The Economist

The battle for brainpower

A survey of talent | October 7th 2006

The battle for brainpower

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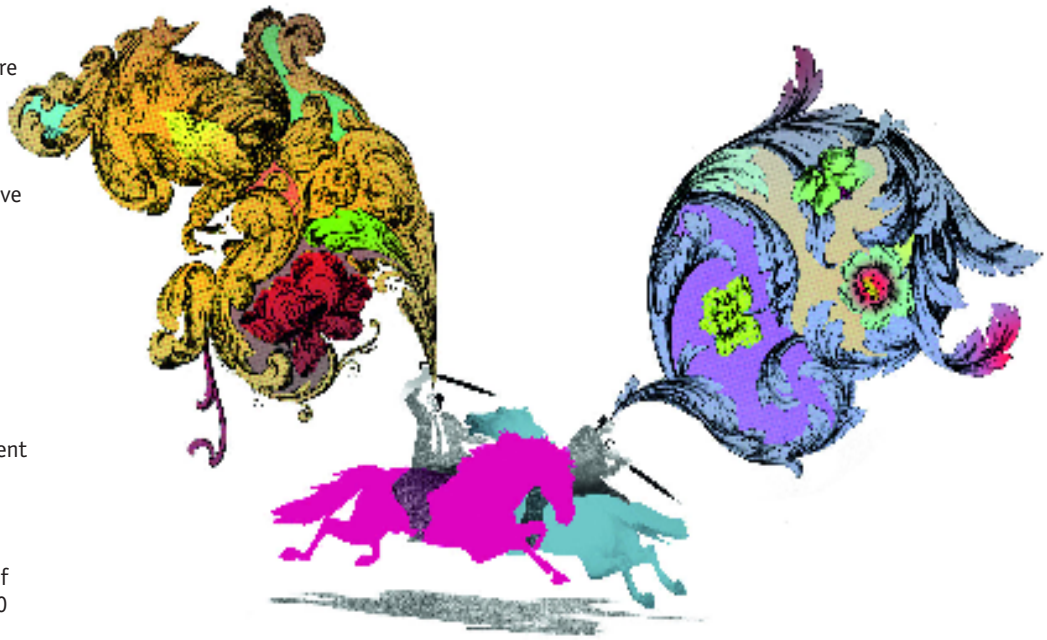


Talent has become the world's most sought-after commodity, says Adrian Wooldridge. The shortage is causing serious problems

IN A speech at Harvard University in 1943 Winston Churchill observed that "the empires of the future will be empires of the mind." He might have added that the battles of the future will be battles for talent. To be sure, the old battles for natural resources are still with us. But they are being supplemented by new ones for talent—not just among companies (which are competing for "human resources") but also among countries (which fret about the "balance of brains" as well as the "balance of power").

The war for talent is at its fiercest in high-tech industries. The arrival of an aggressive new superpower—Google—has made it bloodier still. The company has assembled a formidable hiring machine to help it find the people it needs. It has also experimented with clever new recruiting tools, such as billboards featuring complicated mathematical problems. Other tech giants have responded by supercharging their own talent machines (Yahoo! has hired a constellation of academic stars) and suing people who suddenly leave.

But a large and growing number of businesses outside the tech industry—from consulting to hedge funds—also run on brainpower. When the Corporate Executive Board (CEB), a provider of business research and executive education based in Washington, DC, recently conducted an international poll of senior human-resources managers, three-quarters of them said that "attracting and retaining" talent was their number one priority. Some 62% worried about company-wide talent shortages (see chart 1 on the next page). The CEB also surveyed some 4,000 hiring managers in more than 30 companies, and was told that the average quality of candidates had declined by 10% since 2004 and the average time to fill a vacancy had increased from 37 days to 51 days. More than one-third of the managers said that they had hired below-average candidates "just to fill a position quickly". The CEB found, too, that about one in three employees had recently been approached by another firm hoping to lure them away.

Can't get enough of it

All this brings back memories of the dot-com boom in the late 1990s, when management consultants were writing books such as "The War for Talent" (by Ed Michaels, Helen Handfield-Jones and Beth Axelrod of McKinsey), telling companies that they must move heaven and earth to recruit and promote the best talent. No sooner had the bubble burst than many ▸▸

Acknowledgments The author is grateful to the following organisations for sharing their expertise on this subject: Harvard Business School, McKinsey, Boston Consulting Group and Deloitte. He owes a particular debt to Peter Freire and his colleagues at the Corporate Executive Board. Two books proved especially helpful: "Flight Capital: the Alarming Exodus of America's Best and Brightest", by David Heenan; and "Competing for Global Talent", edited by Christiane Kuptsch and Pang Eng Fong.

A list of sources can be found online
www.economist.com/surveys

An audio interview with the author is at
www.economist.com/audio

former masters of the universe were begging for work.

Indeed, companies do not even know how to define "talent", let alone how to manage it. Some use it to mean people like Aldous Huxley's alphas in "Brave New World"—those at the top of the bell curve. Others employ it as a synonym for the entire workforce, a definition so broad as to be meaningless.

