



THE TECHNOLOGY LIBERATION FRONT

"The real problem is not whether machines think, but whether men do."

The Kochs, Cato, and Miscalculation

by JIM HARPER on MARCH 30, 2012

It's well known now that a long-simmering contest for control of the Cato Institute has bubbled over. On the last day of February, Charles and David Koch filed a lawsuit against the widow of former Cato chairman Bill Niskanen, Cato president Ed Crane, and Cato itself seeking to have Niskanen's shares returned to Cato or granted to the remaining shareholders under the terms of a shareholder agreement. This would give the Kochs (one of whom participated in the founding of Cato) majority ownership, allowing them to elect a majority of Cato's board. It would also position them to extinguish Crane's shares so as to gain 100% control. Cato disputes the Kochs legal positions, and it believes that their success "would swiftly and irrevocably damage the Cato Institute's credibility as a non-partisan, independent advocate for free markets, individual liberty, and peace."

The quote just above is from Cato's "Save Cato" web page, but the more interesting commentary has been scattered by Cato staff and leadership across various blogs and outlets (e.g., Jerry Taylor, Gene Healy, Jason Kuznicki, Julian Sanchez, Jonathan Blanks, Justin Logan, Trevor Burris, Michael Cannon). There has been lots of commentary from many quarters, of course, led by Jonathan Adler at the Volokh Conspiracy. Really, there's too much commentary to list. A Facebook page dedicated to "saving" Cato has zoomed past 5,000 supporters. Now it's my turn. Putting my thoughts here on TLF is a stretch because I won't be talking about tech. Think of this as the "liberation" part of Tech Liberation Front. The reason many of my colleagues and I do what we do here is because

of *both* Ed Crane and the Kochs, and the institutions they have built and nurtured. Now these giants in the modern liberty movement are fighting.

That's a shame for a lot of reasons. There is the overall cause of freedom, of course, our part of which is side-tracked and sullied by the dispute. We Catoites love what we do, fighting for freedom backed by thousands of highly engaged supporters. But don't go all analytical and forget the hundred-plus Cato staff whose livelihoods and careers are under a cloud. That's concerning and frustrating, especially for the people with children. Once or twice, I've let my colleagues know when I found their arguments overwrought. That personal dimension might be why.

Yes, Cato people are people. And so are Koch people. This is important to surface as part of the theme I want to focus on: miscalculation.

Perhaps because we're intellectuals, maybe out of courtesy, or in pursuit of simplicity, much commentary has forgotten that all the actors in this drama are people. And people make mistakes. Lots of 'em.

People on the Cato side have treated the Koch side as monolithic and acting in unison. From inside Cato, it's rather obviously not, but the Koch side likely perceives the Cato side as monolithic and similarly orchestrated. But when I talk here about "the Kochs" or the "Koch side," I do not mean the brothers as a unit, or either of them individually. I rather doubt that these successful businessmen devote a huge percentage of their time to their ideological work (and hope they don't, for their sake!).

The "Koch side" is actually a variety of different actors, including each of the Koch brothers themselves and any number of advisors and allies. The things any one person has said, the suit the Kochs' attorneys filed in their names, and the press releases put out for them are the products of different actors within the "Koch side," each of which may have different motivations and strategies.

Examining the Koch side's actions, I have a suspicion that it is not acting in a highly coordinated and planned fashion, and that it is not actually pursuing the interests of the Koch brothers all that well. That's saying a lot, and it's a little presumptuous. I hope to bring the evidence forth in a series of posts.

My work at Cato on counterterrorism, including the production of the book *Terrorizing Ourselves*, is something no politically active group would do because it doesn't help one party or the other. Same goes for my anti-national-ID work. Growing the government is a bipartisan project. But I think of the counterterrorism work in particular because it exposed me to national security and foreign policy concepts that pertain well here.

In national security and foreign policy, no theme is stronger than the problem of miscalculation. So often, international powers misunderstand one another and misinterpret each others' actions. They develop theories of each others' behavior (treating each other as monoliths), then act and react based on those theories until conflagration ensues. The victor writes history.

As we libertarians all know, war kills people and saps the world of wealth. Now "war" among libertarian powers causes libertarians to suffer, and it saps strength from the libertarian movement. So we really, really ought to avoid miscalculation, oughtn't we?

It seems to me that a central miscalculation on the Koch side is to misapprehend what the Cato Institute is and what gives it value.

