

Institutional change in the absence of the rule of law and market mechanisms

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Abstract This paper outlines and evaluates the nature of terrorism as perpetrated by al-Qaeda. To begin it graphs the institutional blueprint of society, and identifies the ubiquitous relationship between state, market and culture in any society. It goes on to describe how private markets and cultures are harmed and diminished by the relative expansion of the state. At some stage in this relative expansion, private markets and cultures simply collapse. At this point, a societal backlash ensues. al-Qaeda, in this sense, is the modern day *coup d'état* against the overwhelming power of an over-extended autocracy. The paper evaluates this hypothesis through an institutional examination, largely focused on Saudi Arabia, the initial homeland of Osama bin Laden, the highly effective leader of al-Qaeda, and current home to the world's largest financial contributors to the cause of al-Qaeda. Understanding the specific and purposeful institutional nexus from which al-Qaeda has emerged must be a first step in any systematic attempt to reduce the terrorist threat that it poses.

Keywords Terrorism, Institutions, al-Qaeda, Saudi Arabia, Culture, Norms, Club goods, Islam, Rational choice

The broad range of human actions characterized by such activities as the anonymous free donation of blood, the dedication to ideological causes such as communism, the deep commitment to religious precepts, or even the sacrificing of one's life for abstract causes could all be dismissed (as many neoclassical economists dismiss them) if they were isolated events. But obviously they are not and they must be taken into account if we are to advance our understanding of human behavior. If our understanding of motivation is very incomplete, we can still take an important forward step by taking explicit account of the way institutions alter the price paid for one's convictions and hence play a critical role in the extent to which nonwealth-maximizing motivations influence choices. –Douglass North, 1990

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1. Introduction

al-Qaeda is one of the most talked about new social phenomena of our time. We search and strain to answer the fundamental question, why? This research will make efforts to set forth the socio-institutional background under which al-Qaeda has emerged. The importance of the rational choice approach cannot be underestimated for it separates the works of economists from those of psychologists, sociologists and conventional political scientists. This work evaluates the emergence and apparent success of al-Qaeda through the lens of rational choice. The institutional nexus under which al-Qaeda has emerged is pivotal for an understanding what al-Qaeda is, namely a spontaneous order of a group of individuals who have privately gathered to provide a public good (bad) with social externalities.

The paper is structured as follows: First, I outline a general mapping of society which identifies three spheres of society: the state, the market, and culture and which shows how they interact. Second, I utilize this framework to analyze the Islamic world, with special focus on Saudi Arabia, a state that was the geographical home of Osama bin Laden, the leader of al-Qaeda and currently is home to some of the largest financial supporters of the al-Qaeda organization. On this basis, I attempt to form a notion of what al-Qaeda is, how it came to be, and how it may be undermined.

2. A general mapping of society

To understand why terrorist organizations, specifically al-Qaeda, form and thrive, one must conceptualize from an abstract blueprint the spheres of society that form the foundation for the emergence of institutions. Frank Knight, when translating Weber's (1905) work said his question should be stated in negative form, that is: why did capitalism not develop in other times and places than modern Western Europe (Hamilton, 1991, 63)? This will be the method by which this research ascertains a theoretical understanding of the impetus and growth of terrorism, particularly, quasi-private terrorist organizations. To understand why modern terrorism has emerged, most predominantly in the Middle East, and remains sporadic elsewhere, is an economic, sociological, anthropological and epistemologically embedded question.

The three most fundamental spheres of society can be captured as the private sector, the public sector and the culture sector. The private sector encompasses the domain and scope of market activity. The public sector is defined by the size and scope of the state. The culture sector includes non-market activity such as familial interactions, religious practices, norms and customs. There are exchanges that take place independently in each sphere that are unknown and/or unseen by the other spheres. Consider family ties, religious services, firm operations and exchanges within the state. All of these spheres interact with one another and while separate entities are interdependent.

The legal code that governs a society is often mitigated by the state but it governs both the private and cultural sector interactions. Analysis will be focused on the interaction between the three sectors. Consider Figure 1 as a graphic illustration of this hypothesis.

The state, represented by the center circle, interacts with both the market and with culture. My central hypothesis is that both the market and culture, the left and right circles can evolve independently of the state, although they are always conditioned by the state. The state creates neither the market nor culture, but empirically and historically the states alters and changes the course of both market and cultural evolution. The size of each sphere is related to the size of the other spheres. The level of independence from the state of both the market and the

Fig. 1 A society with a minimalist state sphere

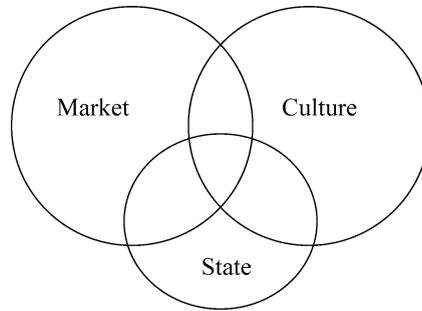
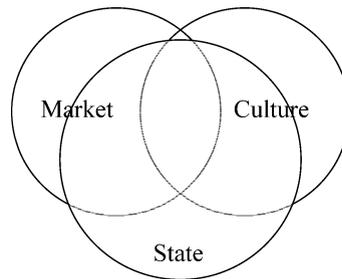


Fig. 2 A society with a expansionist state sphere



cultural spheres acts to limit the size of the state. As well, a flourishing and robust market with well defined and protected private property rights garnered by the rule of law will allow culture to emerge from within a society (Cowen, 2002). The larger the size of the market sphere, the greater the degree of cultural freedom (Smith). Conversely, as the state expands in size and governs a greater arena of both market and cultural activity both the market and the cultural spheres will necessarily shrink.

Consider Figure 2 as representing the tradeoff, or the hypothesis of the mutual exclusivity of the scope of each sphere. As the state sphere becomes larger (beyond some point)¹ the market sphere will become smaller, making the diagram, in the limit, look like one circle rather than three independent circles with overlap.

2.1. Institutions

Before we begin a detailed analysis of each sphere, it is necessary to discuss institutions as these are the network of rules both, written and unwritten, formal and informal, that wed together the three spheres of society. From an economic perspective, the most fundamental atomistic method of action begins with individual choice. This analysis begins with the assumption of methodological individualism precipitated by rational choice.

Rational choice is of important mention here, as it does not necessarily lead to economically efficient or seemingly rational ends (North, 1995, 25). An understanding of the

¹ “Beyond some point” is an important caveat here. It can be traced back to the Hobbes/Rousseau debate concerning why men need government for human prosperity and the extent and type of government that would best augment prosperity. That is government is necessary on some level, but the organization and orientation of the state matters for the development or the hindrance of other societal spheres. The extent of the minimal level of government, beyond which the flourishing of the market and the cultural spheres are hindered, will not be debated here. Nevertheless, it is a relevant topic for further research.

contextual nature of institutions, however, allows rational choice theory to survive in the face of apparently “irrational” outcomes. Often, the term “culture” is deemed as the driver for these “irrational” outcomes.² Before discussing culture we must understand institutions, their formation, rate of change and their relationship to individual choice.³

Rational choice begins with individual action and as Weber notes action in and of itself is social by virtue of its subjective meaning; it takes account of the actions of others (Weber, 1947, 88)

The following will provide a brief sketch of institutions and what constitutes them as such.

