

**TRANSACTION COST ANALYSIS APPROACH TO
QAIDA al-JIHAD**

**Prepared for
Dr. Arnauld Nicogossian**

Public Policy 710-005

By

**Denise N. Baken
April 27, 2004**

INTRODUCTION

Prior to 9/11, the United States offered no viable Public Health Policy response to terrorism or terrorist attacks. It was not considered a critical element to Public Health infrastructure. Policy makers and legislators left that to entities such as the Department of Defense. The ones thought to really face such a threat.

The public health challenges involved such as emergency preparedness, health care professional training, terror attack response planning, and triage were aspects of plans "to be funded later". The American civilian public was safe. The threat was not imminent. The funds to support this "nice-to-have" could be acquired incrementally, at a later date- when more funds were available.

On September 11, 2001, the United States ceased to view terrorism on an incremental basis. It was no longer seen as incidents that occurred intermittently to others and on a few varied occasions to us¹.

Cause for Change

We were outraged. Who would do this to us? Who COULD do this to us?

¹ p.1 Steinberg, James B., Statement to the National Commission on Terrorist Attacks Upon the United States, October 14, 2003.

The non-state entity taking responsibility for the attacks was Qaida al-Jihad. Their stated reason: the suffering Muslims have had to endure because of the U.S. and Israel.²

The intelligence community was aware of Al Qaida before the attacks, but they were not a household name to the general US public. They are now.

UNITED STATES AND QAIDA-AL JIHAD

Impetus for Action

We responded to the attacks of September 11th with overwhelming attacks wielded against both Afghanistan and Iraq. While these attacks have resulted in changes in government, they have not netted the demise of the organization that orchestrated the initial on-U.S.-soil attacks nor have they eliminated its leader Usama bin Laden.

Qaida al-Jihad and its leader Usama bin Laden are still at large and the concept of terrorism as a means to impose the will of one non-state organization onto a legitimate state entity, in this case the U.S., is increasing in popularity.

² p.4., Gunaratna, Rohan, Statement to the National commission on Terrorist Attacks upon the United States, July 9, 2003.

And even though a "change of government response" is one approach to the problem of non-state entities seeking to impose their will on our people, alternatives may be available. One tactic we could take is an economic review. We could review the organization from a transaction cost economics perspective and respond by "attacking" the weakest aspect of its economic functionings.

BACKGROUND

Qaida al-Jihad

Al Qaida is actually a name given to Usama bin Laden's organization by the United States after a bin Laden computer file was found with a listing that was developed while bin Laden was still with Makhtab al-Khidamat (MAK), the organization that financed recruited, and trained Afghanistani resistance fighters (Mujahadeen).³ The group actually refers to itself as the Qaida-al Jihad, which means "base of the jihad".⁴

Qaida al-Jihad is a support network for several Islamic organizations with a primary goal of overthrowing what it deems to be corrupt or heretical Muslim state governments.⁵ In addition, it has issued rulings that call

³ P. 2, *Al-Qaida*, Wikipedia, the Free Encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>.

⁴ P. 1, *ibid*.

⁵ p.1., International Policy Institute for Counter-Terrorism, *Al Qaida, Maktab al-Khidamat (MAK – Services Offices) International Islamic Front for Jihad Against the Jews and Crusaders*, http://www.ict.org.il/inter_ter/orgdet.cfm?orgid=74

for armed conflict with and against certain Western cultures and countries to include the United States and its allies.⁶

Established in 1988 by Usama bin Laden, Qaida al-Jihad has evolved from an Afghanistan freedom fighting organization to the now internationally located loose network of Muslim terror organizations that acknowledge members all over the world, including the United States and Canada.⁷

USAMA BIN LADEN

Usama bin Laden is himself a wealthy Saudi Arabian who came to guerilla warfare as a "holy warrior" in 1979, the year Soviet troops invaded Afghanistan. Even though he was a Saudi Arabian citizen, bin Laden joined the fight by transferring his successful construction business to Afghanistan, and devoting all his assets and strengths to removing the Soviet "invading force".⁸ While he came to the fight with significant financial assets and management

⁶ p. 2., International Policy Institute for Counter-Terrorism, *Text of Fatwa Urging Jihad Against Americans*, Published in *Al-Qaida al-'Arabic* on February 23, 1998, <http://www.ict.org.it/articles/fatwah.htm>.

