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Cato Institute Is Caught in a Rift Over Its Direction

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WASHINGTON — From its perch in a spacious brand-new headquarters blocks from the White House, the [Cato Institute](#) has built on its reputation as a venerable libertarian research center unafraid to cross party lines.

Charles Koch, a Cato Institute founder, has been challenged by Cato officials, who say that his Republican activism has threatened the group's reputation for independent research.

Now, however, a rift with one of its founding members — the billionaire conservative [Charles Koch](#) — is threatening the institute's identity and independence, its leaders say, and is exposing fault lines over Mr. Koch's aggressive and well-financed brand of Republican politics.

The rift has its roots, Cato officials said, in a long-simmering feud over efforts by Mr. Koch and his brother [David Koch](#) to install their own people on the institute's 16-member board and to establish a more direct pipeline between Cato and the family's Republican political outlets, including groups that Democrats complain have mounted a multimillion-dollar assault on President Obama. Tensions reached a new level with a lawsuit filed last week by the Kochs against Cato over its governing structure.

“We can't be perceived as a mouthpiece of special interests,” Robert A. Levy, chairman of Cato's board, said in an interview. “[The Cato Institute](#) as we know it would be destroyed.”

At a tense meeting in November at Dulles Airport outside Washington, David Koch and two family emissaries laid out what they described as the “intellectual ammunition” they

envisioned that Cato could provide by supplying its brand-name research and scholars to Koch-financed political advocacy groups, according to Mr. Levy.

The one Koch-financed group mentioned by name at the meeting was Americans for Prosperity, which played a major role in the Republicans' 2010 takeover of the House and is now preparing for the November election. Structured as a nonprofit, the group does not have to disclose its donors. It has backed [Tea Party](#) groups, organized rallies and paid for negative advertisements, drawing criticism from campaign finance watchdogs and Democrats over the flow of secret money to political causes.

Charles Koch, chief executive of Koch Industries, a chemical and refining company in Kansas, said he had no intention of taking over the institute. "We support Cato and its work," Mr. Koch said in a statement. "We are not acting in a partisan manner, we seek no 'takeover,' and this is not a hostile action."

But Mr. Levy said he balked at tightening ties between Cato and the Kochs' advocacy groups, expressing concern that the brothers might try to select Cato's research topics and the timing of its studies. Any perception of political influence could compromise Cato's nonprofit status and stain its credibility, he said in an interview.

Over the years, Cato has successfully injected libertarian views into Washington policy and political debates, and given them mainstream respectability.

While leaders at Cato said the dispute has been years in the making, it broke into the open last week after the Koch brothers brought a lawsuit in federal court in Kansas against the institute.

The lawsuit, first reported by Politico, seeks to establish control of the four-person "shareholder group" that governs Cato. Charles and David Koch hold two of the four "shareholder" seats, but the lawsuit seeks to establish control of a third seat, vacated by the death of another founder.

The dispute goes deeper than mere seats on a board, Cato administrators argued.

"This is an effort by the Kochs to turn the Cato Institute into some sort of auxiliary for the [G.O.P.](#)," said Edward H. Crane, who is president of Cato and co-founded it with Charles Koch. "What he is doing now is detrimental to Cato, it's detrimental to Koch Industries, it's detrimental to the libertarian movement."

Tensions between such research organizations and the donors who finance them are nothing new in Washington. But the public nature of the spat and the big names involved — Cato is one of the country's most widely cited research organizations, while the Koch brothers are perhaps the biggest benefactors of the conservative movement — has caused considerable buzz in Washington and on the Internet.

While its focus on libertarianism and individual liberties has often aligned the Cato Institute with conservatives on issues like gun rights and [financial regulation](#), it has also staked out a number of positions closely tied to liberals. It generally supports [same-sex marriage](#) and guest immigrant-worker programs, for instance, while opposing the [Patriot Act](#)'s sweeping counterterrorism powers, aggressive use of American military intervention, and the criminalization of drugs.

Mr. Levy, the board chairman, said the dispute was already chipping away at the center's reputation for independence as it seeks to raise money. Unlike many nonprofit research institutions, Cato does not have an endowment but continually raises money for its operations, with a budget last year of about \$23 million. It is now in the midst of a major capital drive.

"We already have major contributors who will say we are not contributing another dollar until we are sure that the Kochs are not calling the shots," Mr. Levy said. "It is a fund-raising nightmare."

Part of the dispute is rooted in personal acrimony. Mr. Crane, the Cato president, was once close to Charles Koch, sharing libertarian beliefs and traveling with him to China and the Soviet Union as they joined to form Cato in the mid-1970s, officials said. But the two had a falling out, and the Kochs tried to have Mr. Crane removed as president some years ago, the officials said.

Exacerbating tensions was an [article in 2010 in The New Yorker magazine](#), in which an unnamed Cato Institute official was quoted comparing Charles Koch and his "market-based management" philosophies to an "emperor" with no clothes. The quote was said to infuriate Mr. Koch.

Charles and David Koch have rarely attended Cato board meetings in recent years, and Cato officials have rarely been invited to the family's regular galas for influential conservatives. As the relationship with the institute has deteriorated, their donations have declined as well.

Since Cato was formed, the Kochs have donated about \$30 million, officials said, but the bulk came in its first decade; by last year, the Kochs gave no money at all.

But the brothers still wield significant influence over Cato's governance because of its unusual structure, which created four "shareholder" seats, each with shares of capital stock bought for a dollar each. The Kochs have used their shareholder positions to name seven employees and associates to the 16-member board.

The shareholder arrangement has raised questions among some nonprofit tax experts, who said a sale of the shares was legally problematic and possibly in conflict with Internal Revenue Service regulations. But Wes Edwards, a lawyer representing Koch Companies Public Sector, defended the structure as legally permissible under Kansas law.

Through their foundations, the Kochs finance dozens of organizations in the worlds of academia, medicine, the environment and other areas.

Critics assert that the Kochs have used their financial clout to steer the research at groups they support. Greenpeace, for instance, has labeled one Koch-supported research institute, the [Mercatus Center](#) at George Mason University, as a “front” for [climate change](#) deniers — an assertion that the center dismisses.

Some recipients of the Kochs’ largess say they have never felt political pressure.

Charles Koch serves on the board of the Mercatus Center and is chairman of the board of another institute at George Mason, the [Institute for Humane Studies](#). But he has never tried to steer research toward his political activities, said Gary Leff, chief financial officer for both groups.

“He’s a longtime and generous supporter of ours, but we’re not involved as a political organization,” Mr. Leff said.

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