

## *Koch/Cato Update: Charles G. Koch Speaks, Bob Levy Responds*

**Matt Welch** | March 12, 2012

There have been two substantial developments in the Cato Institute's bitter ownership dispute (which I previously blogged about [here](#) and [here](#)). The first is that on Thursday Cato co-founder Charles G. Koch, who initiated the suit against Cato, Cato President Ed Crane, and the widow of former Cato shareholder William Niskanen, [issued a statement](#) about his position and intent. The second came this morning—Cato Board Chair Bob Levy has issued a [response](#).

Excerpt from Charles Koch:

We did not want to address this shareholder issue at this time. Although our legal filing has accelerated media coverage of this issue, this was not our desire. For months we made every effort to resolve, avoid, or delay this issue. We proposed a standstill agreement to delay for one year or longer any discussion on the shareholders agreement. We asked to delay any shareholders meeting, which would have left the pre-March 1 board of directors in place during this period. We proposed third-party mediation. We proposed alternative corporate structures. We made every effort to avoid this dispute – finally requesting just an additional four days to negotiate a potential resolution – but all of our proposals were rejected. Every counterproposal we received required we forfeit our shareholder rights and act contrary to the corporate governance documents.

The third Cato shareholder, Ed Crane, insisted that we have a shareholder meeting on March 1 to vote on new directors. At this meeting, a new shareholder was to be recognized in violation of our long-standing written agreement and the Institute's bylaws and articles of incorporation. We warned Cato's leaders about the negative consequences of forcing a shareholder meeting. They scheduled the meeting anyway. Faced with this intransigence, we did not seek damages or make claims of misconduct by individuals. Rather, we merely filed a declaratory relief action asking the court to confirm the meaning of the relevant corporate documents.

The actions of Cato's leadership since the filing have provided evidence of their strategy. They thought we would back down rather than risk additional criticism from them and others on top of the many attacks we already face from opponents of a free society. They

thought wrong. We will not capitulate to these threats and mistruths any more than we have bowed to other threats.

We have been asked why we did not choose to simply walk away from this dispute. Principle is not a matter of convenience. We firmly believe this is a pivotal moment in Cato's history. We want to ensure Cato remains consistent with the principles upon which it was founded. The furtherance of this vision is possible only if Cato fosters a culture that adheres to core principles such as integrity, humility, and treating others with dignity and respect. We view recent events as evidence that Cato's leadership has turned its back on these core principles. As we see it, we would not be acting honorably if we failed to stand up for these principles.

There is a great deal of speculation as to what direction we would take Cato if we were to be in a position to elect a majority of the board. Some have speculated that we would micro-manage the enterprise. Others have suggested we would turn Cato into a partisan Republican organization. These rumors are absolutely false.

Excerpt from Bob Levy:

It should have been obvious to Charles Koch that filing this suit would necessarily result in a public battle that would threaten the Cato Institute's credibility – wounding allied organizations and scholars in the process. You be the judge. Imagine that Charles Koch prevails in his lawsuit against Cato, and that he and his brother then "own" two-thirds of Cato's stock. Would an Institute whose board of directors is appointed by the Kochs be viewed as a credible source of non-partisan, non-aligned, independent commentary on vital public policy questions? Or would the think tank now known as Cato cease to exist because its 35-year unimpeachable reputation is critically damaged by the (unfortunately accurate) perception that Cato is literally "owned by the Kochs"? [...]

Yes, the Kochs proposed a standstill agreement that Cato rejected because the status quo could not be maintained. Too many key people had learned of the looming problem. Several of Cato's largest donors had announced they would discontinue their donations until it became clear that the Kochs would not control Cato. A number of Cato benefactors said they would change their wills to eliminate Cato as a beneficiary if Koch dominance was an ongoing threat. Essential employees had expressed their intent to leave Cato unless the governance issue could be resolved in a timely manner. Cato's search for professional talent, including most particularly a successor to president Ed Crane, was frustrated by the obligation to disclose the impending shareholder conflict.

The purpose of the Kochs' disingenuous standstill proposal – confirmed in a meeting with me – was to "get past the election," after which the Kochs would be less anxious about alienating the army of Cato's libertarian loyalists. Put bluntly, a standstill would have jeopardized Cato's day-to-day operations while resolving nothing. [...]

Here is the bottom line: Cato cannot function as an independent voice for liberty if it is thought to be under the thumb of Charles Koch or Rich Fink – indeed, literally owned by

the Koch family. Nor, if the lawsuit succeeds, will Cato be considered a reputable and credible source of "intellectual ammunition" by anyone outside the small circle of already committed libertarians. Instead, the Kochs will control a shell think-tank that can be dismissed out of hand as a front for Koch Industries. That's the clear consensus of nearly everyone who has seen this lamentable and unwelcome dispute unfold.

Nothing good can come of this – not for Cato, not for the Kochs, and not for the libertarian movement. It's time to restore common sense and adopt a governance structure for Cato that eliminates the prospect of Koch control.