⁷ p.1. International Policy Institute for Counter-Terrorism, *Al Qaida, Maktab al-Khidamat (MAK – Services Offices) International Islamic Front for Jihad Against the Jews and Crusaders*, http://www.ict.org.il/inter_ter/orgdet.cfm?orgid=74

⁸ p.1, *ibid.*

skills, he also accepted and received some help from the United States.⁹

Once victory was achieved, bin Laden was emboldened by victory over the Soviet Union, a then superpower. He returned to Saudi Arabia and turned his efforts toward his current focus: removing all non-Muslims, particularly those with Western influences, from the Muslim world.¹⁰ According to bin Laden, removal of these influences is the duty of all Muslims who truly follow Allah.¹¹ The inspiration for his religious creed is rooted in the Wahhabi sect, the belief of the rulers of Saudi Arabia.¹²

Qaida al-Jihad has benefited from Usama bin Laden's management acumen, and its umbrella organization, The International Islamic Front for Jihad Against Jews and Crusaders, boasts worldwide membership and an enviable high tech communication capability as well as innumerable avenues to acquire warfare hardware. They offer a strong infrastructure to his manpower support that is willing to fight a long protracted conflict for Allah.¹³ Defeat via

⁹ p. 4, The National Security Archive, Washington Post "Live Online" chat with Archive Middle East Analyst Joyce Battle, "Iraq: Declassified documents of US Support for Hussein", February 27, 2003.

¹⁰ P.2, *Al Qaida*, Wikipedia, The Free Encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>.

¹¹ p. 13, *The Al Qaida Handbook*, translated in the United Kingdom, Department of Justice, http://www.usdoj.gov/ag/manualpart1_1.pdf.

¹² p. 2., *Al Qaida*, Wikipedia, The Free Encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>

¹³ p.1, International Policy Institute for Counter-Terrorism, *Al Qaida, Maktab al-Khidamat (MAK – Services Offices) International Islamic Front for Jihad Against the Jews and Crusaders*, http://www.ict.org.il/inter_ter/orgdet.cfm?orgid=74

firepower may not be readily attainable - or attainable at all.

DIFFERENT APPROACH

If firepower does not work as an antidote to bin Laden, we should employ a comparable approach to 9/11 attack: economic impact - to drive home our outrage. However that may be difficult to achieve since his network has no state affiliation to sanction and hold on his bank assets have only slowed him. They have not ceased operations.

We should look inside this organization - not for a specific person, but rather for an approach that can be used against the organization's framework and functioning. A guide-on, if you will, to follow as we search. That guide-on can be Transaction Cost Economics.

Transaction Cost Economics

Transaction cost economics (TCE) is the economical examination of the requirements an organizations must apply to produce one unit of its product or complete one transaction. It began with the publication of an unnoticed article, "The Nature of the Firm", in 1937 and its basic premise is that the economic organization of an entity is

truly a study in governance.¹⁴ It even considers debt and the management of that debt as governance instrument.

These governance structures and instruments may differ in attributes, but they offer a means to identify, explain and navigate the hazards of an organization and the organization's contracts, both written and inferred.¹⁵

It looks at contractual transactions as "hazards"; and they include such contractual obligations as labor, regulation, trust, or finance. Then it examines these hazards in light of both governance and institutional environment influences like legal, political and social requirements.¹⁶

TCE also looks at the role human actors play in determining the most economic means of producing this transaction.¹⁷

This theory of organization economics explains why certain transactions take place within a firm and others take place between firms.¹⁸

The purpose of this paper is to extend the umbrella of transaction cost economics study to the industrial

¹⁴ p.12, Williamson, Oliver, *The Mechanisms of Governance*, Oxford University Press, 1996.

¹⁵ P. 12., *ibid.*

¹⁶ p. 597, Williamson, Oliver, *The New Institutional Economics: Taking Stock, Looking Ahead*, *Journal of Economic Literature*, Vol XXXVIII, September 2000.

¹⁷ p. 296 Simon, Herbert A., *Human Nature in Politics: The Dialogue of Psychology with Political Science*, *The American Political Science Review*, Vol. 79, No. 2 June 1985.

¹⁸ P. 133, Weingast, Barry R. and William Marshall, *The Industrial Organization of Congress: or, Why Legislatures, Like Firms, Are Not Organized as Markets*, *Journal of Political Economy*, vol. 96, no 1, 1988.

organization of Qaida al-Jihad and the Terrorism governance structures.

TERROISM TCE

Qaida al-Jihad, like other Terrorism organizations, reflects the goals of individuals (Usama bin Laden and other leaders of terrorism organizations) and enforces bargains between terrorism members. In addition, it contains and maintains a "nonmarket exchange" that suits its needs.¹⁹

NEW INDUSTRIAL ORGANIZATION ECONOMICS

Before applying this framework to Qaida al-Jihad I will first describe three major aspects of TCE: contractual mechanisms, asset specificity, and behavioral assumptions.

Contractual Mechanisms

One of the first governance features usually examined is the transaction costs associated with contractual patterns used by an organization and the cost reductions

¹⁹ P. 132, *ibid.*

these patterns permit.²⁰ This examination is usually framed from a vertical integration standpoint.

When a firm uses vertical integration it elects to retain activities within the firm instead of using a separate supplier to produce or acquire them. This permits the firm to reduce the number of contracts needed to develop and deliver its end product.²¹ There are still contracts, but they are the type used within the firm to accomplish the task.