- institutions provide the rules of the game, they act as constraints and structure incentives (North, 1995, 5; Kasper & Streit 1990, 30, 31);
- they may be formal or informal (North, 1995), but the most basic are the result of spontaneous growth and not design (Hayek, 1979, 163);
- they provide predictability, and shape the incentive structures which constrain individual choice sets, they shape what will be maximized (Boettke & Storr, 2002, 170, 171);
- they encompass all action, are context dependent (Searle, 1995), and as such matter fundamentally for individual choice;
- they are not necessarily socially efficient (North 1990, Brennan and Buchanan (2000), 1985, 166);

Thus institutions permeate daily choice in all spheres of society. They are context dependent. One of the most fundamental institutions is that of language. Lal (2001, 8) refers to language as the basic institution of self-consciousness. Language, and hence communication among individuals, is the starting ground of this overall institutional nexus. Communication impacts our thoughts about morals, ethics, law, and behavior in the market, the role of the state and our role with respect to our cultural identification.⁴

It is important to note that the contextual nature of institutional parameters makes institutional change incremental (North, 1995, 6). Typical of slow change are customs, norms

² Weber (1947, 92) underscores this point in his discussion of sociology and social action. He states that: Such emotions as anxiety, anger, ambition, envy, jealousy, love...an appetites of all sorts... are only irrational from the point of view of the rational pursuit of a given end... Even when such emotions are found in a degree of intensity of which the observer himself is completely incapable, he can still have a significant degree of emotional understanding of their meaning and can interpret intellectually their influence on the course of action and the selection of means.

³ When referring to this cultural variable, Nathan Glazer (2000, 230) suggests: I think culture does make a difference. But it is very hard to determine what in culture makes the difference... Whatever it is; I think it will be more subtle than the large characteristics of the great traditions of a culture, since too many different outcomes, at different times, seem compatible with each of the great traditions. They have all had their glories and their miseries, their massacres and their acts of charity, their scholars and their soldiers, their triumphs of intellectual achievement and their descents into silliness or worse. Rather, it makes more sense to think of them as storehouses from which practices suitable for and useful for all many emerge. In any case, they have gone through so much change that it is utopian to think that we can apply their lessons if we can agree on them, in the large.

⁴ Boettke and Storr (2002, 170,171) note that “social phenomena, social structures, social relationships and social actions are unintelligible without considering how actors subjectively perceive them...” Mises (1949, 46) suggests the importance of inheritance and environment for man’s actions... “He lives not simply as man *in abstracto*, he lives as a son of his family, his people, and his age... His ideology is what his environment enjoins upon him...” Man is not impotent here; Mises continues with [man] “is ready to change his ideology and consequently his mode of action whenever he becomes convinced that this would better serve his own interests.” Granovetter suggests that behavior is affected but not determined by social structures (1985, 487). Kirzner suggests that “the limits on the market are imposed by institutional prerequisites.”

and mores or codes of conduct that are considered either acceptable and encouraged or unacceptable and discouraged. Due to the nature of this change, in tandem with the risk that many of these informal institutions may encourage inefficiency, the malleability of institutions is important. North (1995, 16) states that such informal institutions are characterized by “lumpy indivisibilities.” These conventions may take decades or longer to change. With respect to terrorism, of the kind provided by al-Qaeda, the force of conventions plays a large role internally towards group loyalty and commitment.

Expressing ones’ convictions is either enabled or hindered by institutions, which in turn navigate the orientation of the state, culture and the market. This brings to light the importance of subjective preferences, and the role they play in the context of formal institutional constraints which enable us to express our convictions at zero or little cost (North, 1990, 44). This goes a long way to help us understand why such institutions as slavery, rape, terrorism, and al-Qaeda have not only had historical acceptance, but why such institutions which reduce aggregate efficiency and defy property rights have had long historical life spans.

It may be the case that there are no formal or informal institutions with respect to a certain aspect of society. In these cases, DeSoto suggests that without them people invent extralegal arrangements in substitution (2000, 73) and these most likely carry negative externalities that spill over into other spheres and activities of daily life.

2.2. The market

The market is considered the arena of economic activity, composed of individuals, and governed by institutions such as the state, the legal code and culture. These three factors together bind the scope of the market within a given societal setting. Weber describes three aspects that constitute “social economics” as the study of: economic phenomena, economically relevant phenomena, and economically conditioned phenomena. Swedberg suggests that the first category concerns “economic phenomena in the strict sense, such as economic events and economic institutions” (Swedberg, 1998, 19). Thus, while economically relevant phenomena occur in all three spheres of society, the market is concerned with voluntary, utility enhancing exchange transacted through a monetary medium.

The market is characterized as the arena of human exchange in which there is no compulsion or coercion (Mises, (1949), 1998, 258). To this extent, the scope and extent of the market varies in different cultural and political settings. The transformation of the spheres from Figure 1 to Figure 2 suggests that the independence of market activity determines the viability of, and hence vibrancy of, the cultural sector. Neither the market, the state nor the cultural spheres is set in size and scope. Mises describes the market as a continually changing state, driven by value judgments of individuals and their actions which are directed by their value judgments ([1998], 1949, 258–259).

Fukiyama suggests that the economy constitutes one of the most fundamental and dynamic arenas of human sociability, and that this activity is knit together by a wide variety of norms, rules, habits and other such institutions (1995, 6,7). Discussions of the market as well as the state and culture are embedded in the discussion of institutions. Mises describes the market as a man-made mode of acting under the division of labor; the sovereignty of consumers and the role of entrepreneurs are the directors of the market.⁵ The role of profit and loss

⁵ The market in this sense is characterized in his words by “catallactic competition”—that is the social competition brought on by the market in which each seller must outdo one another by offering higher quality or lower priced items ([1998], 1947, 274).

is essential to the market process (Ikeda, 1994, 23). None of this is possible without well established, clearly defined and effectively protected private property rights.

The limits on the market can be imposed formally by the state, or informally through the evolution of cultural norms. The market naturally abides by rules - the laws of supply and demand - which are ubiquitous. The market itself is embedded in a framework of legal and moral institutions (Fehl, 1994, 200). However, it cannot be pigeonholed by superimposed rules in an effort to garner specific outcomes. The market can have regulations imposed upon it to limit its size and scope, which will limit its social ability to commandeer widespread resources among anonymous actors to their most highly valued uses. The scope of the market and its independence from the state has a direct impact on the division of labor, the extent of specialization, and the rate of wealth accumulation within a society.

Weber notes that the market facilitates the development of autonomous economic units and that the division of labor that comes with a secure market has social aspects (1947, 228–229). The division of labor allows individual specialization and the choice to embrace cultural characteristics as one wants. Rather than the imposition of cultural codes the market provides an arena in which profit opportunities can satisfy the demand for cultural goods.

Weber suggests that there are four ways to limit the extent of market activity. He calls this ‘regulation of the market’ which can occur through tradition, convention, social disapproval, legal restrictions, and voluntary action (1947, 182). Sen notes that the type of market that exists can serve as a constraint: monopolies, whether markets are missing, the extent of information and the presence or absence of economies of scale. He states that these forms of limitations are institutional forms (1999, 116–117). These institutional forms arise from the scarcities of the world, they exist over a continuum of time; and they can and do change⁶.