Nor does stocking up on talent seem to protect companies from getting it spectacularly wrong. Enron did everything that Mr Michaels and his colleagues recommended (indeed, McKinsey was both a consultant and a cheerleader for the Houston conglomerate). It recruited the best and the brightest, hiring up to 250 MBAs a year at the height of its fame. It applied a "rank-and-yank" system of evaluation, showering the alphas with gold and sacking the gammas. And it promoted talent much faster than experience. Another corporate disaster, Long Term Capital Management, was even more talent-heavy than Enron, boasting not only MBAs but Nobel prize-winners among its staff. But despite all this talent, the companies still succumbed to greed and mismanagement.

The coming shortage

Clearly there is more to good management than hiring the best and the brightest. Among other things, it requires rewarding experience as well as talent, and applying strong ethical codes and internal controls. Indeed, talent-intensive businesses have a particular interest in maintaining high ethical standards. Whereas in manufacturing industries a decline in such standards is often slow, in talent-intensive ones it can be terrifyingly sudden, as Arthur Andersen and Enron found to their cost.

All the same, structural changes are making talent ever more important. The deepest such change is the rise of intangible but talent-intensive assets. Baruch Lev, a professor of accounting at New York University, argues that "intangible assets"—ranging from a skilled workforce to patents to know-how—account for more than half of the market capitalisation of America's public companies. Accenture, a management consultancy, calculates that intangible assets have shot up from 20% of the value of companies in the S&P 500 in 1980 to around 70% today.

McKinsey makes a similar point in a different way. The consultancy has divided American jobs into three categories: "transformational" (extracting raw materials or converting them into finished goods), "transactional" (interactions that can easily be scripted or automated) and "tacit" (complex interactions requiring a high level of judgment). The company argues that over the past six years the number of American jobs that emphasise "tacit interactions" has grown two and a half times as fast as the number of transactional jobs and three times as fast as employment in general. These jobs now make up some 40% of the American labour market and account for 70% of the jobs created since 1998. And the same sort of thing is bound to happen in developing countries as they get richer.

A second change is the ageing of the population. This will be most dramatic in Europe and Japan: by 2025 the number of people aged 15-64 is projected to fall by 7% in Germany, 9% in Italy and 14% in Japan. But it will also make a difference to China, thanks to its one-child policy. And even in America, where the effect will be less marked, the retirement of the baby-boomers (which has just started) means that companies will lose large numbers of experienced workers over a short period. RHR International, a consultancy, claims that America's 500 biggest companies will lose half their senior managers in the next five years or so, when the next generation of potential leaders has already been decimated by the re-engineering and downsizing of the past few decades. At the top of the civil service the attrition rate will be even higher. This means that everyone will have to fight harder for young talent, as well as learning to tap (and manage) new sources of talent.

At the same time loyalty to employers is fading. Thanks to all that downsizing, the old social contract—job security in return for commitment—has been breaking down, first in America and then in other countries. A 2003 survey by the Society for Human-Resource Management suggested that 83% of workers were "extremely" or "somewhat" likely to search for a new job when the economy recovered.

As well as becoming more footloose, the workforce is becoming less standardised. Today employees come in all shapes and sizes. Some 16% of American workers telecommute some of the time. A quarter of the staff at B&Q, a British DIY chain, are over 50; the oldest is 91. And these diverse workers are often part of a global supply chain that keeps going 24 hours a day. Managers not only need to deal with lots of different sorts of people, but also to manage workers in different countries and often across different functions. That means even more competition for people with up-to-date management skills.

Obsession with talent is no longer confined to blue-chip companies such as Goldman Sachs and General Electric. It can be found everywhere in the corporate world, from credit-card companies to hotel chains to the retail trade. Many firms reckon that they have pushed re-engineering and automation as hard as they can. Now they must raise productivity by managing talent better.

With opportunities at home running dry, the hunt for talent has gone global. Over the past decade multinational companies have shipped back-office and IT operations to the developing world, particularly India and China. More recently they have started moving better jobs offshore as well, capitalising on high-grade workers with local knowledge; but now they are bumping up against talent shortages in the developing world too.

Even governments have got the talent bug. Rich countries have progressed from simply relaxing their immigration laws to actively luring highly qualified people. Most of them are using their universities as magnets for talent. India and China are trying to entice back some of their brightest people from abroad. Singapore's Ministry of Manpower even has an international talent division.

The dark side

Competition for talent offers many benefits—from boosting productivity to increasing opportunities, from promoting job satisfaction to supercharging scientific advances. The more countries and companies compete for talent, the better the chances that geniuses will be raked up from obscurity.

But the subject is strewn with landmines. Think of the furore that greeted Charles Murray's and Richard Herrnstein's book "The Bell Curve", which argued that there are differences in the average intelligence of different racial groups;

or the ejection of Lawrence Summers as president of Harvard University because he had speculated publicly about why there are so few women in the upper ranks of science.

It would be wonderful if talent were distributed equally across races, classes and genders. But what if a free market shows it not to be, raising all sorts of political problems? And what happens to talented Western workers when they have to compete with millions of clever Indians who are willing to do the job for a small fraction of the price?