This also permits more control and offers guidelines for relationships.²²

It usually arises in an effort to improve efficiency and ensure product quality.²³ Of course, there is the potential for fraud. Vertical integration can offer a means to reduce this problem.²⁴ A firm may also choose to hire someone whose job is to identify those who are reliable. However, with integration the need for this effort is greatly reduced.²⁵

Transaction costs also permit us to consider the hierarchy (the entrepreneur) directing resources. This

²⁰ p. 134, *ibid.*

²¹ p. 56, Coase, Ronald, *The Nature of the Firm: Meaning, The Nature of the Firm*, Oxford University Press, Inc. 1991.

²² P 57, *ibid.*

²³ P. 57 *ibid.*

²⁴ p. 58, *ibid.*

²⁵ p. 58, *ibid.*

individual is the one responsible for the final control of the firm.²⁶

Asset Specificity

Asset specificity is the "degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value"²⁷ A concept tied to the idea of sunk cost, asset specificity can refer to human assets, site assets, dedicated, brand name capital, or temporal and physical assets.

It also considers bilateral dependency, or the condition in which a supplier-entrepreneur have a relationship that excludes additional suppliers. These parties may issue contracts but these contracts are incomplete since they cannot adapt to every future event. This bilateral dependency is extremely important to asset specificity because it is a critical dimension of the transaction itself.²⁸

Behavioral Assumptions

Another dimension of transaction cost economics is its acknowledgement of the human actors and their behavior. It assumes two critical behavioral assumptions: 1) humans

²⁶ p. 59, *ibid.*

²⁷ p. 95, *ibid.*

²⁸ p. 94, *ibid.*

behave in a bounded rationality manner and 2) they are prone to opportunism.²⁹

The first assumption grants humans limited, yet intended rational behavior. It has comprehensive contracting as an infeasible goal.³⁰ It assumes incomplete contracting and encompasses satisficing as only one aspect of its bounded rationality.

The second assumption is the idea of opportunism- the concept that describes acting from a self-interest that borders on guile. Because of this opportunism and guile, a promise must be backed by a credible commitment or contract, they expose the parties to hazards and market and nonmarket safeguards will probably arise.³¹ Opportunism is repugnant to some, but remarks by H.L. A. Hart may help put it in perspective:

"Neither understanding of long-term interest, nor the strength of goodness-of-will ... are shared by all men alike. All are tempted at times to prefer their own immediate interests...'Sanctions' are ...required not as the normal motive for obedience, but as a guarantee that those who

²⁹ p. 92. *ibid.*

³⁰ p. 92, *ibid.*

³¹ p. 93, *ibid.*

would voluntarily obey shall not be sacrificed by those who would not.”³²

The organizational implications of the two behavioral assumptions are graphically presented in the following table³³:

Behavioral Assumptions	Bonded Rationality	Opportunism
Implication		
For contractual theory	Comprehensive contracting is infeasible	Contract as promise is naive
For economic organization	Exchange will be facilitated by modes that support adaptive, sequential decision making	Trading requires the support of spontaneous or crafted safeguards.

Table 1: Organizational Implications of Behavioral Assumptions (from *The Nature of the Firm*, ed. by Oliver Williamson 1991 Oxford University Press)

Once all of these factors mingle, their outcomes usually display 1) subtlety, 2) intertemporal manifestation, and 3) an unintended consequence.³⁴

³² p. 92. *ibid.*

³³ p. 93. *ibid.*

³⁴ p. 94. *ibid.*

QAIDA AL-JIHAD ORGANIZATIONAL STRUCTURE

A QUICK OVERVIEW

The structure of Qaida al-Jihad is a layered, loosely networked hierarchy with no one individual aware of all aspects at any given time.³⁵

At the bottom of the hierarchy is a network of organizations that engage in a variety of specialized activities: economic, humanitarian, media relations, and security.³⁶ This is also the level at which Qaida al-Jihad's "terrorist cells" function in the different countries.³⁷ Some are put to work immediately; others wait until they receive instruction, and those instructions can sometimes take years.³⁸ There is also the potential for groups (and/or cells) to function in a country and not know the existence of other organizations that are also at work in that same country.³⁹

Just above this loose network are three committees responsible for 1) economic operations, 2) military training, equipment and planning, and 3) Islamic

³⁵ p. 5, Al Qaida, Wikipedia, The Free Encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>.

³⁶ P. 5. *ibid.*

³⁷ p. 6, *ibid.*

³⁸ p. 6., *ibid.*

³⁹ p. 6., *ibid.*

study/fatwa (legal religious pronouncement) issues.⁴⁰ These individuals are usually deeply loyal volunteers who have been with bin Laden since the time of the MAK. Most have also lost contact with their home country or face imprisonment if they return.⁴¹

Above the committees is a core group or the Shura.⁴² This committee develops rules as problems arise and offer counsel to the Emir.

Above the Shura is the Emir, in this case, Usama bin Laden.

Entry to the network by organizations is restrained by the requirement to follow the fatwas.