The critical difference lies in the type of limitations that are imposed on the market, whether they be artificial—a rational constructivist state intervention - or whether they are due to real scarcities imposed by the state of the world. Sen notes the danger in restricting competitive working markets, in that arbitrary restrictions of the market lead to a reduction of freedom due to the consequential effects of the absence of markets (1999, 26). This reflects DeSoto’s concern about the absence of formal institutions. When markets do not exist and institutions that reduce transactions costs, such as the rule of law, and well protected private property rights do not exist, individuals circumvent these absences often with negative external societal consequences. This is where al-Qaeda steps in. This group overcomes failed institutions and provides a club good with negative social consequences

Cultural impositions, modes, conventions, etc. can limit the extent of the market. Economists typically do not question the ends that individuals choose. They question the efficiency of the means to obtain said ends. The aim of this work is not to condemn cultural practices that do not enhance economic efficiency per se. What matters is the reflective nature of impositions. If they spontaneously emerge to enhance a societal preference that is reflective of individual preferences, then the institution will not be questioned in an economic sense. Ultimately, terrorism is a backlash against some or all institutions that are deemed as bad or harmful by the individuals living under such institutions. Imposed constraints on both the market sphere and the cultural sphere that are not a reflection of the will of individuals or that

⁶ For example, Menger noted that monopolies were a “primitive phenomena” and that they historically precede competition, and as such not only are they not a social restriction but that those who want to live in expanding competition should desire to start with the phenomena of monopoly ([1976], 1994, 217), primitive in the sense that a new technology or innovation, by definition will be for some time a monopoly, however the lure of profit opportunities that are unhindered by legal and protectionist barriers to entry will erode over time.

satisfy the preferences of a few at the expense of many garner societal backlash, historically in the form of revolution, coup d'état and, in the modern day, al-Qaeda.

2.3. The state

The state as an institution represents the second of the three spheres of society. The state as an institution is in the words of Searle (1995) “observer relative” such that the same state may have different interpretations and perceptions among the individuals that it governs. Lal notes that the universal feature of the state is its predatory nature (1998, 16). Some form of self-governance pervades all cultures, and the institutional nature of the state means that it will take on different embodiments across different cultures, and it will characterize the extent of the market and the degree of cultural freedom or autonomy that a society enjoys.

The characteristic difference between Figure 1 and Figure 2 is the effect on the market and culture when the state goes beyond its optimal size. At some tipping point, the market and culture collapse and their coordinative properties fail under the weight of the scope of the state. While many transactions that occur in the cultural sphere are not economic in the strict sense, that is familial relations most often do not involve money transactions, culture does cover economically relevant and economically conditioned phenomena.

In the cultural sector, there are transactions and exchanges that are made on a daily basis in the absence of formal market settings. However, in small familial units proxies are often made by the actors of the subjective value of these exchanges, and only in such small settings are these attempts at interpersonal utility comparisons even proximate to the real values of each individual. Beyond the familial setting, organizations arise, such as churches, clubs and communities where individuals with homogenous preferences with respect to the specific organization voluntarily come together for non-monetary exchange.

The state however, is an aggregation of large numbers of often heterogeneous individuals, and attempts to aggregate their preferences. From dictatorships, to monarchies, to democracies, the institutional parameters of the state and the laws that influence state construction, operation and scope shape the incentives under which political actors will choose, which in turn affect the budget constraints of individuals.

In the market setting, even monopolists are restricted by the intersection of the demand curve with the price axis; they are constrained by the highest reservation price of individuals' within that demand context. Politicians however, can circumvent the downward sloping nature of the demand for political goods. Lal warns of this by suggesting that the institutional features of the state imply that no matter how tyrannical and predatory, it must be based on some general level of acceptance (1998, 17). I would challenge the phrase “general level of acceptance” and change it to some well secured and capable special interest group. Certainly Saddam's Iraq, characterized by the torture of hundreds of thousands was not generally accepted; however it was secured through violence by those special interests who gained as long as his regime remained in place.

The issue of the state, or in Sen's words “authority”, is one of legitimacy (Sen, 1999, 31). Understanding the specific institutional nexus under which al-Qaeda has emerged - a world in which the “legitimacy” of the state is not up for debate - will allow us to understand why al-Qaeda, why now, why in the Middle East? Why has this social phenomena not occurred similarly elsewhere?

Asking these questions rules out many answers, Islam (religion), dictatorships, and limited markets *alone* do not answer the question. But addressing the question of legitimacy is a starting ground. The state, which impinges as it does upon the ability of other spheres to

thrive, must have legitimacy beyond that provided by special interest groups; which exist at the expense of the rest of the population. Otherwise, some form of revolt is bound to occur.

This expansive nature brings us from Figure 1 to Figure 2 and demonstrates the consequences.⁷ How to limit the size of the state, to induce a state to effectively tie its own hands is not the subject of the current research. However, acknowledging the relationship of the state to the market and the culture of a society is.

2.4. Culture

Culture has become a catch-all phrase to describe phenomena that do not occur in direct market settings, and involve often vague institutions. Words such as codes, customs, norms, mores, conventions and traditions emerge when one attempts to visualize culture. We must dissect culture to understand what it is and how it affects individual behavior through *perceived* choice sets. That is, culture here will not be approached as one institution, but as a web of institutions that emerge and evolve, often slowly, over time.

Culture is embodied in the ideas that we as individuals have about ourselves. Lal describes these as “cosmological beliefs” that is, our beliefs about how we view ourselves and the purpose of our lives. These “cosmological beliefs” can survive even when they no longer have any function (Lal, 1998, 8, 11, 94).

Culture is essentially an interconnected web of social institutions, and like any other institution, cultural practices may or may not be efficient. Culture cannot be extracted from the operation of the market, or the existence of the state. In the previous section, the relative “legitimacy” of the state was emphasized, and culture determines what individuals perceive to be legitimate. Boettke suggests that the legitimacy of particular institutional arrangements is a function of the culture of a people. His definition of culture is the beliefs and ritual practices that legitimate institutions (2001, 254).

The English sociologist Edward Burnett Tylor (1883) defines culture as ‘comprising all capabilities and habits *acquired* by a man as a *member* of society.’ [Emphasis added]. I stress the words *acquired* and *member*. Culture is a network, in that it has no nominal value. It has a relative value. Man, as a member of society, acquires cultural traits that often lower transactions costs by creating predictability. These traits are acquired. It is a “learned institution” (Kasper & Streit, 1998, 162) and such learned traits can and do get dismissed. Let us refer back to Mises’ quote; man is born as a member of a family, a group, etc. Man uses culture for self identity and self evaluation; it is a comparative mechanism to ascertain self worth. This mechanism is not flawless. While culture can bridge the tension between the individual (Kasper & Streit, 1998, 162) and the group, it can exacerbate tensions between groups of heterogeneous individuals or individuals of separate cultural traits.

In this sense not all cultures are equally functional in coordinating human action, and cultural norms have path dependency characteristics, meaning that most evolve slowly and some change very slowly. However, specific habitual traits can change quickly if new ones are discovered and are found to be superior (Kasper & Streit, 1998, 163).

⁷ It should be noted that this diagram is a simplistic representation of the nature of the consequences of an expansive state and the interconnected nature of the three spheres of society. There are many mutations and steps in between, and the expansive nature of the state, specifically in democracies, has a slow and subtle impact, such that individuals may not recognize that they have moved from the state of the world in Figure 1 to the state of the world in Figure 2 until they have been living there for some time. Dictatorships and other repressive regimes have much faster rates of change in the size and scope of the state.

Culture shapes perceptions, and this means that culture is inextricably tied up with both the state and with the market as such, culture “underpins the division of labor.” (Kasper & Streit, 1998, 162, 165)⁸ In addition to self evaluation and comparison culture allows us to acquire what Boulding ([1956], 1997) referred to as a ‘worldview.’ What individuals interpret must pass through a subjective filter that is formed and maintained in large part through culture.

Culture can thus affect human capital and the market’s ability to harness that human capital for wealth accumulation, positively or negatively. In addition, cultural skills or goods may be intimate and local; as such, they are not easily transferred. Consequently, transactions in the cultural sphere carry greater costs than those in the market sphere when there are no relative prices on the cultural goods. The skills required for cultural goods may be implicit and occur through ritual and practice. They may vary dramatically across different societies.