This survey will argue that the talent war has to be taken seriously. It will try to avoid defining talent either too broadly or too narrowly but simply take it to mean brainpower—the ability to solve complex problems or invent new solutions. It will thus focus on what Peter Drucker, the late and great management guru, called "knowledge workers". But there is no point in being dogmatic. The nature of critical talent varies from company to company: it may be the ability to crack a few jokes while turning an aeroplane around in 25 minutes, as demonstrated by Southwest Airlines. It is one of the marks of a sophisticated society that it rewards a wide variety of different talents.

The survey will conclude by looking at the widening inequalities that will result from the competition for talent, and weighing up the risks of a backlash against the talent elite. ■

Everybody's doing it

Companies of all stripes have become aware of the need to gather talent

THERE is nothing new about companies wanting to secure the best talent. The East India Company, founded in 1600, used competitive examinations to recruit alpha minds. The company's employees included James and John Stuart Mill, two of Britain's greatest intellectuals, and Thomas Love Peacock, one of its wittier writers. General Electric (GE) carefully ranks its employees, with the best groomed for leading positions and the weakest eased out. In the mid-1950s it launched its corporate university at Crotonville near New York, often dubbed Harvard-on-the-Hudson. Jack Welch, the company's legendary boss, spent half his time on "people development" and visited Crotonville every two weeks. As for investment banks and consultancies, they have to be obsessive about talent: what else are they selling?

But now something new is in the air. Thanks to a hyper-competitive labour market, professional-service firms have become more preoccupied with talent than ever; and even companies in more mundane businesses have begun to think that they cannot manage without it.

The 1990s were a time of galloping growth for professional-service firms. Jay Lorsch, of Harvard Business School, and Thomas Tierney, head of the Bridgespan Group, have produced some striking figures, showing that global revenue across the industry leapt from $390 billion in 1990 to $911 billion in 2000. Companies became both much bigger and much more global: by 2000 PricewaterhouseCoopers had over 9,000 partners, and McKinsey had 81 offices worldwide. There was a frenzy of mergers and acquisitions: America alone saw 7,638 of them in 1995-2000, worth a total of $471 billion. And lots of newcomers entered the market in the 1990s—2,300 advertising firms, 2,600 accounting firms and nearly 50,000 freelance consultants. This rapid growth faltered a bit when the dotcom bubble burst, but is now resuming.

Headlong expansion has created serious problems for professional-service firms. They have to work harder to woo potential recruits, particularly potential stars, not just from each other but also from high-tech companies. And they have to turn their recruits into company men in double-quick time. This has led them to pay even more attention to talent.

Goldman Sachs, for example, underwent a wide-ranging internal review in 1999, complete with benchmarking against industry leaders. It increased its emphasis on formal training, setting up a Goldman Sachs University, and encouraged senior partners to put more effort into developing talent. McKinsey's People Committee has spent the past two years fine-tuning its talent machine. It has boosted its training budget to $100m, diversified its sources of recruitment and rejigged its internal organisation to appeal to well-qualified young people.

The triumph of the HR department

Managing talent has become more important to a much wider range of companies than it used to be. One result has been that human-resources departments, which used to be quiet backwaters, have gained in status. A survey by Aon, a consultancy, identified 172 HR executives who were among the five best-paid managers in their

companies. That would have been unheard of a few years ago. The biggest earners among them worked for some surprising companies, such as Black & Decker, Home Depot, Pulte Homes, Viacom and Timberland. Companies are also trying to give their people-managers better tools. The Yankee Group estimates that last year over 2,300 companies worldwide adopted some form of talent-management technology and predicts that the market for such ▸▸

technology will nearly double by 2009.

Talent-intensive companies have provided both a model and a training school for the corporate world. GE is America's CEO factory: when Mr Welch chose Jeffrey Immelt to succeed him in 2001, two of his disappointed rivals, Bob Nardelli and Jim McNerney, were immediately snapped up by Home Depot and 3M respectively. It is also an inspiration: there are now 1,600 corporate universities loosely modelled on Crotonville. Consultancies and investment banks have become finishing schools for future corporate leaders: Lou Gerstner at IBM, Ken Chenault at American Express, Meg Whitman at eBay and Chuck Conaway at K-Mart all started out in consultancies (as do 65% of the products of top business schools).

Capital One, a credit-card company, shows what a difference the application of talent can make to a sleepy market. The company's headquarters, in McLean, Virginia, looks more like a consultancy than a bank. The atmosphere is informal. The staff is young and "data-centric". The formula seems to work: founded in 1995, Capital One is now number four in the American credit-card market. Last year it doubled its number of employees to 20,000.

The company's success is due to the deployment of lots of brainpower in a business generally seen as unexciting. The founders, Rich Fairbank and Nigel Morris, were both products of MBA programmes and consultancies. They decided that they could use mass customisation to compete with financial giants such as American Express, recruited a high-powered team of former consultants and used sophisticated statistical techniques to slice the credit-card market into tiny segments.

To-do list

Companies are now beginning to gain insights into managing talent that should allow them to tackle the problem in a more organised way. The first rule is to think more carefully about their critical talent. Deloitte, a consultancy, offers a useful example of how UPS reduced the turnover rate among the people who drive its trucks and deliver its packages. Big Brown had found that even though it selected its drivers with great care, turnover was uncomfortably high, mainly because drivers hated the back-breaking work of loading the trucks in the morning. So the company contracted out this job to part-timers who are much easier to find than drivers.