QAIDA AL-JIHAD'S BUSINESS ROLE

Qaida al-Jihad functions as a venture capitalist for many groups, and it requires "only" allegiance to its ideological framework, not a "percentage of ownership in the organization".⁴³ In addition, Qaida al-Jihad will train the affiliate organization's members as well as educate them in the appropriate religious ideology.⁴⁴ There is virtually no known haggling, or administration

⁴⁰ p. 6., *ibid.*

⁴¹ p. 6., *ibid.*

⁴² p. 6., *ibid.*

⁴³ p. 3, Background: Al Qaeda, Inside the Terror Network, Frontline, <http://www.pbs.org/wgbh/pages/frontline/shows/network/alqaeda/indictent.html>

⁴⁴ p. 3., *ibid.*

restrictions; Government imposed taxes are also not indicated in available literature.

Bottom line, Qaida al-Jihad acts as a service middleman, providing economic and ideological support mechanisms for end products (attacks) developed and delivered by other organizations.

Its governance is like that of a franchise distribution, where Qaida al-Jihad provides the internationally recognized logo (for attack credit credentials) and a worldwide distribution for networked organizations to present their message both to the world and to the community.

This plays very well when community improvement projects are involved. It is also an advantage when local recruitment, the network's lifeblood, is pursued.

The geographically separated organizations are linked by commitment to the cause and a need for resources to execute planned missions.

As with other franchisees, some of the networked organizations are directly owned by the parent company. Others are independently "owned" and "operated"⁴⁵

⁴⁵ p. 2., *ibid.*

ADDED DIMENSIONS

There appears to be continuous transaction activity with every affiliated organization. But there does not appear to be a permanent physical facility that functions as a marketplace.

There also appears to be no written contracts with state entities, or government regulations issued by a country monitoring Qaida al-Jihad activities for adherence to local/ state compliance.

However, the existence of large-scale training areas within Afghanistan's borders indicates there was tacit involvement of the government. It not only provided for the group, but it also gave protection to the organization when it offered no interference by law enforcement agencies.

Transactions appear to work well, meeting the needs of the organizations of both the creators and implementers (buyers and sellers). Franchise participants know each other's identities, to the extent necessary, and exchange transactions simultaneously occur across the world and at the local level.

Long-term contracts exist in the simple act of affiliating with the organization and ascribing to its ideology and training.⁴⁶

One dimension that exists is the lag time that can occur between demand for missions (attacks) and supply of resources by headquarters. That is, organizations may want to execute attacks but resources (explosives, biological agents, etc) may not always be readily stocked. No information was available on the frequency of this phenomenon. However, whenever the supplies are available, transporting them has the added dimension of uncertainty because delivery cannot be guaranteed.

It can be lost in transport via accidental detonation, or confiscation by legitimate state authorities. None of the information available indicated possible loss because of theft by organization members.⁴⁷

NETWORK/HEADQUARTERS

The network and headquarters are extremely adaptable. This was demonstrated when the organization reestablished itself after the United States attacked and destroyed its headquarters in Afghanistan.⁴⁸ The decentralized decision-

⁴⁶ p. 2, *ibid.*

⁴⁷ p. 1., *ibid.*

⁴⁸ p. 5., Al Qaida, Wikipedia, The Free encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>.

making network (franchise affiliates) made this response and capability possible.⁴⁹

Firm/market adjustments are made as efficiently as possible as specific transaction types garner publicity and/or a desired behavior from a targeted group. Shifts in attack type and number and incorporated are as necessary if desired effect is desired.

EVENT TRANSACTION UNIT PROFIT

The 1993 attack on the World Trade Center did not demolish the building, and the perpetrators were caught.⁵⁰ However, inside the organization, adjustments were made to the "transaction"/unit planning, and the assets needed to successfully conduct the event were evaluated to determine the cause of transaction failure.

The transaction costs associated with each mission (unit) originated from several sources, and were spread over a vast geographical and organizational structure. Once the evaluation occurred and adjustments were made, execution was ordered. The fact that there was an over seven-year waiting period in between, only serves to reinforce the group's tenacity and commitment.

⁴⁹ P. 5., *ibid.*

⁵⁰ p. 2., Al Qaida, Teachervision.com, Family Education Network, <http://www.teachervision.fen.com/lesson-plans/lesson-6987.html?detoured=1>

The September 11, 2001 mission required limited direct financial outlay: 1) specialty training for a small number of human actors (pilots - other personnel's training would be considered a sunk cost), 2) document producers, 3) box cutters, and 4) years of patience. The result was success. The benefits garnered from this limited financial input (but tremendous human asset commitment) were extraordinary. Significant loss of life, heavy loss of financial resource and long-term political consternation within the United States were the results.⁵¹

In addition, consumer and investor behavior has shown uncertainty and apprehension.⁵² Anti-terrorism expenditures push more productive activities off the plate so that security, building fortifications, barriers and the like can occur. And no guarantee is made that these funds will buy the desired effect.⁵³ We won't know until there is an attack. But the U.S. psyche will permit no lesser approach.