Fukuyama suggests that culture is ‘rational’ (1995, 41). As defined by Isaiah Berlin, it encompasses the “goals, values and pictures of the world.” Shweder adds to this that to be ‘cultural’ these ideas have to be socially inherited and customary (2000, 163). Evidence suggests that humans make decisions using heuristics that encourage them to develop fixed opinions, even if those opinions are false (Edgerton, 2000, 134). Edgerton further suggests that culture is not necessarily adaptive to an efficient outcome. Fukiyama adds that sharing values and norms does not automatically produce social capital because the norms and values may be “the wrong ones (2000, 98).”

This strikes at the heart of the debate over culture, and suggests that aspects of some cultures are simply inefficient. It suggests that there is a spectrum of efficiency and inefficiency; some means employed result in suboptimal ends. Simply put, it implies that to gain the ends of freedom that are secured through private property rights, the rule of law, and a flourishing market and cultural sector, there are certain means endowed through culture that are not efficient in obtaining the above ends.

These cultural values that we speak of include attitudes toward risk, emotions, our sense of individualism, guilt, fear, love, hate, and how we express these feelings within the context of our environments. Unlike other emotions, shame and guilt have different antecedent events that trigger these emotions across cultures (Scherer & Wallbott, 1994). These emotions, feelings and values are how people decipher their environment, specifically “when we are confronted with unique and non-repetitive choices where information is incomplete and outcomes are uncertain” (North, 1990, 24)—culture *will* matter here.

Culture is learned and acquired through repetition. A society’s culture does not occur in a vacuum. What starts out as a political act can end up embodying itself as a cultural attribute (Fukuyama, 1995, 39); consider slavery and segregation again as examples. But, recall that culture, and more specifically cultural institutions, do not fundamentally revolve around what is, but around what is perceived to be. Hence, the political actions of other nations, and the globalization of markets, open culture to worldwide scrutiny—and provide the possibility of adaptive change in the direction of economic efficiency. However, they do not guarantee it; nor do they guarantee that such changes will come without a fight.

Game theory provides economists with a mechanism for determining outcomes to interactions with given rules and incentives. For predictable outcomes, the game and its parameters must reasonably represent the reality of the world in which individuals act. With that said, determining what a culture will do and how actors within the context of their culture will act is not just a reflection of their own culture but of the interactions of their culture and

⁸ This indicates that “acquiring” cultural goods and making them work always implies adaptations in one’s own institutional system and hence in the self-evaluation of oneself and one’s community

those with whom they transact, or with whom they interpret exchange or conflict.⁹ Figure 3 represents a cultural equilibrium modeled as reaction functions between separate cultures.¹⁰

Saudi Arabia's "reaction function"

The slopes represent the associated costs of interacting among cultures. This is a simplified representation of a much more complex, real world phenomena. It is important to note that this "equilibrium" can change with changed perceptions of the actors. It also goes to the interdependence of the three spheres of society as laid out in Figure 1.

Landes points out that the attitudes of individuals and organizations are affected strongly by what they perceive as the best way to "win" (2000, 21). This is particularly true for the cultures that will be discussed further in this work.

Saudi Arabia represents a culture in which individual demand for cultural goods is largely squelched. The state and the church together dictate culture, making a "cultural reaction function" a more plausible notion; such a state defined culture variable attempts to beat out or "win" over other competing cultural variables. In free market societies, cultural variables are much more the product of individual demands within a societal setting, making them impossible to aggregate into societal reaction functions of the kind outlined above.

The elasticity of an aggregate cultural reaction function changes over time as outside influences change the demands of individuals. Options provided by markets often induce a relaxation of strict cultural codes and demands. The elasticity of the government controlled cultural reaction function in Saudi Arabia (noted by the dashed line) is low, but the actual demand for market goods and services (that would normally be prohibited) suggests that the government and the politically controlled faith sector do not reflect the actual cultural and religious demands of the society. al-Qaeda is an institutional arrangement, a spontaneous order, which represents this embedded societal conflict.

Political acts not only impact their own cultural and market spheres, and vice versa, but outside political acts and their perceived consequences alter the reactions of one culture to another, in spite of whether the reality matches the perception and in spite of whether the altered reaction moves away instead of toward economic efficiency. The Saudi government has a vested interest in controlling the elasticity of its cultural reaction function; making it less elastic means that the government controls culture, and reinforces culture hegemony, by eschewing outside cultural influences. The unintended consequence of this is that internal societal tensions swell to the surface, with a resultant backlash against the autocracy.

3. Islamic law and institutional formation

3.1. The Islamic legal system

The Islamic legal system has its roots in the emergence of the Prophet Muhammad in 622. This was the origin of the Muslim community and the rise and formation of the

⁹ Lal (1998, 7) suggests that "Once a particular socioeconomic order is established and proves to be an adequate adaptation [I add or feasible within the constraints of the actors] to the new environment; it is likely to be stable and there is no reason for human agents to alter it in any fundamental manner, unless and until the environmental parameters are altered."

¹⁰ For simplicity the figure assumes only two cultures, when in reality it is noted that many cultures may be interacting closely with one another. As well, the equilibrium point represents a snapshot of time. It is important to note that in real time these reaction functions are constantly moving as different cultures react to one another with respect to local interactions and global events. The third assumption is that there is a well defined first mover; this may not be the case in real world interactions.

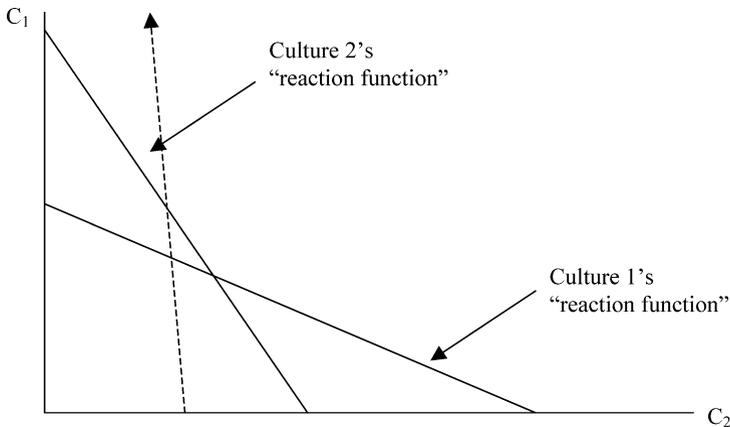


Fig. 3 Cultural reaction functions and resulting equilibrium

classical Islamic legal system. The Constitution of Medina was the first systematized legal document. It codified the alliance system and demanded complete loyalty from all factions (Mandaville, 2001, 69). The reign of the first four Caliphs after Muhammed's death was the time when social authority was systematized into religious law (Mandaville, 2001, 72). Islamic law has since been transformed somewhat, but even modern divisions of the Islamic legal school still consider themselves to be bound by classical Islamic law.

Islamic law is comprehensive: it both prescribes and proscribes behavior; it covers all aspects of an individual's life, from dress, eating, prayer, ritual, economics, divorce, theft, and murder. These guidelines are based on the *shariah*¹¹ (the law of God), the scope of which is immense, many aspects of which, in modern classification, would not be considered under the domain of law at all (Anderson, 1957, 14). There is no real distinction between law and religion or morals (Anderson, 1957, 13). The *shariah* is not based upon societal precedent or *stare decisis*. It rather, is considered divine, is imposed from the top down, and is upheld by the Caliph. The history of the Muslim world, however, shows that there have been many deviations from the strict interpretation of the Quran.

