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of last year's $666 billion U.S. trade deficit was essentially a statistical mirage created by the federal government's outdated method of calculating the trade balance.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 black men in the 16-to-24 age bracket who were out of school and had no more than a high school diploma were out of the labor force. That compares with 23 percent at the beginning of the decade.

Several familiar forces were responsible: declining real wages, the shrinkage of blue-collar employment, the rise of distant suburbs as centers of employment, and racial discrimination. But two relatively new factors made matters worse, according to Holzer, a professor of public policy at the Georgetown Public Policy Institute, and his coauthors. The first was the steady increase in incarceration rates. Today, about 30 percent of all young black men who are not in the military or in jail have criminal records, and thus reduced job prospects. (Inmates are not included in employment statistics while serving time.) Holzer and his colleagues calculate that the increase in incarceration may account for about a third of the drop in labor force participation rates during the 1980s and '90s.

The other new factor is government's dramatically increased enforcement of court-ordered child support payments. Those payments may be needed to help the children of absent fathers, but they also impose a steep "tax" on earnings from low-wage jobs. A $300 monthly payment—a fairly typical sum—is a 36 percent "tax" for a man earning $10,000 a year. (About half of all black men age 25 and over are noncustodial fathers.) And child support debts pile up even if the father is unable to pay because he is in prison or out of work. Those factors give low-income fathers "meager" incentive to work, and may account for roughly another third of the change in labor force participation.

Society

Naming a Minority

"Finding a Proper Name to Call Black Americans" by Randall Kennedy, in *The Journal of Blacks in Higher Education* (Winter 2004–2005), 200 W. 57th St., New York, N.Y. 10019.

It's one of the most sensitive questions in America today: What's the proper way to refer to the nation's second-largest minority group?

In colonial times, freed blacks gravitated toward "African." But after the American Colonization Society was launched in 1816 by whites seeking to move freed blacks to Africa, that label lost its appeal. And most freed slaves and other blacks born in the United States considered themselves Americans, notes Kennedy, a Harvard law professor and noted commentator on racial matters. There was a pronounced shift toward use of the term "colored."

Not all black leaders felt it was proper to worry over the question of labels. The black abolitionist William Whipper protested that race-based nomenclature created an "odious distinction" between people of European ancestry and people of African ancestry. "Whipper proposed using a political distinction such as 'oppressed Americans,'" reports Kennedy. But other abolitionists rejected Whipper's criticisms. By 1854, the National Emigration Convention of Colored People was drawing up a resolution that "Negro, African, Black, Colored and Mulatto" would carry the same token of respect when applied to blacks as "Caucasian, White, Anglo-Saxon, and European" when applied to whites.

Later in the century, "Negro" began emerging as the preferred term, particularly among black intellectuals such as Booker T. Washington. Derived from "niger," the Latin word for black, the term drew fire because it was uncomfortably close to "nigger," which "had become by the early 19th century a term of extreme disparagement."

For two decades *The New York Times* lowercased "negro," on the argument that the word was a common and not a proper noun. In announcing their new policy in 1930, however, the paper's editors wrote that "every use of the capital 'N' becomes a tribute to millions who have risen from a low estate into the 'brotherhood of the