The terrorists received even more return on their efficient transaction cost with loss of revenue for:

⁵¹ p. 9., National Security Advisor Dr. Condoleezza Rice Opening Remarks The National Commission on Terrorist Attacks Upon the United States

⁵² p.2, Saxton, Chairman, Joint Economic Committee, The Economic Costs of Terrorism, Government Printing Office.

⁵³ P. 3., *ibid.*

airlines, aerospace, travel, lodging, restaurants, and other service related industries.⁵⁴

It is estimated that lost economic output amounted to \$47 billion and lost stock market wealth totaled over \$1.7 trillion.⁵⁵ This does not include property damage, human capital losses and physical assets damage. These are estimated at over \$21.4 billion.⁵⁶

All for the cost of airline pilot training, box cutters, airline tickets and support for the individual actors for several year. Even if the plans for the attack started right after the failure of the World Trade Center attack in 1993, the transaction costs for Qaida al-Jihad could not have come near the "benefit" it achieved.

TRANSACTION COSTS ANALYSIS

Contractual Mechanism

As mentioned before, Qaida al-Jihad is a loosely connected network. It uses vertical integration for vital transactions such as media relations and training; retaining these functions within house maintains high quality and control of content.

⁵⁴ p. 3, *ibid.*

⁵⁵ p.5, *ibid.*

⁵⁶ p. 5., *ibid.*

Keeping training in house, for instance, has proven to be very efficient, as over 20,000 (or it could be up to the 60,000) have been trained and redeployed throughout the world- sending them to countries like Yemen, Germany, Canada, Afghanistan, Pakistan, the Sudan, and, yes, the United States.⁵⁷

Lack of sufficient evidence prevents conclusive assertions that this vertical integration reduces monetary costs and is the most efficient manner to conduct these transactions.

However, it can be surmised that a contract exists between organizations (whether written or unwritten), and that this contract specifies the bilateral dependency of this training and financial support. Qaida al-Jihad makes quite an outlay in training, providing significant vertical investment that is both backward (from recruiting) and forward (through deployment)⁵⁸

These deployments also act as insurance against the hazard of another onslaught by a state entity such as the U.S. or Great Britain. These newly trained members can continue functioning, conducting missions without need of committee guidance or the Shura input.

⁵⁷ p. 3., , Background: Al Qaeda, Inside the Terror Network, Frontline, <http://www.pbs.org/wgbh/pages/frontline/shows/network/alqaeda/indictent.html>

⁵⁸ p.6, Al-Qaida, Wikipedia, The Free Encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>

This bilateral dependency also works because it becomes a cost effective means of producing large numbers of redeployable human assets that can adapt to the current situation and move back and forth between network needs for the large numbers conditions or small number requirements.⁵⁹

Qaida al-Jihad has found that the perfect(to this point) governance structure for its nontraditional needs: a simple vertical integration with a loosely complex lower network.

Asset Specificity

Asset specificity of the organization's human resources and/or brand name capital is equally redeployable.

Human resources can be moved, reassigned, and expended.⁶⁰ This expendability feeds directly into the notions of opportunism and guile. It should be noted that there are specific instructions provided in the Qaida al-Jihad manual to mislead, disguise, obfuscate, and distort.⁶¹ However, these are different from the initially intended self-seeking characteristic suggested by our opportunism and guile.

⁵⁹ p 13., Williamson, Oliver, The Mechanisms of Governance, Oxford University Press, 1996.

⁶⁰ P. 59, *ibid.*

54 p.56 *ibid.*

For the manual, this opportunism is really an opportunity to achieve the mission, no matter how. It is just a "means to an end."

TCE opportunism is a moral hazard and difficult to pinpoint in this organization, given the limited information currently available. But given the zeal of many members and the lengths to which they are willing to go- to their deaths- this aspect may be used to address the self-seeking image or esteem a desired result sought by the martyrs from the local community and their fellow network peers.

There is an assumption these members reside in or relocate to such like-minded communities. Unanswered questions still exist for this area however; and additional study is needed to garner a more pointed response to the concept of opportunism.

Behavioral Assumptions

Bounded rationality, to include (to a limited degree) a dimension of satisficing, acknowledges that the "contracts" of Qaida al-Jihad are complex, yet not as comprehensive as they probably could be; however, the

economic organization is extremely supportive of an adaptive sequential decision-making.⁶²

Qaida al-Jihad also acknowledges and supports decentralized decision-making. This is apparent in the execution of missions and associated member organization, like the one that claimed responsibility for the Spanish train explosion. It executed a mission and used the Al Qaida logo when acknowledging. This logo use guaranteed exactly what was received: world-wide recognition a fear as a response from the Spanish people

Rivals are permitted, actually welcomed, as long as they too challenge the Western community and espouse conservative Muslim Wahhabi sect credos.⁶³

Another transaction cost concept, that of incomplete contracting, is also demonstrated in the loose network. From available data, it appears no comprehensive contract is established connecting the organizations that encompass the network. Such contracts would actually be infeasible, as they could not encompass every condition or circumstance that might occur.