The classical theory of Islamic law, which dominated the orthodox schools until the third century of the Muslim era, derives the law from four sources: the Quran, the *sunnah*—the practices of Muhammed, the *ijma*—the consensus of Muslims, and *qiyas*—deductions from these three primary sources (Anderson, 1957, 15). These four sources, and the interpretation that followed, were known as the *shariah*, the divine law of the Islamic world.

Itjihad was also very important both for the individual Muslim and for the development of Islamic law through time. *Itjihad*, is the right of a Muslim to independently deduce legal questions based on the original sources. However, this right was halted by the end of the third century and, at that point, the *shariah* stopped developing. This led to a “monolithic pattern of jurisprudence” ((Anderson, 1957, 16), (Esposito, 1983, 235)). At that point the jurist became *muqallid*—one who had to take the decisions of his predecessors as authoritative without any exercise of independent thought. (Anderson, 1957, 16). Up until that point, Islamic law was

¹¹ All transliterated definitions used throughout this work are taken from *The Oxford Dictionary of Islam* by John Esposito.

subject to foreign influences, for example from legal concepts that existed within conquered territories (Anderson, 1957, 19).

What has emerged since has been a legal system largely based on static principles, with an inability to incorporate modern demands into its realms, leaving modern Muslims who live within those societies impotent to act effectively within global markets. Anderson notes that, within Islamic law, there is a large gulf between theory and practice (1957, 19). Thus, there is a lack of commensurability between *de facto* laws and *de jure* customs. That, added to the lack of separateness between the legal, cultural and religious from the state and market spheres, indicates that this type of a society will be characterized by an “underground” civil society.

A black market for social change emerges, with its associated transactions costs, in which culture and norms cannot change with changing demands because they fall under the rubric of the law, a law which is not dynamic, nor demand driven. Many if not all legal systems are rooted in religious precepts. This does not equal societal standstill. However, for Muslims, Islam, law, state and religion are all one in the same and to add to that they are largely static and unchanging, not dynamic, so there is no real outlet for progress.

In classical Islamic theory, law does not develop with a growing society, but is imposed from above; law precedes and is not preceded by society (Hanifi, 1974, 16). When Islamic law stopped evolving, four legal schools of thought emerged that still survive today. These schools are all comprehensive, and based on the *shariah*, and are considered unfaltering and unchanging. The different schools have influence throughout Middle Eastern countries and some are exclusive to specific countries.

The four Sunni schools are: Hanafi, Maliki, Shafi and Hanbali. Hanafi was the dominant school during the Abbasid Caliphate (750–1258) and during the Ottoman Empire (1300–1922). Modern jurists consult it for personal status matters, and when issuing *fatwas* (opinions issued by legal scholars). It is the most widespread school (Esposito, 2004, vol. 2, 94). The Hanbali school emphasized tradition, and is the official school in Saudi Arabia. The Shii schools differ by faith in *imams* (prayer leader) and use the same sources as the Sunni schools but rely on traditions passed down by *imams*. Madhhab is the major Shii school of law (Esposito, 2004, vol. 2, 95).

The entire system has proved to be ripe for rent-seeking by political leaders. Since the ruler is a representative of God, in some sense, and must uphold the *shariah* at all costs, the rulers and governors often “acted as complete autocrats and habitually imposed the most arbitrary punishments, which bore no relation whatsoever to the *shariah* (Anderson, 1957, 20) and used the *shariah* to serve their own interests (Esposito and Tamimi, 200, 146).

This resulted in a world with many inconsistencies, differences in enforcement among the local rulers, differences among the punishments and interpretations; but what remained consistent was autocracy, and the abuse of religious power by the political elite. The *ulama* (clergy) have used and have been used by political rulers throughout history. The *ulama* in theory were the last line of defense in time of trial, and while rulers claimed to be the protectors of religion in public, they would implement their own laws and led a private life that in fact, contradicted the laws of religion (Esposito and Tamimi, 147).

Thus, there has been a historical *de facto* separation between the religious community and the leaders, and this divide continues today. This tension can be seen throughout the Middle East. The tension mounts because of the *de facto* norms but the *de jure* rules, and a largely non-existent civil society.

3.2. The islamic state

There is no particular proscribed system of government in Islam, but rather an Islamic system of government must fulfill three conditions: to politically organize society, base it on popular participation and justice, and to apply Islamic legislation (al-Mahdi, 1983, 236). Islam provides the nexus under which the state acts. There is no *de facto* separation between Islam and the state. Islam fundamentally is based on the notion of *umma* (or community). This implies the existence of an indivisibility between Islam the culture, Islam the state and Islam the faith. There is some separation that has emerged within modern societies, and it is the separateness that gives rise to fundamentalist reactions (in the form of attempts to reverse social change) throughout the Middle East.

The fundamentalists are those who call for a return to the pure notions of Islam and the classical interpretations. But, the authoritarian tendencies of governments throughout the Middle East and the persistence of the Islamic tradition of the *umma* have left the Middle East an area with little separateness among the three spheres of society resulting in a largely absent civil society.

Civil society includes those institutions and entities that exist outside of the realm of the state, and are not products of the state. Without this, there is little mechanism for the internal tensions which brew within these societies to mitigate themselves, and thus the ground is ripe for terrorist groups like al-Qaeda, which emerge as a mechanism for reversing 'sacrilegious' social change in the absence of alternative institutional arrangements.

Governments from Iran to Saudi Arabia use the rhetoric of religion, in this case Islam, to procure rents and power for themselves at the expense of the societies that they govern. Muammar Qaddafi in Libya claimed for himself the right to interpret Islam, silenced the religious establishment, and advocated a populist state. The rulers of Saudi Arabia have aligned themselves with the *ulama*, have supported a more literalist brand of Islam, and have used religion to legitimate their conservative monarchy (Esposito, 1999, 6).

This problem arises throughout the Middle East because of the lack of separateness between Islam the religion, Islam the state, and market activities. The requirements of classical Islam make it very difficult to impose it upon large numbers of people. It requires universal submission to homogenized values and conditions. The notion of *ijma* (consensus) implies that the domain of Islam must be in agreement, and because this domain is so broad in scope - it covers culture, norms, economic activity, faith and government - it will be difficult to achieve such consensus in large societal groups, most especially in the light of the global marketplace, which allows remote individuals access to alternative societies, goods and cultural influences.

The state, by definition, is Islam. It is not secular and is not isolated from society. There is no division between the public and the private sphere; and the notion of *tawhid* (the unity of God and of human life) is the ideological foundation of the Islamic state. (al-Turabi, 1983, 241–242). *Tawhid*, denies the theoretical and practical aspect of dialogue and compromise (Moussalli, 1999, 7).

There is another tension that arises within the system of Islam as it is perpetrated in the Middle East. Natural to the faith, there is no notion of nationalism, because allegiance is to God, and to the community of believers. There is no absolute or sovereign entity outside of the faith (al-Turabi, 1983, 243). However, Islam was forced to confront nationalist feelings during the time of colonial intervention. In fact, this colonial intervention created tensions among the societies that Islam was not prepared to provide answers to.

Tamimi and Esposito suggest that this colonial intervention led to internal imbalance in Arab and Islamic countries (2000, 147). Mandaville, suggests that during the 18th and

19th centuries, ideologies came from outside the exclusive circles of religious scholars and had their origins in the educated, the professional and middle classes. In the face of this Muslims turned to their civil identity—which was the wholeness and oneness of the *umma* - and this led to tension between religious and nationalist aspirations for Muslims (2001, 75–77).

The issue that arises - the fundamental problem that makes many Muslims impotent to act in the modern world - is that the individual is not the common denominator in Islam, which means the individual is not the common denominator with respect to the law, the state, the culture and the market. But global markets have provided individuals, including those who live under the nexus of Islam in the Middle East with an entirely new choice set; one where the individual can be the common denominator.

