The occupation of Iraq proved more difficult than anticipated. A governing regime was set up, and elections were held, but an insurgency composed of disaffected Iraqis and foreign jihadists became an increasingly deadly threat to coalition forces. By spring 2006, more than two thousand U.S. troops had died in Iraq, and a majority of Americans told pollsters that the war had been a mistake. In addition, convincing evidence that Saddam possessed weapons of mass destruction at the time of the invasion was never found, nor was hard evidence of operational links between Iraq and Al-Qaeda. Over time, Bush increasingly emphasized the cause of creating a democracy in Iraq, which had received relatively little attention before the war.

In the domestic arena, Bush passed several major initiatives after September 11, including the No Child Left Behind Act (which enacted a new accountability regime of school testing), a second tax cut, and a bill adding prescription-drug coverage to Medicare.

In 2004 he defeated his Democratic opponent, Senator John Kerry, in a reelection campaign that emphasized security concerns and such social issues as gay marriage. Bush won 51 percent of the vote and 286 electoral votes in the narrowest presidential reelection victory since Woodrow Wilson in 1916.

The first major initiative of Bush's second term was an effort to create private investment accounts in Social Security, but his proposal failed to gain significant momentum in Congress. By spring 2006 Bush's approval ratings had plunged to less than 40 percent; conservative discontent with his presidency had grown; and calls for U.S. withdrawal from Iraq had begun to mount. However, Al-Qaeda had not successfully attacked the United States again and economic growth remained relatively strong.

SEE ALSO *Al-Qaeda; bin Laden, Osama; Bush, George H. W.; Electoral College; Hussein, Saddam; Iraq-U.S. War; Republican Party; September 11, 2001; Taliban; United Nations*

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BUSINESS

Business is a commercial activity engaged in as a means of livelihood or profit, or an entity that engages in such activities. The concept mainly applies to activities that are designed to supply commodities (goods and services). The term *business* pertains broadly to commercial, financial, and industrial activity. Business involves managing people to organize and maintain collective productivity toward accomplishing particular creative and productive goals, usually to generate revenue and profit. The etymology of the term refers to the state of being busy, in the context of the individual as well as the community or society. In other words, to be busy is to be doing a commercially viable and profitable activity.

Business is distinguished from households and government, the remaining economic actors in any economy. Households play a pivotal role as suppliers of resources and demanders of final products. Household consumption is the total expenditure by the household sector, which is financed by the sale of resources, mainly labor, in return for income. As society is deeply concerned, on normative grounds, with the equity of income distribution as well as with efficiency of production, the role of government is indispensable to a market economy. The market system generates a range of inefficiencies as a result of market failure (failure to produce goods and services efficiently, or failure to produce goods and services demanded), so ongoing regulatory and redistributive roles are defined for government in a market-driven economy.

PRIVATELY OWNED BUSINESS

The term *business* has at least three usages, depending on the scope of analysis: the aforementioned general usage; the singular usage to refer to a particular company or corporation; and the usage to refer to a particular market sector, such as *agricultural business* or *the business community*, that is, the aggregation of suppliers of goods and services. The singular business can be a legally recognized entity within a market-based society, wherein individuals are organized based on expertise and skills to bring about social and technological progress. In this case, the term *business* is associated with a corporation in which a number of shares are issued, and the firm is owned by shareholders who have limited liability. These corporations are legal entities. The businesses or corporations owned by the shareholders are treated by law as an artificial person.

The corporation becomes a legal entity through registration as a company and through compliance with company law. The owners of the company are issued shares in the company entitling them to any after-tax company profits in proportion to their share ownership. A major advantage of the corporation is that many individuals can pool their resources to generate the finances needed to initiate a business. An additional advantage is limited liability, meaning shareholders' liability for any losses is limited to the value of their shares. A final advantage of this form of organization is that the corporation

has a life as a legal entity, separate and apart from those of the owners. The company continues to exist even if ownership changes hands, and it can be taxed and sued as if it were a person. A corporation's shareholders may not know anything about the actual production of the firm's product, whereas the managers of the firm may not be concerned about the current state of the share market.

With some exceptions, such as cooperatives, nonprofit organizations, and government institutions, in predominantly capitalist economies, privately owned businesses are formed to earn profit and grow the personal wealth of their owners. In other words, the owners and operators of a business have as one of their main objectives the receipt or generation of a financial return in exchange for their work, that is, the expenditure of time, energy, and money. Private business is the foundation of the market capitalist economies.

GOVERNMENT-OWNED BUSINESS

Private business is in contrast to government ownership of business enterprises. Since ancient times, governments have owned and conducted many businesses, such as water systems, sports, theaters, mining, and public baths. In the United States, government units own and manage the public school system, public highways and bridges, dams, land, power, and many other businesses. The importance of public utilities to the community has frequently led to municipal ownership of water, sewerage, electricity, power, gas, and transportation systems. In Europe, where public ownership is more extensive and of longer duration than in the United States, it may include railroads, telephone, radio and television, coal mining, other power resources, and banking. Since World War II, many nations in Europe and North America have practiced public ownership of business through public corporations such as Amtrak. Many developing countries also have large-scale public ownership, especially of vital industries and resources. The distinct characteristic of a government-owned business is that its goal is to serve the wider community by offering services as efficiently as possible, but at the same time as inexpensively as possible. In other words, a government-owned business has a mandate to maximize social welfare, not make a profit, which is the goal of a private business.