Rather it behooves all parties to rely on the commitment of individual soldiers to Allah and the cause.

⁶² p.36, *ibid*

⁶³ p.2, *Al Qaida*, Wikipedia, The Free Encyclopedia, <http://en.wikipedia.org/wiki/Al-Qaida>.

The Al Qaida Handbook has a means to ensure this commitment with its stated requirement for members to kill those who do not adhere to the precepts of the group.⁶⁴

These devotees trained in the cause demonstrate they possess a credible commitment that would suffer martyrdom, rather than expose other parties in their "contract" to hazards. The contract is not a mere promise, but a trained organizationally peer pressured response. Opportunity for human actors to behave in a manner contrary to the accepted norm of the Handbook (and training) is low.

The outcomes of these factors mingle and the result is a psychological tie that binds with a subtle hold on all who are a part of the network.

The concept of sanctions is not specifically stated in the handbook, but there is a vow to confront and remove all those who do not follow the way of the group.⁶⁵

It would therefore seem that the human actor is the key to the transaction costs equation of Qaida al-Jihad.

⁶⁴ P.13., The *Al Qaida* Manual, publication date, unknown.

⁶⁵ P 10 , *ibid.*

CONCLUSION

Response to 9/11

Countless articles have been published stating the heinousness of the September 11, 2001 terrorist attacks. The human life toll was/is in the thousands. We were not prepared. We did not expect it; and we were mad. Retaliation was our immediate response.

Firepower was turned on Afghanistan and later Iraq. Eradication was to be swift and devastating.

However, the firepower approach has proven to be neither swift nor devastating. Using the current guerilla warfare response in Iraq and Afghanistan as an indicator, we see the death toll for Allied forces exceeds expectation, and the resistance force is fiercer and more determined than estimated.

Much of the dispute is cultural and that should not be dismissed. However, a look at the economic costs of terrorism and the assets, players and effects of each of these should not be overlooked, either.

IS THERE A BETTER WAY?

Suggested Alternative

Again, making sure we do not off handedly dismiss the cultural differences, it is important to put the current situation in historical context.

Disputes between Christian and Muslim members of a community have existed since before the 11th century.⁶⁶ During that period, fragmented political parties created an environment that contrasted individualistic and collectivist behavioral beliefs. Islamic traders developed group communications and social networks within their own ranks; networks that were extremely effective, as long as they remained within small homogenous ethnic groups. They, however, did not work in the larger growing market.⁶⁷

As Iraq and Afghanistan emerge to take their place in the Middle East economic community, their market will grow and maintenance of homogeneity will become more difficult. To mediate the current crisis that continues to grow, we can remember history and use the unemotional bridge of transaction cost economics to examine opportunities for accommodation.

⁶⁶ p. 4, North, Douglass, Transaction Costs Through Time,
<http://econwpa.wustl.edu/eprints/eh/papers/9411/9411006.abs>

⁶⁷ p.3, *ibid.*

PRECEDENT

Using transaction costs economics as a backdrop and human actors as the problem solving key, we can adapt Oliver E. Williamson's 1999 *Human Actors and Economic Organization* to this case study. In that treatise Williamson examined the individual actor under several contexts: 1) development of public policy, 2) actions as a consumer, and 3) actions in a contextual forum (when money is left on the table)⁶⁸

He notes that there are cognitive limits and contractual hazards faced by the human actor in any governance situation. For instance, he notes that the mean, variance, variety and group interaction effects are all relevant when complex problems must be "broken down into subassemblies".⁶⁹

As quoted by Williamson, "economics has conventionally assumed that each individual has stable and coherent preferences" and, given the chance, will maximize those preferences.⁷⁰

But if we view the individual under several conditions, with varying degrees of bounded rationality and opportunism, different responses occur. For example, the

⁶⁸ p33, Williamson, Oliver, E., *Human Actors and Economic Organization*, Universita delgi Studi di Siena.

⁶⁹ P. 12 *ibid.*

⁷⁰ p. 12, *ibid.*

individual responds positively to the peer group ideal if there is a uniform degree of bounded rationality and almost no opportunism. And even when bounded rationality is increased but opportunism remains absent, best efforts are still extended.⁷¹

However, problems arise when bounded rationality and opportunism both rise. The peer groups had to face opportunistic hazards like oligarchy setting in, and shirking of duty as opposed to sharing.⁷²

These conditions also limited discretionary practices that promoted efficiency.⁷³

As these factors were regulated, complications began to appear. Complications such of incentive pay, rotation among jobs, and individuals with more competency tilting the governance opportunities more their way.⁷⁴

Organizations problems increased as the human actors specifications became more complex. Implicit in these considerations is the issue of personal integrity.

Given a transaction, it is imperative to find the least cost mode of governance if harmony is to be achieved.