Islam forbids many of those choices, which creates an arena for black market activity, including vying for political change and demonstrating discontent with state activity. This added to the fact that the state often legitimates itself through Islam, means that for those individuals living in such societies, disagreeing with the state implies a direct rejection of the faith.

To add further to this tension, the *shariah* rules out usurpation and succession as grounds of political legitimacy (al-Mahdi, 1983, 243). Lewis goes further in suggesting that there is no “notion” of revolution in Islam (1975). One can begin to understand the problematic choice set confronting such a constrained individual in the modern world. The faith dominates the state and the state manipulates the faith. This assumption is based on the bedrock of public choice, which suggests that regardless of culture and faith, individuals that obtain power through the state will expend resources to maintain and continue those power positions up to the perceived benefits that they will obtain.

The public sphere in Middle Eastern societies that are non-secular (Turkey and Egypt are the modern exceptions) has a large scope for activity which begets rent-seeking among those who have or seek power. The *de facto* separation between the religious and the rulers has only provided an arena for further societal tensions.

State politics is often a game of smoke and mirrors, with little real differences among the parties, and little real legislation. Hanifi notes that in most Islamic societies social-civil legislation passed by the ‘parliaments’ and other law making agencies must be screened by the ‘Ministry of Justice’ who are staffed by the *ulama* which accounts for the lack of progressive civil legislation (Hanifi, 1974, 15). The free-rider problem is serious. The Middle Eastern state is more often than not the instrument of the upper echelons of its own personnel.

The state is the creator of interests and social actors (Richards and Waterbury, 1996, 34), meaning that the state creates the special interest groups, fuelling internal tension. For, if one surveys political activity in Muslim societies, the supply of norms through the state does not mesh with the demands of individuals. For example, Barbie Dolls are banned in Saudi Arabia, and have been so for over ten years. Yet, they are extensively bought and sold through black markets. A black market Barbie Doll costs about \$ 27 (cbsnews.com, September 10, 2003). This is a demonstration of one of the ways that the state bound together through Islam, creates a societal tension through the interdiction of goods and services that are available and demanded in the modern world.

This tension gives rise to fundamentalist movements in the Middle East that call for a return to classical interpretations of Islam designed to purify the minds of individuals. Fundamentalist Islam provides a credible platform for many Muslims who despise their governments for the rent-seeking entities that they have become. In the absence of the social institutions of a civil society, fundamentalist views gain momentum as mechanisms for reversing ‘sacreligious’ political and social change.

The problem with an entire society based only on religion, specifically one both as proscriptive and prescriptive as Islam, is the degree of homogeneity that is required for that society to “work.” A society based on one Faith, yet with differing claims to truth, and conflicted ideas on *ijtihad*, is one where religious conflicts will erupt as a mechanism for societal unrest.

The recent historical trend has been a narrowing gulf between the secular and the religious courts (Hoexter, Eisenstadt, & Levtzion, 2002, 32). As the courts tend more towards secularism, so they provide a platform of discontent for the fundamentalist movement. This discontent is expressed in a variety of institutional arrangements, not solely terrorist organizations. The great majority of dissidents tend to group themselves around some local religious leader who regards the *sharia* as law and the government as apostate (Hoexter et al., 2002, 35).

Mandaville notes the recent decline in the efficacy of religious scholars, and increased confidence on the part of individual Muslims in interpreting ethical claims of Islam for themselves (2001, 81). Because independent social institutions are lacking, Islam then becomes the anchor for different types of emergent organizations, all of which use Islam, in one interpretation or another, to purport their cause. So the resulting dilemma is a society in which religion is the domain for all activity and different claims and interpretations fight one another for legitimacy. In such circumstances, some groups, such as al-Qaeda, overcome the free-rider problem and gain popular support.

Mandaville notes that the key to understanding the intricate and intersecting relationship between religion and politics lies in the nature of authority (2001, 80). In Islamic societies the *umma* is the most important aspect of the public sphere (Hoexter et al., 2002, 148). Thus, the large domain of the public sphere, means that the state, (i.e., Islam) dominates all spheres of society, such that these societies tend to look like Figure 2; and the political economy of such societies is laced with corruption.

3.3. Islamic institutions

Weber suggests that basic ontological premises: concepts of salvation and the like prevalent in a society influence specific institutional patterns (1924, 1968, 1951, 1958, 1952). Hanifi suggests that in Muslim societies all social conventions are impregnated with religion (1974, 13); and not just that, but that customs have often been given religious sanctions. Thus, societies are fragmented with respect to competing versions of one Faith, the Sunni - Shii split being the most prevalent. Because of the nature of *umma*, the community, there is no notion of separate states, and the first division is not between church and state, or state and market, but between *Dar al-Harb* (abode of war) and the *Dar al-Islam* (abode of Islam).

In market based societies, associations and groups emerge autonomously and reflect some local will or preference regarding charity, politics, or whatever the concerns of their specific group are. In Islamic societies groups have a religious base and are often arms of the state. Thus, social cohesion in these societies is not fostered through voluntary institutional development fostered by the rule of law.

In secular, market-based economies, religious organizations emerge voluntarily and can and do make claims for and against actions of the state; but this does not unequivocally end in conflict. The notion in Islamic states that adherence to Islam is critical (yet these very “Islamic” governments take actions that are patently un-Islamic and self-serving), and the secular tendencies of some state, such as Egypt and Turkey, has led to societal conflict about the nature of the state itself and the proper role of Islam. Thus emergent organizations often pursue religious reversal back to fundamentalist principles.

Islam dominates the market or economic sphere. Regulations exist regarding *zakat* (alms tax), the prohibition of interest, *faraid* (inheritance regulations) and the prohibition of all unearned income and monopoly profits (al-Mahdi, 1983, 237). Because these regulations emanate from faith, *de jure*, they remain unchanged. Thus, to participate in a modern world characterized by global markets, *de facto* the rules are bent without being broken, which renders high transactions costs and severely limits the extent of the market. Government banks, for example, have been largely unsuccessful, because prohibitions on interest fail to attract new depositors (Esposito, vol. 1, 64). The alternative institutional arrangement has been banking based on profit sharing.

What emerges in the Middle East is institutional formation, largely in the absence of private markets, most of which concerns political issues. The Islamic community has generated a large number of organizations, some of which address regional concerns, and some of which address the Islamic community at large (Clements, 2001, 4). Some of the largest organizations have been set up for rent-seeking purposes, such as the OAPEC (Organization of Arab Petroleum Exporting Countries) which was founded in 1968 to protect the interests of the oil producing states and which, in 1973, adopted an “overtly political agenda” (Clements, 2001, 5) closely associated with the political and protective interests of OPEC (Organization of the Petroleum Exporting Countries).

In Islam, there exists a powerful state apparatus and a powerful military apparatus. The crafts people, service people, and small-scale manufacturers, are weak organizationally and are not sufficiently coherent or well-defined to manipulate the state (Richards & Waterbury, 1996, 34)

Clements notes that, by and large, the broader pan-Arab and pan-Islamic movements have been unsuccessful due to internal resistance by the ruling elites and differences between conservative Islamic states, radical secular states and local tribes (Clements, 2001, 8). The key factors are that most organizations are rooted in religion, and thus they suffer from internal tensions over the correct version of Islam. Thus, unless sanctioned by the state they have difficulty surviving. al-Qaeda emerges as an alternative institutional arrangement that, thus far, has been successful.

Because institutions within the Islamic world are formed from the tenets of a faith, that has been largely resistant to adapting to modernity, these institutions suffer from ineptitude, an inability to meet the demands of the modern world. The best example of this is the *waqf* (trust, endowment) system.