Frequently it is argued that government ownership is necessary when private businesses fail to work effectively and fairly. Private businesses may fail to safeguard private property and enforce contracts, or collude to avoid competition. Certain industries may be most efficiently organized as private monopolies, but the market may allow such industries to charge prices higher than are socially optimal. Private businesses may not find it profitable to produce public goods. Prices set solely by the market often fail to reflect the costs or benefits imposed by externalities. Private businesses operating in markets can lead to an extremely unequal distribution of income. Finally, private business behavior does not guarantee full employment and price stability.

When private businesses yield socially undesirable results, governments may intervene to address these market failures. Government programs are designed to (1) promote full employment, price stability, balance of trade equilibrium, and sustainable economic growth in real gross domestic product (GDP); (2) promote competition; (3) regulate natural monopolies; (4) provide public goods and externalities; (5) discourage negative externalities and encourage positive externalities; (6) provide a more equitable distribution of income; and (7) protect private property and enforce contracts.

NONPROFITS

In contrast to a private business, a nonprofit business is a business that supports private or public interests for noncommercial purposes. Nonprofit organizations may be involved in numerous areas, most commonly relating to charities, education, religion, sports, arts, and music. Another class of business is the nongovernmental organization (NGO), an organization that is not directly part of the structure of any government. Many NGOs are also nonprofit organizations and may be funded by private donations, international organizations, or the government itself, or some combination of these. Some quasi-autonomous NGOs may even perform governmental functions. Many NGOs are key sources of information for governments on issues such as human rights abuses and environmental degradation.

COOPERATIVES

A cooperative is an autonomous association of people united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Cooperative members usually believe in the ethical values of honesty, openness, social responsibility, and caring for others. Cooperatives are often seen as an ideal organizational form for proponents of a number of sociopolitical philosophies. A cooperative comprises a legal entity owned and democratically controlled by its members. Under this structure, ownership and control are exercised by all members of the cooperative in the form of group property. All members of the cooperative have equal rights to participate in the decision-making process. The fundamental characteristic of a cooperative is that it is democratically administered. The decision-making process in cooperative firms is based on the democratic principle of one vote per person, rather than one vote per share. This

is the standard the International Co-operative Alliance requires its members to embrace, and it is also the rule assumed in the theoretical literature.

In private business firms, management employs labor and has the ultimate decision-making power, whereas in cooperatives, labor employs management and ultimate decision-making power remains with the cooperative. In small cooperative firms the cooperative is able to carry out all managerial functions. However, as the size of the firm increases the complexity of organization also increases. Large cooperative firms need some delegation of authority; that is, the appointment of managers. Using their specialized skills, which are distinct from labor skills, managers assist in the formulation of decision-making by the collective; however, decision-making power still resides with the cooperative. Hence, managers are hired and dismissed by the cooperative. Whereas in private business firms managers are ultimately accountable to shareholders, in cooperatives managers are ultimately accountable to the collective.

The cooperative firm requires from its members loyalty, self-monitoring, solidarity, and commitment to the firm and to the ideas of cooperative management. As a result, cooperative firms do not need to dedicate so many resources to monitoring. Bowles and Gintis (1996, p. 320) and Doucouliagos (1995) argued that the proposition that cooperatives are inherently inefficient was not accurate. Participation in decision-making and productivity are positively related. Cooperatives can be as efficient as capitalist firms. Cooperatives do not suffer undue problems associated with investment, monitoring, and incentives, or face higher transaction costs, as assumed in the traditional literature. The dominance of capitalist firms in mature market economies and the relative scarcity of the cooperatives are independent of efficiency considerations. Institutional bias, credit rationing, path-dependent behavior, and the impact of the forces of conformity contribute to cooperative firms being outnumbered in mature market economies (Doucouliagos, 1995, pp. 1097–1098). In mature market economies the prevailing institutions, and not market oscillations, reinforce the duplication of capitalist firms. Therefore, cooperative firms must be considered an alternative to private property.

INTERNATIONAL BUSINESS

International business consists of business transactions (private and governmental) between parties from more than one country. (Daniels et al. 2004, p. 3). International business can differ from domestic business for a number of reasons, including the following: the countries involved may use different currencies, forcing at least one party to convert its currency into another; the legal systems of the countries may differ, forcing one or more parties to adjust their practices to comply with local laws; the cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectations of the other; the availability of resources may differ among countries; and the way products are produced and the types of products produced may vary among countries.