Before I get to that, let me start with a premise: I believe the Kochs want what's best for liberty. The Kochs' work to advance liberty over many decades is very strong evidence that they want to see its advance continue. The statements put out in their names are creditable evidence of the same. This doesn't exclude other goals within the Koch "side" or secondary goals on the part of the Koch brothers themselves, but consistency on liberty over decades suggests that the Kochs themselves want Cato to remain an organization that advocates liberty well.

Now, what makes Cato a valuable part of the libertarian movement? Here, the Koch side is not calculating well.

Cato is not a profit-making enterprise, but concepts from that world apply fairly well to its examination. Take “going-concern value.” That’s the value of an enterprise as an ongoing entity, over and above the value of its assets if liquidated. Going-concern value includes liquidation value plus the value of intangible assets such as goodwill.

Goodwill. That’s the positive reputation of an enterprise, the “something” that enables it to do more with a given set of intellectual and physical assets than another enterprise could with the same assets. Reputation (as you can learn starting on page four of my recent Cato policy analysis) is the set of conclusions one makes by combining identity and biography.

Cato has a clear identity—a brand—and it has a thirty-five-year history/biography of being a reasonable, consistent, and honest intellectual advocate for libertarian and free-market policies. This has caused a number of non-libertarians to come to Cato’s defense in the current dispute.

The simpleton might use this against Cato—“Aha! They’re admired on the left!”—but people who care about persuasion know that gains come from bringing fence-sitters to the side of liberty. Gains come from convincing opponents of liberty to moderate their positions. Real persuasion happens in small increments over a long time, and it comes from engaging with the other side.

There are lots of inputs into reputation, and one of them for advocacy groups is most definitely funding and control. One need only look at SourceWatch to see that ownership and control is an important input into reputation. (Again, because of the propensity for cheap argument in some quarters: Citing to SourceWatch is not endorsement. I am pointing out a reality of participation in public debate.)

The properties of reputation are somewhat like the properties of physical assets. A machine that is not maintained will start to work less well over time or suffer catastrophic failure at some point. A reputation that is not maintained will slide or

even collapse. Cato has ideological opponents who are constantly and often unfairly trying to tear down the organization's reputation, mostly using proxies for substance such as funding and control. (It's the easy way. Debating us on the merits is hard.)

It is not to endorse that I state the following: The Koch Brothers do not have the same reputation as Cato. The Center for American Progress puts out reports that call the Kochs "financiers of the radical right" while it joins with Cato and Cato scholars on issues like immigration, gay marriage, national security, and transparency. For whatever reason, while Cato has successfully cultivated the currency of legitimacy in Washington, D.C., the Kochs unfortunately have not. I believe they have tried, and the Kochs' reputation in the public policy arena is undeserved in my opinion, but it is a reality. (Speaking of cheap argumentation, some have argued that the Cato side is buying into or fostering "lefty" arguments about the Kochs. There is very little evidence of this, and the proponents of that idea should put themselves to proof.)

A Koch takeover would affect the reputation of Cato. Such a thing generally wouldn't happen with an industrial firm, but a change in corporate control of an advocacy group most definitely would affect its operations. A Koch takeover would degrade Cato's reputation, its goodwill, and its value as a going concern. Cato would lose some measure of its ability to persuade. I don't believe the Koch side fully considered this effect when it embarked on its current course of action.

This miscalculation permeates the Koch/Cato dispute. Jonathan Adler recognized it insightfully in the early going:

Even if one assumes that the Kochs have better ideas for how Cato should direct its resources, know more about how to advance individual liberty, and are correct that the Institute is too "subject to the personal preferences of individual officers or directors," any benefit from whatever changes they could make will be outweighed to the permanent damage to Cato's reputation caused by turning it into a de facto Koch subsidiary.

I hear a counter-claim to this argument: *Unfairness! Ed Crane pushed this idea! He pushed the idea of a 'takeover'!*

Maybe. Ed's an interesting one. And if I'm not fired for something in this post (!), I'll say more later about him. But "unfairness" is not an answer to the underlying point.

Think of that industrial machine. Without proper maintenance, it either degrades over time or seizes up. In the end, it doesn't matter which. The enterprise can no longer produce what it did. I have a hard time blaming the person who built an enterprise over thirty-five years for hastening the discussion about whether his machine will run *better* in the next thirty-five years, or whether it will cough and sputter, potentially to grind to a halt.

I've focused on miscalculation on the Koch side rather than the Cato side. The cause of this is not simply Cato partisanship (which I fully admit to). I will explain the reason for focus on the Kochs in a future post—and why I think it is a product of more Koch-side miscalculation.