Second, it is essential to plan ahead. EDS, a giant technology company, has built a global skills inventory of its 100,000-strong workforce. The company compared the workforce's current skills with its future needs and set about filling the gaps by encouraging workers to acquire the relevant skills. Schlumberger, a Franco-American oil-services group, is preparing for an expected skills shortage in the next few years by asking its managers to cultivate successors, and holding rigorous inquests when a high-flyer jumps ship.

Third, companies need to be more imaginative about recruiting and retaining talent. That includes paying more attention to "passive candidates"—those who are not actively looking for a job but might be open to seduction (see chart 2). Popular techniques include going through lists of people attending conferences in order to buttonhole stars, buying information about competing firms (including names of key workers) and searching the web for people who have created new patents.

High attrition rates in the first few months have also persuaded companies to pay more attention to keeping new recruits on board. In the late 1990s American Express found that far too many of its new managers were leaving within the first two years. It now gives them a chance to work on projects that are overseen by the CEO, as well as providing them with "assimilation coaches". Companies are also cultivating relations with former alumni. Ernst & Young, a consultancy, fills about a quarter of its vacancies from this source.

The fourth rule is to create internal markets for talent. Many HR departments instinctively look outside. Deloitte calculates that the typical American company spends nearly 50 times more to recruit a professional on $100,000 than it spends on his or her further training every year. Moreover, new recruits can take more than a year to learn a job. One solution is to establish an internal market, encouraging workers to apply for jobs across the company. Schlumberger encourages its employees to post detailed CVs on the company intranet; McKinsey allows consultants from all over the world to apply for any project within the company.

One difficulty with implementing these ideas is that there is no consensus about who is responsible for managing talent. If the CEO is in charge, he may well be distracted by too many other responsibilities; if it is the head of HR, he may lack the institutional heft to get much done.

Herding cats

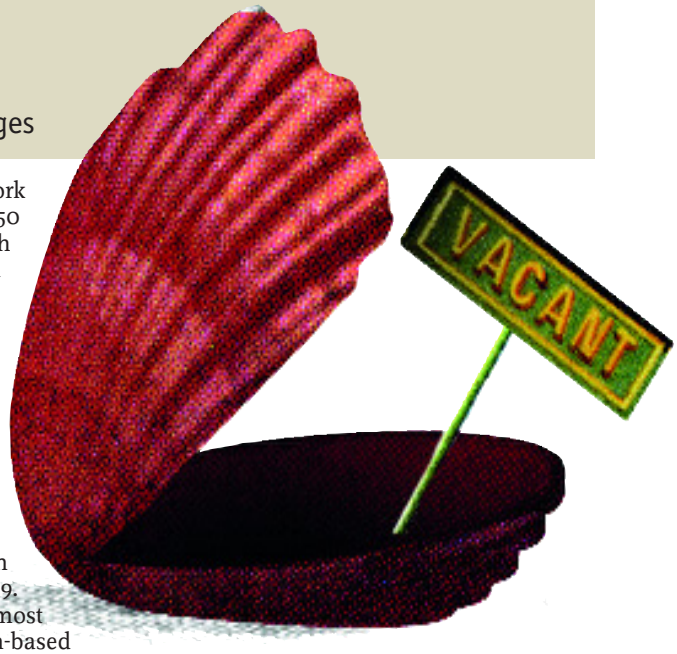
Nor, indeed, is there a consensus on the best way to manage talent. Part of the problem is that HR as a discipline has not achieved anything like the level of sophistication of, say, finance. But more importantly, the more valuable the talent, the more difficult it is to manage. In business, as everywhere else, world-class talent sometimes comes in unexpected guises. Ray Kroc sold milkshake machines to restaurants before starting to build McDonald's at the age of 52. David Ogilvy was a chef, a farmer and a spy before becoming an advertising genius.

And solutions that have proved successful in one place do not necessarily work in another. On arriving at Home Depot in 2000, Mr Nardelli was determined to apply the lessons he had learned at GE to reinvigorate the DIY giant. He appointed a colleague from GE, Dennis Donovan, to run the HR side, and boosted his credentials by paying him the second-highest salary in the company. He replaced the company's ad hoc talent-management system with a much more formal one, creating a leadership development institute, employing more human-resource managers and imposing an elaborate system of performance measurement. But the results have been mixed. Home Depot's share price is now somewhat lower than it was when Mr Nardelli took over. Wal-Mart and Lowe's are providing stiff competition. And there is widespread disgruntlement about Mr Nardelli's giant pay package. Demoralised employees have taken to calling the company "Home Despot".

Still, Mr Nardelli's record is unlikely to discourage other companies from trying to find ways to get on top of the problem. They are motivated by a powerful combination of fear and hope: fear of talent shortages and hope that they can be turned into a source of competitive advantage. Those hopes often involve shopping for talent in the developing world. ■

The world is our oyster

The talent war has gone global—and so have talent shortages



THE Infosys campus on the outskirts of Bangalore looks like a chunk of the rich world that has been reassembled amidst the dust and debris of India. The echoes of Silicon Valley are everywhere. The journey there involves a wild ride along dirt roads, but the 22-hectare (54-acre) campus itself is all cut grass and neatly planted flowers. It has every possible amenity, from gyms to yoga studios, from banks to bowling alleys. The restaurants serve 14 different cuisines. Many of the buildings are in the low-slung Californian style, but some of the largest are modelled on Western icons, such as the Sydney Opera House, the Louvre pyramid or Rome's Basilica of St Peter.