The significance of business, and especially of international business, in the twenty-first century is largely determined by the following: globalization and economic integration; technological improvements in communications, information processing, and transportation; new organizational structures and restructuring processes adopted by companies in order to become more competitive and effective; the changing framework of international competition; and finally the deregulation of key sectors such as telecommunications, which led to the liberalization of capital flows among countries. The increase in international business was largely related to the sharp increase in investments and especially in foreign direct investments in the high-tech and telecommunication sectors in the advanced economies, and in the increase of mergers and acquisitions and cross-border transactions. In addition, developing and transition countries were increasingly liberalizing their economies, opening their borders, and abolishing barriers and obstacles in order to receive decisive foreign direct investment (FDI) flows. Increased FDI flow and international business is also supported by the abolition of monopolies, the elimination of tariffs and quotas, and by increased free-trade transactions as a complement to FDI flows (Bitzenis 2005, pp. 550–551).

E-BUSINESS

E-business (electronic business) is a term used when transactions for business purposes take place online on the World Wide Web. E-business, a name derived from such terms as *e-mail* and *e-commerce*, describes the conduct of business on the Internet, not only for buying and selling, but also for servicing customers and collaborating with business partners. In addition, companies are using the Web to buy inputs from other companies, to team up on sales promotions, and to initiate joint research. Companies are exploiting the cost saving, convenience, availability, and world-wide reach of the Internet to reach customers. Companies such as Amazon.com, originally only a bookseller, are diversifying into other areas and using the Internet profitably. The term *e-commerce* also describes business using the Internet, but *e-business* generally implies a presence on the Web. An e-business site may be extremely comprehensive and offer more than just products and services: some feature general search facilities or the ability to track shipments or have threaded discussions. IBM was among the first to use the term

e-business when, in 1997, it initiated a campaign around the new term.

SEE ALSO *Capitalism; Consumer; Cooperatives; Corporations; Firm; Investment; Organizations; Profits; Venture Capital*

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BUSINESS CYCLES, EMPIRICAL LITERATURE

Business cycle researchers study the temporary deviation of macroeconomic variables from their underlying trend. During the nineteenth century, theories explaining business cycles were typically driven by real factors (as opposed to monetary factors), invariably of agricultural origin. Of course, given the relative size and importance of the agricultural sector at that time, these theories had some degree of success. However, as agriculture began to decline in importance, macroeconomists searched for other driving forces for the business cycle. Friedrich August von Hayek (1899–1992) suggested monetary policy, while John Maynard Keynes (1883–1946) surmised that business cycles were driven by a force he called "animal spirits," with nontrivial roles for sticky prices and wages.

The 1970s saw the birth of the rational expectations approach to macroeconomics, coming mainly out of the new classical economics school of thought. In fact, the rational expectations revolution is often credited with returning real driving factors to the forefront of business cycle research. According to this school of thought, given that people are rational and can accurately forecast future events and the actions of policymakers, monetary and fiscal policies are likely to be ineffective in stimulating the economy (one could say that money is neutral in the former case of monetary policy, and that Ricardian equivalence holds in the latter case of fiscal policy). Additionally, in the absence of market frictions (all markets clear), an assumption held by new classical economists, sticky prices and wages are rendered nonfactors in causing macroeconomic variables to deviate from trend. Therefore, the following questions naturally arise. What are the sources of business cycle movement if people can correctly (or with a great degree of accuracy) anticipate the actions of policymakers? And given that the economy is perpetually self-adjusting so that all markets quickly return to equilibrium (no market friction), how do business cycles arise? That is, given the well-functioning macroeconomy proposed by the new classical school, what causes macrovariables to temporarily deviate from trend? The answer, according to new classical macroeconomists, is that observed cycles are driven by (unanticipated) shocks to real factors, specifically by supply-side factors that alter factor productivity and the capital-labor ratio. This led to the rebirth of *real business cycle* (RBC) theory with technology shock as its driving force, instead of agricultural factors as previously suggested.

In order to assess the applicability of the RBC theory, it should readily lend itself to empirical testing, as should any good economic theory. Economic theory, therefore, should be parsimonious while containing (enough) important features that, when estimated, the theory produces results that accord with the data, in some statistical sense. The RBC theory is no exception, and its success, hitherto, has been the ease with which it lends itself to estimation. To be clear, the purpose of RBC research, the narrow focus of this entry, is to investigate how much output variation or, more broadly, the degree to which cyclical fluctuations in key macroeconomic data over business cycle frequency, can be accounted for by technology shocks.

Calibration and regression methods are the commonly used techniques for empirically testing the RBC paradigm. Each technique, if properly applied, can be a useful tool in testing the merit of a particular model or in differentiating among various classes of models. Unfortunately, however, within the RBC framework, each tool can be subject to abuse by the researcher who wants to promote his or her own agenda at the expense of science. However, such blatant misuse of the empirical tools has been the exception rather than the rule, and the Cowles Commission (a research institute established in 1932 by businessman and economist Alfred Cowles, dedicated to linking economic theory to mathematics and statistics) should be proud to see both theory and estimation, of one form or another, appearing in more and more published articles. If only macroeconomists could agree on a particular theory or method!