property rights” is a key term for the Cato Institute and others on the right of the American political spectrum — nothing could be more important to a libertarian. But Professors Acemoglu and Robinson trace the development of such property rights in detail to the spread of political rights across a broad cross-section of society, including to people who are not (or do not start their lives among) the well-to-do.

In historical terms, Professors Acemoglu and Robinson see the progressive era at the beginning of the 20th century, including the development of countervailing power for the government against powerful private business interests, as an essential part of what has gone right in the United States of America.

Many libertarians, on the contrary, feel that the country started to go off track at exactly this moment — for example, some blame the 16th Amendment (introducing the federal income tax in 1913), while others point the finger at the rise of social insurance programs (culminating in Social Security in the 1930s).

Libertarians, such as those who work at the Cato Institute, do not like the state and do not trust the federal government. The Acemoglu-Robinson view is much more nuanced: states are often captured by powerful elites and very much used as a tool of oppression, but it is also possible for liberal democracies to develop in which the government not only helps people but also behaves in a way that is conducive to widely shared economic prosperity.

In this context, the Koch brothers are an important topic of discussion — or cause for concern. In the [new Bloomberg billionaire index](#), released this week, the Koch brothers are each worth \$33.5 billion. If they choose to act together, as they often seem to, including in the case of Cato, they are the richest pair in the world.

Professor Acemoglu is concerned about the Kochs’ well-organized attempts to exert sway over American politics (e.g., through [Americans for Prosperity](#) and its affiliated organizations). But he feels that American democracy is sufficiently strong and will prevail. If he is right, the Koch brothers are unlikely to end up calling the shots as corporate titans did in the Gilded Age at the end of the 19th century (the term was coined in “[The Gilded Age: A Tale of Today](#),” by Mark Twain and Charles Dudley Warner, in 1873).

The Acemoglu-Robinson book is ultimately upbeat about the United States. We have built strong economic and political institutions, and these will prevail.

I'm not so sanguine. Partly this is because of my work on the rise and continuing power of big banks (including my 2010 book with James Kwak, "[13 Bankers](#)"). It's also because of my more recent work on the history and likely future of the federal government budget — and the national debt. The interests that would undermine government are strong and growing stronger, with rich individuals leading the charge.

Professor Acemoglu feels that a new progressive era will soon be upon us and corporate power will end up curtailed. I'm surveying the political landscape closely for anyone who can play the role of Teddy Roosevelt, using legal tools to break monopoly "trusts" and shifting the mainstream consensus decisively toward imposing constraints on the abuse of power by powerful individuals.

So far, I see no one truly in the Roosevelt tradition with a realistic chance of election, while the rich become more powerful and the powerful become even richer.