Infosys Technologies was started in 1981 by seven Indian entrepreneurs with 10,000 rupees (about $1,000 at the time) between them. The software giant now has annual revenues of $2.2 billion and 58,000 employees. But it is just one of a hundred companies in Bangalore's Electronics City. Bangalore is India's software capital, with 140,000 software engineers (more than in Silicon Valley, the locals boast), and Electronics City is a custom-built high-tech haven. The signs are a list of the world's biggest IT companies, from multinationals such as Hewlett-Packard and Motorola to home-grown giants such as Infosys and Wipro.

Electronics City is the meeting point of the West's demand for high-tech services and India's supply of brain power. The dramatic fall in the cost of communications made it possible for Western companies to outsource services, and a newly liberalised India could offer a huge supply of cheap brain workers. Every year India produces around 2.5m university graduates, including 400,000 engineers and 200,000 IT professionals. India's National Association of Software and Service Companies (NASSCOM) calculates that the country has 28% of the world's IT offshore talent.

Indians point to the advantages that they bring to the market. They work while the West sleeps; they speak (splendid) English; they can throw huge numbers of people at a job. But at the heart of the boom is a simple sum. The cost of an Indian graduate is roughly 12% of that of an American one. Indian graduates also work more: an average of 2,350 hours a year compared with 1,900 hours in America and 1,700 in Germany. The bottom line is that you can buy almost ten Indian brains for the price of one American one.

The outsourcing boom shows no sign of slowing. Gartner, a research firm, estimates that global spending on IT outsourcing will rise from $193 billion in 2004 to $260 billion in 2009. But there are caveats. The most important is that Indian-based companies themselves are encountering severe skills shortages. Wage inflation in India's IT sector is about 16% a year, and turnover is 40%. NASSCOM predicts that India's IT sector will face a shortfall of 500,000 professionals by 2010. GE Capital has posted signs in its Indian offices saying "Trespassers will be recruited".

Skills shortages are at their most acute among managers. Several Indian companies have had to bring in Western CEOs: the Tata Group, for example, has put Raymond Bickson, a Hawaiian, in charge of its hotel business. Good middle managers are rare: annual wage increases for project managers in IT have averaged 23% a year over the past four years.

Aspiring to world class

How can a country with a billion people suffer from talent shortages? Some reasons are familiar. The number of people with relevant skills is tiny: only 11% of the relevant age group go on to higher education, and older people have had their management skills blunted by the old licence raj. Moreover, growth is so fast that it would strain any educational system, let alone one as ramshackle as India's. For example, in the four years to March 2006 Infosys increased its payroll from about 10,700 to over 58,000—a compound annual growth rate of 53%.

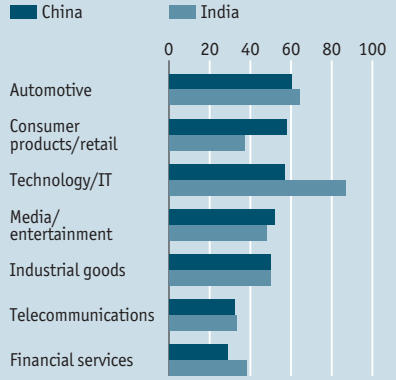
The second caveat is that Indian-based companies are determined to move upmarket. They have mastered the basics: almost 400 of the companies ranked highest by the Software Engineering Institute at Carnegie Mellon University are in India. Now they want to become world-class. This means pushing into more sophisticated areas such as "integrated solutions" and consulting. It also means adopting the latest productivity-boosting techniques, such as applying lean-manufacturing techniques to software development, a favourite strategy at Wipro. At the same time Western multinationals are exporting more and more complicated tasks.

The looming skills shortage and the drive upmarket have made companies obsessive about finding and holding on to the right people. They are investing heavily in education and training, partly to attract the best talent and partly to keep their existing workers up to speed. "We're investing in training like the Dickens," says Nandan Nilekani, Infosys's CEO. The company has increased its training budget from $100m to $125m. It has also moved one of its board members, T.V. Mohandas Pai, from chief financial officer to director of human resources to show that it means business. In the year to March 2006 Infosys screened 1.4m applications, tested 164,000 applicants and interviewed 48,700 to make 21,000 appointments.

Companies are also getting much more imaginative about identifying new sources of talent. Wipro has different training programmes for different talent pools, ▸▸

Going upmarket 3

Foreign companies planning to increase the amount of R&D they conduct in...
% of respondents



Source: BCG 2005 Senior Executive Innovation Survey

including one to help people get a university degree while working for the company. Mr Pai describes Infosys as a "human-capital supply-chain company". But to keep the supply chain going, India must improve its universities.

Versions of Bangalore's Electronics City are in evidence in a number of developing countries, and so are skills shortages. China is seeing double-digit wage inflation and labour turnover in its IT sector. Senior managers are particularly scarce: two in three companies report difficulties in filling senior positions. Shanghai Automotive, China's biggest carmaker, and Lenovo, its biggest computer-maker, have recently hired American bosses. But other skills are also in short supply: Chinese airlines, for instance, are importing pilots.

