

PEOPLE

Koch Lawsuit Has Cato at a Crossroads

BY JULIA EDWARDS

If Ayn Rand could have lived to see the libertarian movement in America today, she might be using the *Koch v. Cato* lawsuit as fodder for her next novel. The relationship between Cato Institute cofounders Charles Koch and **Edward Crane**—and the turns it has taken over the past 35 years—sheds light on the movement's conflicted place between idealism and politics and on those calling the shots behind the scenes.

When Koch met Crane in 1976, their roles within the movement were different from what they are today. Crane, in his early 30s, was a libertarian political strategist coming off the presidential campaign of Libertarian Party candidate Roger MacBride.

Koch, co-owner with his brother of an energy and chemical conglomerate that would become one of the largest privately held companies in the United States, was then in his early 40s and was described as an academic by MacBride when he introduced the two ambitious libertarians after losing his bid for the presidency. Koch and Crane discovered their ideas on radically limiting government were aligned.

With Koch's money and Crane's know-how, they founded the Cato Institute within a year after they met. Their intent was for Cato to study the economy from a limited-government angle, but the reports it released would never promote a candidate or be timed around a campaign's schedule.

Crane said in an interview with *National Journal Daily* that Koch made it clear to him that he only wanted to play a financial role with Cato from the start, and he even allowed Crane the freedom to start the institute in San Francisco (though he eventually relocated to Washington), where he knew he'd be happier.

"We became really good, good friends. We would talk every day on the phone," Crane said. "We had wonderful experiences."

Koch never stopped being a businessman first. According to a Cato representative, Koch wanted to take over the public-policy group the Reason Foundation to give the newly founded Cato the corner on the market. But Crane reminded Koch that public policy was different from business: It was in their best interest to have more than one libertarian think tank on the market.

During the 1980s, Crane and Koch kept in touch while their views evolved in sync with one another. They explored communism on trips to the Soviet Union and China and exchanged ideas on economic theory, including the school of thought known as Austrian economics.



Brothers vs. brother: Edward Crane faces lawsuit from Charles Koch, once his close friend.

It was his interest in Austrian economics that led Koch to businessman Richard Fink, whom Crane indirectly blames for breaking up their friendship. Fink and Koch met to discuss opening an Austrian economics center at Rutgers University, Fink's alma mater, and eventually founded Citizens for a Sound Economy, which became today's conservative political group Americans for Prosperity.

Fink and Koch also shared an interest in market-based management, a philosophy of running large corporations as if they were small businesses in an effort to bring workers to their highest potential. They wanted to bring this approach to all Koch organizations, including Cato. Crane said he was opposed to market-based management and resisted a move toward it. He made this, and his skepticism of Fink, known to Koch in 1990.

"At one point, [Koch] decided he was going to work closely with Rich Fink," Crane said. "I had read about it, so I called him to ask him about it, and he didn't take the call. And to this day, he hasn't expressed to me what happened."

Koch, quoted in Brian Doherty's *Radicals for Capitalism*, said he realized his strategies were diverging from those of Crane and that his involvement with Cato had become "counterproductive."

"I have strong ideas, I want to see things go in a certain direction, and Crane has strong ideas. I concluded, why argue with Ed? Rather than try to modify his strategy, just go do my own thing and wish him well," Koch said in a 2007 interview with Doherty, though he never verbalized this to Crane. Koch and Fink could not be reached for comment.

One year after the call that Koch never

returned, he began to decrease his contributions to Cato. He hasn't given personally since 1991, though his Claude R. Lambe Charitable Foundation and his brother David Koch have given amounts that, according to a Cato representative, total about 4 percent of Cato's funds over the past decade. Crane said he would be able to operate without any Koch money, but he shrugs when he tries to explain why it dropped so dramatically.

Crane said he first heard that Charles and David Koch would be suing Cato when *Politico*'s Mike Allen woke him up with a call, informing him he was being sued by Koch one day before the men would meet at a Cato shareholder meeting.

The dispute, at its core, is over rights to a shareholder seat inherited by the widow of William Niskanen, the institute's chairman emeritus and senior economist, who died last year. The Koch brothers are disputing her right to inherit the seat, which, if occupied by a Koch appointee, would place Crane as a minority on the four-person board and give the Kochs the ability to vote him out—as they have indicated they would do.

According to Crane, David Koch once told him he would gladly dissolve the power the Kochs held at Cato, but he said he would never "cross his brother." Crane said he's not fighting David Koch; it's Fink who is calling the shots with Charles Koch.

Lawyers at the institute are busy preparing their response to the Kochs' lawsuit, due in Kansas in two weeks, but donors and scholars have already begun to take their business to other think tanks. As Crane says, "the damage is already done." ■