The *waqf* system is used in the Islamic world to provide public goods and they are entered into voluntarily. A *waqf* is an unincorporated trust established by a living person, man or woman, for the provision of a designated social service in perpetuity, financed by revenue-bearing assets that have been rendered forever inalienable (Kuran, 2001, 841).

The *waqf* is sanctioned by the *shariah*, and because the rules that govern the *waqf* system have not been allowed to change, Kuran (2001) suggests that this voluntary system has actually led to the underdevelopment of the region. The primary reason for such underdevelopment is that the manager of the *waqf* must follow the original stipulations of the *waqf* to the letter, so the system lacks the flexibility to keep up with rapidly changing economic conditions.

Kuran further suggests that had the *waqfs* been allowed to restructure themselves, they could have generated a vigorous civil society (Kuran, 2001, 895). What in fact has occurred is officials make changes through means of questionable legality, which weakens respect for the law and encourages rule-breaking.

Some, such as the Wahhabi sects, treat the *waqf* as a heretical innovation because *waqfs* are not mentioned in the Quran, but get their legitimacy from *hadith* (recollections of the words and deeds of Muhammad and his followers) (Kuran, 2001, 852). Different legal schools place

different values on *hadith* as a foundation of the *shariah* due to its highly subjective and, some suggest, its speculative nature.

This historical tension pinpoints the problematic nature of institutional formation in the absence of a strong market sphere. The quest for legitimacy among competing ends and the necessity for a “correct” answer, a black and white ruling on every issue, breeds discord. This has led some to suggest that a civil society in the Lockean (1690) tradition might not be possible in the world of Islam. Secularization of power, which is a precondition for the establishment of civil society, is notably absent. In the Quranic system, there is no place for the individual (Mozaffari, 1987, 97). Thus, the community is the heuristic and this is not compatible with a robust civil society.

Richards and Waterbury suggest that the real question is the weak nature of group identity in Middle Eastern societies (1996, 35). Terrorist organizations are institutional innovations that occur within the context of the faith of Islam and they provide much needed group identity. al-Qaeda is asymptomatic response to the particular combination of the hegemony of Islam, the lack of any rule of law, the imposition of law in a top-down fashion, and the authoritarian and rent-seeking nature of the state. al-Qaeda actuates itself through the rhetoric of the fundamentalist faith.

4. Societal structure and al-Qaeda: case studies of Saudi Arabia, Sudan, Afghanistan and Pakistan

Douglass North’s profound statement that “Institutions alter the price paid for one’s convictions” suggests that we must understand institutions if we want to understand human behavior. And ultimately, knowing what makes terrorism attractive relative to other forms of societal organization, helps to provide an understanding of what it will take to make terrorism relatively expensive, such that individuals will by and large demand less of its product.

Thus, to understand al-Qaeda, its place in the world, and its terrorist activities, requires an understanding of the specific institutions that surround that group. This is a case-specific study. Let it be acknowledged at the forefront that to understand different causes and types of terrorism requires an economic analysis of specific societal influences.

Yet, I hypothesize that the fundamental reasons why individuals choose terrorism as a way of life are similar. Aum Shinrikyo and al-Qaeda may have different theological underpinnings, but the group cohesion and the individual impetus that leads individuals to join such groups are similar. For that reason, we must uncover the societal dynamics that led to the formation and continued growth of al-Qaeda. To achieve this, I shall examine the societies from which al-Qaeda primarily recruits its members. This leads to a study of Saudi Arabia, Sudan, Pakistan and Afghanistan all of which have provided a geographic home to al-Qaeda.

One of the most important facets of all these societies is the general absence of market-driven, entrepreneur-based economies. Some are more successful, measured in GNP per capita terms, than others - Saudi Arabia for example significantly outperforms the others. So poverty is not the only driver. These four economies, notwithstanding their differing economic performances, share a hierarchical, theocratic legal system. For the most part, they are composed of coercive, state-dominated, redistributionist institutions.

4.1. Saudi Arabia

I provide a greater focus on Saudi Arabia than on Pakistan, Afghanistan or Sudan. The reason for this is that Saudi Arabia is where al-Qaeda has its roots. Saudi Arabia is a country

that is very important in the historical context of Islam. The two holiest cities of Islam, Mecca and Medina, are located within Saudi Arabia. It is also important to understand the historical emergence of Saudi Arabia to understand the internal tensions within the Islamic political system, and hence to further understanding of the emergence of al-Qaeda as a mechanism for reverse social change within the Islamic world.

Saudi Arabia is a monarchy founded in 1953 by Abd al-Aziz al-Rahman al-Saud (Esposito, 2003, 280). However, the first Saudi dynasty in Arabia dates back to Muhammad ibn al-Saud who formed a political-religious pact with Muhammad ibn Abd al-Wahhab in 1744.

The goal was to found a country based on the pure principles of Islam, emphasizing strict monotheism (Esposito, 2003, 281). One of the reasons for the Wahhab movement was that the political tradition in eighteenth century Arabia was not conducive to strong religious supervision. A number of petty rulers controlled various towns, and this resulted in continual inter-urban and inter-tribal fighting (Niblock, 1982, 25–26). The *qadis* (judges) were dependent on the *amir* (leader) who was subject to political pressures and public opinion, and thus was limited in his ability to support the *ulama* (men trained in religious sciences) when they expressed dissatisfaction with the moral and religious practices of the people (Niblock, 1982, 26). This schism was antithetical to Islam as a religion that is all encompassing of society, state, law and custom.

The separation in Saudi Arabia between *de facto* rules and *de jure* conduct led to the Wahhab movement, a call for the return of pure, classical interpretation of Islam as a way of life. This internal tension has continued throughout Saudi Arabia's short history, and provides great explanatory power for the theoretical and practical emergence of al-Qaeda.

One of the major themes in the Wahhab movement at its inception was a ban on everything considered innovative including: music, silk, wine, tobacco, worship of trees, stones and saints tombs. It stressed a continual *jihad* or struggle, fight, crusade (Niblock, 1982, 33).

The formation of a state and society based on these principles has obvious problems in a global world. The 1930's added to the internal tension. Radio stations began to broadcast in Arabic, and low levels of literacy meant this had great impact (Niblock, 1982, 62). This allowed international viewpoints to be known independently of the rulers. That is, opinion could be developed on ones own, rather than being passed down and dictated. As well, at that time the importance of oil overshadowed pearls, once the major export of Saudi Arabia, and this change fostered a growing merchant class.

The merchants then began to exert political influence and demanded a greater say in the political development of their sheikdoms (Niblock, 1982, 61). This exacerbated internal societal tensions, the difference between what the law regulated and the demands of those from within the society. Niblock (1982, 75) suggests that the social mores advocated by the *ulama* and imposed by the Committees of Public Morality are often at odds with the professionally and technically trained element in the population.

Wahhabism, whose tradition has been consistently supported by the Saudi dynasty, is a religious movement embedded in the political context. Rather than the church being a countervailing force, acting as a check upon the power of the state, the church and the state are theoretically inseparable. This becomes problematic when the religion is unable to deal with the practical. In a world of global markets, where access to information is independent of the state, consumer demands cannot be easily controlled by a theocracy.

This tension began to surface in the 1960s and 1970s in Saudi Arabia. Between 1947 and 1958, there was a substantial influx of oil revenues which brought about prosperity and wealth to different spheres of society. Before this, the countries social structure underwent no radical transformation (Niblock, 1982, 77). This led to growing social discontent, and to the emergence of differing political movements. Some wanted to move towards a parliamentary

regime with open expression, but Crown Prince Faisal Abd al-Aziz wanted increased industrial and agricultural development and an expansion of social welfare programs. In the period from 1958–1962 this led to dispute over where the state was headed, a liberal democracy or greater centralized control.