If Western companies were initially attracted to the developing world by the low price of talent, they have now moved on to other considerations. Srini Koppolu, the head of Microsoft's India Development Centre (MSIDC), explains that one reason why Microsoft established a development centre in Hyderabad was to gain an edge in the talent war. Being in India gives you access to first-rate techies who do not want to move abroad. MSIDC has grown from 20 employees in 1998 to over 900 today.

The other advantage is local knowledge. Vijay Mahajan, a former dean of the Indian School of Business, which sits next to Microsoft's campus, points out that the developing world is a booming market as well as a huge labour pool. GE calculates that 60% of its growth over the coming decade will come from the developing world, compared with 20% over the past decade. And the only way to understand the new market is to be immersed in it.

Many Western companies thought that their goods would almost sell themselves in the developing world. They reckoned without complicated distribution systems, feisty local competitors and idiosyncratic local habits. Packaged-goods companies found that customers did not want their jumbo packets, for example, because they had little money and little storage space. Local people could have told them that.

Hewlett-Packard has set up research facilities in India in the hope of building a stripped-down 5,000-rupee ($109) computer. Electrolux Kelvinator has developed a refrigerator that will stay cold even after a six-hour power failure. Nokia has produced a mobile phone that includes a built-in flashlight and a dust-resistant keypad. In GE's John F. Welch Technology Centre in Bangalore, 2,200 highly qualified engineers work as part of digitally connected global teams on products as diverse as aircraft engines, power and transport systems and plastics. Cisco's and Motorola's Indian research centres are their largest outside America.

Most of these companies have research arms in China as well. Microsoft's development centre in Beijing is a world leader in graphics, handwriting recognition and voice-synthesisation. Motorola has 16 R&D centres in China. Samsung has set up a handset laboratory with a staff of 300 in Beijing, and Siemens has moved a chunk of its mobile R&D to China.

Think global

This R&D boom in the developing world is part of a bigger trend: the globalisation of R&D. This allows companies to plug into national clusters of excellence (South Korea has been a trailblazer in digital displays, for example, and Israel has an edge in wireless telecoms). It gives multinationals access to once secretive university labs in Shanghai and Moscow. And it speeds up innovation, because global teams can work around the clock.

Still, it is one thing to send humdrum work to Electronics City and supervise high-tech drudges, quite another to outsource bits of your core business and manage world-class skills. That involves much more than co-ordinating activities across geographical boundaries. For example, how do you disperse innovation around the world without weakening your corporate culture? How do you motivate high-flyers from different cultures? And how do you manage prima donnas across borders? You need world-class management talent, and that, too, is extremely scarce. ■

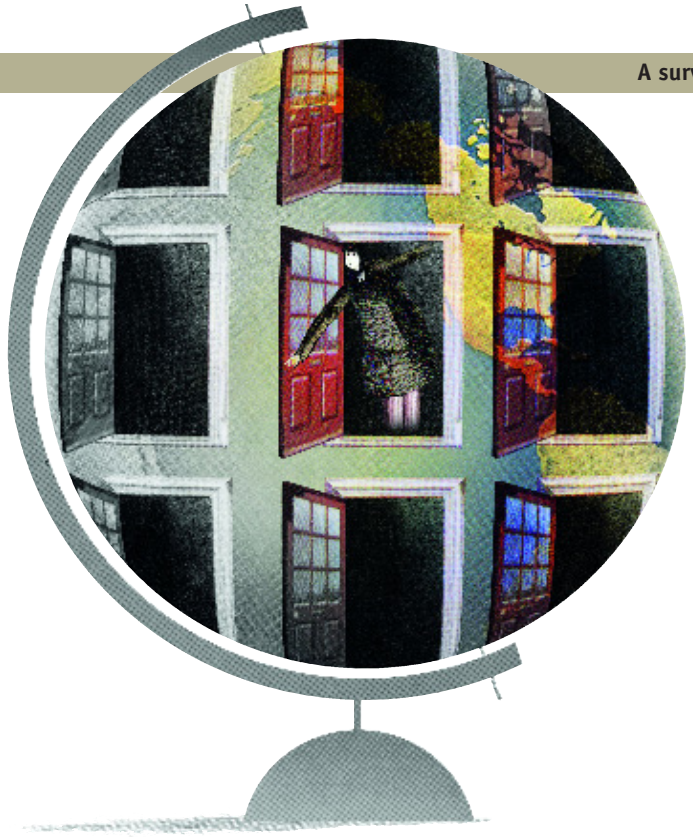
Opening the doors

Governments are joining in the hunt for talent

IMMIGRANTS tend to get a bad press. In reality, though, many economies would be lost without them, and many governments are desperate to attract them. The most mobile people are not the poor but the educated, and they are sought after as never before.

Most governments are easing restrictions on the entry of skilled workers. Some are going further and offering incentives. Germany has made it easier for skilled workers to get visas. Britain has offered more work permits for skilled migrants. France has introduced a "scientist visa". Many countries are making it easier for foreign students to stay on after graduating. Canada and Australia have not only tilted their long-established points systems further towards the skilled, they have also introduced more incentives. Canada experimented with a tax holiday for citizens returning from the United States before realising that this encouraged temporary emigration. Ireland's government works hard to recruit overseas talent.