Williamson assumed that all individuals function from the premises of bounded rationality and opportunism. The

⁷¹ p. 28, *ibid.*

⁷² p. 29, *ibid.*

⁷³ p. 29, *ibid.*

⁷⁴ p. 30, *ibid.*

traits may vary, but all of us have them.⁷⁵ If this is true, we may have a means to combat the Qaida al-Jihad machine.

Given this start, we can incorporate human actor variables as we examine the transaction costs of terrorism and the uniqueness the Muslim community brings to the proposition. Additional study seems warranted.

Proposal

Incorporate transaction cost analysis of human actors into a dynamic methodology that accommodates cultural differences and varying definitions of bounded rationality and opportunism.

If martyrdom is defined in opportunistic terms and adherence to the code of Qaida al-Jihad is tied to bounded rationality, could an unemotional examination of the current terrorist threat be developed?

If it can, then maybe this, along with governance structure examinations, can provide an alternative to the guns and mortar that, so far, do not appear to work. It is at least deserves a chance.

⁷⁵ p. 35,. Ibid.

ANNOTATED BIBLIOGRAPHY

- Athanassiou, Emmanuel. "Terrorism, Transaction Costs and Mode of Governance." *Center of Planning and Economic Research and Dept. Of Economics, University of Athens* (n.d.).
- Coase, Ronald H. "The Nature of the Firm." In *Readings in Price Theory*, edited by G. J. Stigler, Boulding K.E., 386-405. , 1952.
- Cordesman, Anthony H. "The Need for More Sophisticated Reporting on Al Qaida and Terrorism." [Http://216.239.51.104/Search?Q=cache:AxPDR41w6VOJ:Www.Csis.Org/Burke/Reports/030829](http://216.239.51.104/Search?Q=cache:AxPDR41w6VOJ:Www.Csis.Org/Burke/Reports/030829) (n.d.).
- Cronin, Audrey Kurth. "Al Qaeda After the Iraq Conflict." *Congressional Research Service* [Http://216.239.41.104/Search?Q=cach:BiTEgYS~JDCJ:Fpc:State.Gov/Documents/Organization](http://216.239.41.104/Search?Q=cach:BiTEgYS~JDCJ:Fpc:State.Gov/Documents/Organization) (n.d.).
- Demsetz, Harold. *Ownership, Control, and the Firm: The Organization of Economic Activity Volume 1*. Second ed. 1988. Reprint. Cambridge, MA: Basil Blackwell, Inc., 1988.
- Epstein, David, and Sharyn O'Halloran. *Delegating Powers: A Transaction Cost Politics Approach to Policy Making Under Separate Powers*. 1979. Reprint. Cambridge, United Kingdom: Cambridge University Press, 1999.
- Greif, Avner. "Institutions and Impersonal Exchange From Communal to Individual Responsibility." *National Science Foundation Grant 9009598-01* (2001): 58.
- Lutes, Chuck. "Al-Qaida in Action and Learning: A Systems Approach." [Http://WWW.AU.Af.Mil/AU/Awc/Awcgate/Readings/Al_quaida2.Htm](http://WWW.AU.Af.Mil/AU/Awc/Awcgate/Readings/Al_quaida2.Htm) (December 2001).
- McCubbins, Matthew d., Roger G. Noll, and Barry R. Weingast. "Administrative Procedures As Instruments of Political Control." *Journal of Law, Economics, & Organization* 3, no.2 (1987): 243-78.
- ~
McGuire, C. B., and Roy Radner, editors. *Decision and Organization: A Volume --*, in Honor of Jacob Marschak. London, England: North-Holland Publishing Company, 1972.
- Moe, Terry M. "Political Institutions: The Neglected Side of the Story." *Journal of Law, Economics & Organization* 6, no. Special (1990): 213- 53.

Nicogossian, Arnauld. "Understanding Terrorism and Bioterrorism in Context of Public Health.", April 13, 2004. slides.

North, Douglass. "Structure and Performance: The Task of Economic History." *Journal of Economic Literature* 16, no. September (n.d.): 963-78.

North, Douglass C. "Transaction Costs Through Time." [Http://Econwpa.Wustl.Edu/Eprints/Eh/Papers/9411/9411006.Abs](http://Econwpa.Wustl.Edu/Eprints/Eh/Papers/9411/9411006.Abs) (November 25, 1994).

Rice, Condoleezza Dr. "Opening Remarks: The National Commission on Terrorist Attacks Upon the United States." (April 8, 2004).

Saxton, Jim. *The Economic Costs of Terrorism*. Washington, DC: Joint Economic Committee, United States Congress, May 2002.

Shelanski, Howard A., and Peter G. Klein. "Empirical Research in Transaction Cost Economics: A Review and Assessment." *Journal of Law, Economics & Organization* 11, no.2 (1995) : 335-61.

Shepard, William G. *The Economics of Industrial Organization*. Englewood Cliffs, NJ 07632: Prentis-Hall, 1979.

Simon, Herbert A. "Rationality As Process and As Product of Thought." *The American Economic Review* 68, no.2 (Nat 1978) : 1-16.

