they once were, but they do want to restore balance. "By whatever means they choose—running businesses, offering internships, encouraging action research, consulting, and so forth—business school faculties simply must rediscover the practice of business."

Overestimating the Trade Deficit

"A Silver Lining in the U.S. Trade Deficit" by Diana Farrell, Sacha Ghai, and Tim Shavers, in *The McKinsey Quarterly* (March 2005), www.mckinseyquarterly.com.

If Washington wants to cut America's huge and scary trade deficit down to size, using 21st-century measurement techniques would be a good way to start. Farrell, director of the McKinsey Global Institute, and her colleagues at the research arm of the business consulting firm McKinsey and Company, believe that about a third of last year's $666 billion U.S. trade deficit was essentially a statistical mirage created by the federal government's outdated method of calculating the trade balance.

That method is based on the assumption that a dollar sent abroad is a dollar that goes into a foreign pocket. Thanks to the rapid expansion of U.S. multinationals, however, that dollar is much more likely than before to find its way into the coffers of a foreign subsidiary of a U.S. company.

That's not the end of the story. If that foreign subsidiary sells its products abroad, only its profits (or losses) are recorded in U.S. trade data. But if it ships those products to the United States, the entire sales amount shows up in the trade statistics as red ink.

For example, the Mexican subsidiaries of Chrysler, Ford, and General Motors sold nearly 500,000 cars and trucks in Mexico in 2003, earning a profit of $360 million. That amount showed up on the plus side of the U.S. trade ledger. But the subsidiaries also shipped 700,000 vehicles to the United States, where they were sold for $12 billion. After U.S.-made components worth $5 billion that were used in the vehicles were accounted for, the sales added $7 billion to the U.S. trade deficit.

Two trends since the early 1990s have exacerbated this strange effect. First, U.S. multinationals have vastly increased their investments abroad. Second, and more important, a growing share of that money is being sunk into investments designed not to expand markets abroad but to improve corporate efficiency. Classic examples include customer-service call centers in India and assembly plants for computer motherboards in China. These sorts of ventures, especially the service-oriented ones, have a more pronounced effect on the U.S. trade deficit because they incorporate few products exported from the United States.

Farrell and her colleagues argue that U.S. multinationals' growing foreign investments produce many benefits that are not widely appreciated—including lower prices for consumers, higher stock market valuations (to the tune of $3 trillion) for the multinationals, and more jobs at home. In 2002, the foreign subsidiaries of U.S. corporations generated about $2.7 trillion in revenues—about three times the value of all U.S. exports. Yet because of the way Washington keeps its books, the lion's share of those revenues registered as an economic weakness rather than a strength.

The federal government, say the authors, should adopt "an ownership-based view of trade," categorizing companies by where they are owned, not by where their goods are produced. That would give a more realistic picture of the health of the U.S. economy.

Jobs and Jails

"What Explains the Continuing Decline in Labor Force Activity among Young Black Men?" by Harry J. Holzer, Paul Offner, and Elaine Sorensen, in *Labor History* (Feb. 2005), Taylor & Francis, Inc., 325 Chestnut St., Ste. 800, Philadelphia, Pa. 19106.

The 1990s were boom years for workers of virtually all kinds, yet the number of young black men who were out of the labor force—not even looking for work—grew faster than it did during the 1980s. By the end of the 1990s, about 32 percent of