The most ambitious programme for drawing in brains from abroad is—where else?—in Singapore. Lee Kuan Yew, the city-state's elder statesman, has long argued that "trained talent is the yeast that transforms a society and makes it rise." At first Singapore focused on wooing its émigrés. Now it is going out of its way to im-



port foreign talent. Only 3% of companies experienced problems with the immigration authorities, compared with 24% in China and 46% in the United States. Singapore is particularly keen to attract scientific talent, mainly in biotechnology. Of the 170 staff working in the country's Genome Institute, about 120 are foreigners. Alan Colman, a member of the Scottish team that cloned Dolly the sheep, is also based in Singapore now.

Enrol here

Many countries regard universities as ideal talent-catching machines, not only because they select students on the basis of ability but also because those students bring all sorts of other benefits, from spending money to providing cheap research labour. France is aiming to push up its proportion of foreign students from about 7% now to 20% over time. Germany is trying to create a Teutonic Ivy League and wants to "internationalise studies in Germany". Both countries are offering lots of courses in English. In Singapore a fifth of the students at public universities are foreign, thanks in part to heavy subsidies. Australia and New Zealand have created a ladder leading from universities to the workforce and then to permanent residence. China, which temporarily dispensed with entrance examinations during the Cultural Revolution, is focusing resources on its elite universities.

But government schemes can make much of a difference only if they are backed up by a vibrant economy, and only if cultural resistance can be overcome. No matter how much Japan speeds up the processing of scientific visas, it will not attract more foreigners unless Japanese firms are prepared to give them senior jobs.

Still, a combination of sensible government policies and economic liberalisation can work wonders, as Ireland has demonstrated. A country that has exported people for centuries is now a net importer. Britain has also seen a surge in the number of skilled people arriving from both the rich and the developing world, thanks to the Labour government's more immigrant-friendly policies since taking office in 1997. The share of skilled people in total immigrant arrivals increased from 7% in 1991 to 32% in 2001.

Some of the best prospects in the competition for talent are émigrés—people who have gone abroad to make their fortune but still feel the tug of their home country. Both China and India are now trying to emulate Ireland's success in wooing back the diaspora, but China is trying harder. In 1987 the Communist Party's general secretary, Zhao Ziyang, described China's brain drain as "storing brain power overseas". Officials from every level of government have been raiding the store since, as part of a policy of "strengthening the country through human talent".

They have introduced a mind-boggling range of enticements, from bigger apartments to access to the best schools, from chauffeur-driven cars to fancy titles. The Chinese Academy of Sciences has established a programme of generous fellowships for expats—the "hundred talents programme". Beijing has an office in Silicon Valley, and Shanghai has established a "human talent market". China is littered with shiny new edifices labelled "returning-student entrepreneurial building".

All this coincides with a change in the flow of people. For decades returnees were rare. The numbers began to shoot up in 2000, when the bursting of the Silicon Valley bubble coincided with rapid growth in China. Despite doubts about the quality of some of these people, there is growing evidence that China is going in the same direction as South Korea and Taiwan—first tempting back the diaspora (see chart 4) and then beginning to compete for global talent.

India has taken a different approach. The government has relied as much on the goodwill of prominent businesspeople as it has on the wisdom of bureaucrats; it has also cast its net wider, focusing not just on luring back expats but also on putting the wealth and wisdom of the diaspora to work on behalf of the mother country. There are an estimated 20m Indians living abroad, generating an annual income equal to 35% of India's gross domestic product. The Indian government is doing what it can, in its haphazard way, to let them participate in the Indian boom, making it easier for them to invest back home and streamlining visa procedures. There is a special visa for "people of Indian origin".

Come back, all is forgiven

Again, government policy has coincided with a change in the flow of people. NASSCOM estimates that in 2001-04 some 25,000 Indian techies returned home, and the number is rising rapidly. A survey of Indian executives living in America found that 68% were actively looking for opportunities to return home, and 12% had already decided to do so; and a survey of graduates of the elite All India Institute of Medical Sciences who were living abroad found that 40% were ready to go home.

For years, discussion of the cross-border flow of talent has sounded a sombre

Your country needs you 4

Number of students returning to China, '000

Source: China Statistical Yearbook

note. For some critics it is nothing less than a new form of colonialism. The rich world, they say, is not only appropriating the developing world's best brains but getting them on the cheap, with their education paid for by someone else. One study of 55 developing countries found that a third of them lost more than 15% of their graduates to migration. Turkey and Morocco lose 40% and the Caribbean countries 50%. But in recent years some of the gloom has lifted.

In fact, it was always overdone. Migrants sent huge amounts of money home in remittances: $126 billion in 2004, according to the International Monetary Fund. They also transferred knowledge and connections. The current Indian boom owes much to successful Indians who emigrated in the 1960s and 1970s and who are now determined to modernise their home country. They have formed support groups such as Indus Entrepreneurs, steered multinational contracts to India, established venture-capital funds and helped found business schools.

But what has recently helped to change the mood is that the flow is no longer one way. The brain drain is giving way to brain circulation, and returning émigrés are turning into economic dynamos. One example is Dr Prathap Reddy, a returnee from America, who established the Apollo Hospitals Group, one of Asia's largest and the first to attract foreign investment.