Steinberg, James. "Statement to the National Commission on Terrorist Attacks Upon the United States." (October 14, 2003).

Stigler, George J. *The Organization of Industry*. Homewood, IL: Richard D. Irwin, Inc., 1968.

TeacherVision.com. "Al Qaeda." [Http://www.Teachervision.Fen.Com/Lesson-Plans/ Lesson-6987.Html?Detoured=1](http://www.teachervision.fen.com/lesson-plans/lesson-6987.html?detoured=1) (n.d.).

Twight, Charlotte. *Government Manipulation of Constitutional-Level Transaction Costs: A General Theory of Transaction-Cost Augmentation and the Growth of Government*. Dordrecht, Netherlands: Martinus Nijhoff Publishers, 1988.

Unknown. "Al-Qa'ida." [Http://I-Cias.Com/E.O/Qaida.Htm](http://I-Cias.Com/E.O/Qaida.Htm) (n.d.)

"Al-Qa'ida: Maktah Al-Khidamat (MAK -Services Office)

International Islamic Front for Hihad Against the Jews and Crusaders." [Http://Www.Ict.Org.Il/Inter_ter/Orgdet.Cfm?=74](http://Www.Ict.Org.Il/Inter_ter/Orgdet.Cfm?=74) (n.d.) .

"Al-Qaida." *Wikipedia: The Free Encyclopedia*
[Http://En.Wikipedia.Org/Wiki/Al-Qaida](http://En.Wikipedia.Org/Wiki/Al-Qaida) (n.d.).

"Al Qaida." [Http://Www.Infonnationheadquaters.Com/September_11_2001/Al-Qaida.Shtml](http://Www.Infonnationheadquaters.Com/September_11_2001/Al-Qaida.Shtml) (n.d.).

.Background:Al Qaeda."
[Http://Www.Pbs.Org/Wgbh/Pages/Frontline/Shows/Network/Alqaeda/Indictment.Html](http://Www.Pbs.Org/Wgbh/Pages/Frontline/Shows/Network/Alqaeda/Indictment.Html) (n.d.).

"Shura." *Wikipedia, The Free Encyclopedia*
[Http://En.Widipedia.Org/Widi/Shura](http://En.Widipedia.Org/Widi/Shura) (n.d.).

Usama bin Laden. "The Al Qaeda Manuel." [Http://Www.Al-Qaedahandbook.Com/2.Html](http://Www.Al-Qaedahandbook.Com/2.Html) (n.d.).

Wang, Ning. "Transaction Costs and the Structure of the Market: A Case Study" ([Http://Www.Findarticles.Com](http://Www.Findarticles.Com)) .*The American Journal of Economics and Sociology* (October 1999).

Weingast, Barry R. "The Economic Role of Political Institutions: Market- Preserving Federalism and Economic Development." *Journal of Law, Economics, & Organization* 11, no.1 (1995) : 1-31.

Weingast, Barry R., and William J. Marshall. "The Industrial Organization of Congress; Or, Why Legislatures, Like Firms, Are Not Organized As Markets." *Journal of Political Economy* 96, no.1 (1988): 132-63.

"Appropriations Committee, Senate" In *Encyclopedia of the U.S. Senate*, 78-82. Washington, D.C.: Congressional Quarterly, 1993.

Williamson, Oliver E. "The Economics of Internal Organization: Exit and Voice in Relation to Markets and Hierarchies." *The American Economic Review* 66, no.2 (May 1976) : 369-77.

"Human Actors and Economic Organization."
[Http://216.239.39.104/ , Search?Q=cache:/FHpnpaVltdYJ:Www.Econ-Pol.Unisi.It/Quaderni/247](http://216.239.39.104/,%20Search?Q=cache:/FHpnpaVltdYJ:Www.Econ-Pol.Unisi.It/Quaderni/247) (March 1999): 69.

."The Institutions of Governance." *The American Economic Review* 88, no.2 (May 1998): 75-9.

The Mechanisms of Governance. New York, NY: Oxford University Press, 1996.

. "The New Institutional Economics: Taking Stock, Looking Ahead." *Journal of Economic Literature* 38, no.3 (September 2000) : 595-613.

. "Political Institutions: The Neglected Side of the Story -
-
Comment." *Journal of Law, Economics & Organization* 6
(1990): 263-7.

Comment to Terry M. Moe's "Political Institutions: The
Neglected Side of the Story."

. "Transaction-Cost Economics: The Governance of Contractual
Relations." *Journal of Law and Economics* 22, no. October
(1979) : 3- 61.

Williamson, Oliver E., and Sidney G. Winter. *The Nature of
the Firm: Origins, Evolution, and Development*. New York,
NY: Oxford University Press, 1991.

Williamson, Oliver E., and Sidney G. Winter, editors. *The
Nature of the Firm: Origins, Evolution, and Development*.
New York, NY: Oxford University
Press, Inc., 1991.

Williamson, Oliver E., editor. *Organization Theory*. New
York, NY: Oxford University Press, Inc., 1990.