These types of political disputes have confronted most modern states. At issue is the ability of the social and political system to handle such tensions. In a democracy, voting systems determine which policy dominates. Saudi Arabia has no written constitution, the *sharia* (Islamic law) is supplemented with a large body of custom which has assumed “the indivisibility of divine law” (Niblock, 1982, 99). What emerges then is a society in which there are no defined spheres.

Culture, customs and norms are religious dictums enforced by the law and enshrined by the state. This results in a society unable to adapt, where individuals are exposed to the dynamics of the global market, but are unable to efficiently adapt their behavior, because, in some instances, it is illegal to do so.

In Saudi Arabia this can be seen in the tension over the exportation of oil. Nationalists within the government do not want to be an “engine of the world economy” and there is grumbling about profiteering by princes and senior commoners (Niblock, 1982, 117). To add to this problem, those that resist the accompaniments of global markets (greater access to goods and services, profit-driven entrepreneurship, etc.) are not unified in their resistance. There are many local differences in religious observance in Saudi Arabia. The Shii have a significant minority and have been excluded from advancement in the armed forces and the civil service (Niblock, 1982, 119). Thus the system is ripe for rent-seeking and rent-protection by the Sunni majority, and discrimination is built into the political and social system.

Saudi Arabia has a limited civil society and rather than the rule of law, is organized by a law of rules in which the state subsumes all societal institutions. There is no separation, *de jure*, for how individuals participate in societal activity outside of the state and the law, which themselves are two sides of the same coin.

In de Tocqueville’s study of America in the nineteenth century, his revelation was the nature of a civil society, perpetrated through voluntary associations, separate from the state. To a large degree this has not emerged and flourished in Saudi Arabia, nor in other Middle Eastern countries with classical Islamic foundations. Niblock (1982, 117) points out that “to find an ideological framework and organization which can translate grumbles into active opposition we must look among the *Shia* and religious zealots.” Therein lies the problem.

What matters for the emergence of al-Qaeda within Saudi Arabia, is not just a weak civil society. What matters is that Islam is conducive to collective action in a manner that tribal, local religions are not. Thus, Islam is a factor in the emergence of al-Qaeda. In a state with weak civic associations there is no outlet for political and social expression. In a primitive society such as Saudi Arabia, even limited movement by the state towards modernization generates a virulent fundamentalist response. al-Qaeda has taken advantage of this opportunity to launch an Islamic *jihad* against the so-called infidels who are viewed as desecrating the Quran.

4.2. Sudan, Afghanistan and Pakistan

All of these countries, Sudan, Afghanistan and Pakistan have been or are current homes to al-Qaeda. The nature of a terrorist organization such as al-Qaeda, one with global goals, indicates that it must be continually on the move to thwart its global enemies who pursue its demise. A brief look at these countries will provide an understanding as to why al-Qaeda has fled there, and why internally, it has achieved success in acquiring recruits.

Sudan was ruled by an Anglo-Egyptian condominium agreement from 1899 until its independence in 1953. Since 1958 it has been subject to military coups, periods of civilian rule, and internal chaos. Numeiri took power in 1969 in a military coup and in 1983, the September laws established the Islamic legal code, abolishing all previously existing legal institutions. Since Numeiri was overthrown by a military coup in 1985, a sequence of coups has followed, interspersed with short periods of civilian rule.

Sudan is characterized by many different ethnic groups, with over 300 tribes, and more than 100 tribal languages. The population is 60% Muslim, 25% Animist and 15% Christian. The north and west are dry regions, populated by pastoralists and nomads. The economic conditions, societal and political unrest, and civil war, make it ripe for squatters such as al-Qaeda. Since 1956, only ten years has civil war been absent from this country. This has culminated in a collapse of civil society and its replacement by a failed state.

Afghanistan has shared a similar fate. It became a nation state in 1880 and authoritarian, centralized control was the ideal of the ruling elite (Barakat, 2004, 178). A coup d'état ended the rule of Mohammadzi and made the Soviet invasion in 1979 attractive (Dupree, 2004). The communists ruled until 1992 and established ethnically-based militia groups.

The communists were ejected after ten years by the *Mujahedeen*, who then ruled as warlords, who facilitated the emergence of the Taliban. The leadership of the Taliban encouraged the emergence and expansion of al-Qaeda, providing it with a safe haven in return for financial support. Afghanistan is 84% Sunni, 15% Shii and 1% other. In September 2001, when al-Qaeda carried out its terrorist attacks on the United States, Afghanistan was a failed state, whose 'government' had been completely purchased by Osama bin Laden and his al-Qaeda network.

Pakistan, is also an undeveloped country, with a large Muslim population. 70 per cent are Sunni, 20 per cent are Shii, the other 3 per cent are Hindu, Christian and other. Pakistan is classified as a federal republic but the military and the *ulama* remain the most important political pressure groups. In 1999 General Musharref took control through a military coup. However, vast areas of the country lie outside of state control and are ruled by warlords in the pay of al-Qaeda. In many respects, Pakistan is a failed state, and an exceptionally dangerous one at that, given its access to thermo-nuclear weapons of mass destruction.

al-Qaeda can successfully draw recruits from such 'societies' because there are no other outlets for Muslim fundamentalists who object to perceived breaches of the Quran. al-Qaeda is a "roving bandit" (Rathbone & Rowley, 2002), one that seeks out geographical territories characterized as failed states, where it can reside parasitically upon its host. Choosing war-torn or lawless societies lessens the probability of expulsion from that territory, and makes it more difficult for its stated enemies, such as the United States to hunt down and exterminate its leadership.

5. Conclusions

This paper has sought to identify the precise institutional environment that has facilitated the emergence and sustained success of al-Qaeda. Several important institutional features have emerged:

- al-Qaeda is an institution that has spontaneously emerged.
- The recruits and leaders are rational and respond to the incentives that surround them. These incentives are ordained by the government, their faith and their mechanisms for preventing or reversing social changes that offend against Islam.

- Islam itself does not necessarily breed al Qaeda-type terrorists. However, the use of Islam to repress societal demand and cultural freedom combined with a theocracy that dictates culture, market conditions and faith are causal factors in the emergence of al-Qaeda.
- The rhetoric of fundamentalist Islam is used within the ranks of al-Qaeda and is bastardized by it, just as it is by the state, to gain recruits and to maintain peer and organizational loyalty.
- Islam provides a common denominator. It is a purveyor of collective action. It provides a platform for both the state, and for organizations such as al-Qaeda.
- Institutions have emerged within the Middle East, such as the *waqf* and the *hawala*, that have proved inefficient for generating a vibrant civil society and have allowed corruption to become the most efficient means-ends mechanism.
- The existence of failed states and shattered civil societies within the Middle East - such as Pakistan, Afghanistan, Sudan and even post-war Iraq - are important vehicles for al-Qaeda, providing the organization with safe havens from which they conduct their war against all infidels.
- The destruction of a relationship between market, state, and culture by an Islamic theocracy weakens the resistance of individuals to the invasion of fundamentalist doctrine and opens up avenues for al Qaeda-type terrorism.

al-Qaeda is specific and purposeful, not an accident and not without cause. It is the result of internal social tensions induced by theocracies, in which individual choice is severely constrained and in which the rule of law is absent. Knowing this is indispensable for an effective assault on al-Qaeda. Terrorism is a market in which supply responds to demand. If the source of demand is cut-off, output surely will be curtailed.

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