Refreshing effect

Returnees seem to have a spring in their step. In Ireland they enjoy a 10% wage premium over their stay-at-home compatriots. In China they receive more grants and fellowships than their domestic competitors. A third of Taiwan's companies were founded by returnees from America.

What the talent elite everywhere has in common is that it is more mobile than the rest. Two economists, Frédéric Docquier and Hillel Rapoport, estimate that average emigration rates worldwide are 0.9% for the low-skilled, 1.6% for the medium-skilled and 5.5% for the high-skilled. These rates have been accelerating far faster for the high-skilled group than for the rest. Skilled immigrants accounted for more than half of all admissions in Australia, Canada and New Zealand in 2001.

The global war for talent is likely to intensify. Most developed countries are already struggling to find enough doctors and teachers, and are wondering how they will manage when the baby-boomer generation retires. Developing countries, for their part, realise that they will not be able to plug into the global knowledge economy unless they give their people the freedom to move around. A powerful array of interests, from multinationals to city politicians, supports the idea of a global market for the best people. Countries cut themselves off from it at their peril. ■

Nightmare scenarios

Western worries about losing jobs and talent are only partly justified

INDIA'S high-tech enclaves exude euphoria. Proud techies take their parents on tours of company campuses. Proud parents boast that their children earn more than the rest of the family combined. Mr Nilekani of Infosys says that his company's greatest achievement is not its $2 billion turnover but the fact that it has taught Indians to redefine the possible.

The mood in America, the country that is driving the outsourcing boom, could hardly be more different. People view the global war for talent with foreboding. Their fears take two forms. The first is that well-paying jobs in services will follow manufacturing jobs to the developing world. Norman Augustine, a former boss of Lockheed Martin, says that "virtually no one's job seems safe." Craig Barrett, the chairman of Intel, admits that "I worry for my grandchildren."

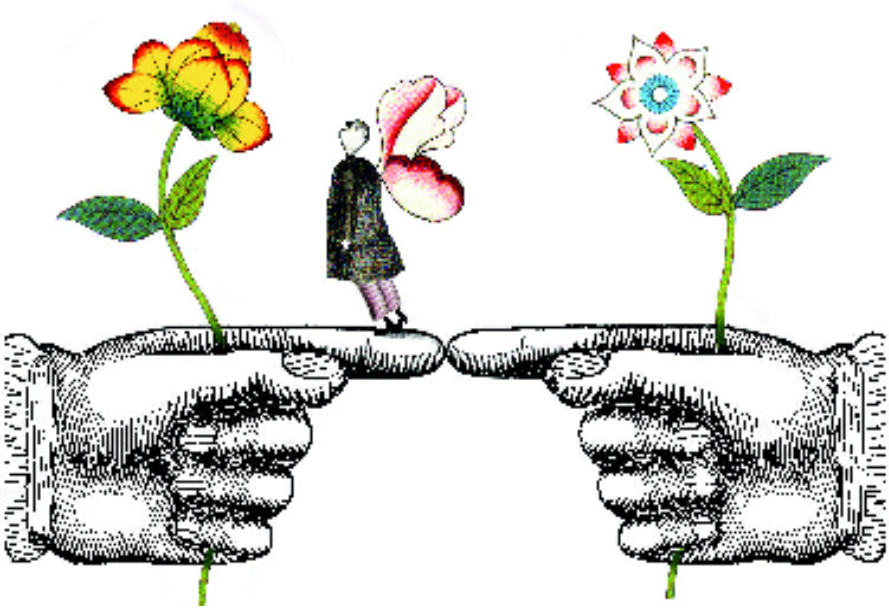
The second fear is that America may no longer be able to attract more than its fair share of the world's brains. Half the Americans who won Nobel prizes in physics in the past seven years were born abroad. More than half the people with PHDs working in America are immigrants. A quarter of Silicon Valley companies were started by Indians and Chinese. Intel, Sun Microsystems and Google were all founded or co-founded by immigrants. But now India and China are sucking back their expats, and America's European competitors have woken up to the importance of retaining their talent. To cap it all, the immigration authorities are making life harder for foreigners.

Are Americans right to worry? One misconception is that the number of jobs is fixed, so if some of them go abroad there must be fewer left at home. If a farmer in Palo Alto in 1900 had been told that in a hundred years' time agricultural workers would account for only 2% of the American workforce, he would have expected the Valley to become a desert rather than a global technological hub. But even if the number of good jobs were fixed, the fears of a great job migration are exaggerated.

The McKinsey Global Institute has conducted a large-scale study of the offshoring market and concluded that constraints on both the demand and the supply side will keep the number of service jobs moving offshore much lower than is widely believed. It will probably rise from 1.5m in 2003 to 4.1m in 2008, or 1.2% of the demand for labour in the developed world. That figure is dwarfed by the normal job churn in America, where 4.6m Americans start with a new employer every month.

There is clearly plenty of eager talent in the developing world. But McKinsey argues that only about 13% of that talent is capable of working for a Western multinational in a high-grade job at the moment (although the stock of suitable professionals is expanding a lot faster in developing than in rich countries). There are problems with cultural and language skills, particularly in China. The quality of education is often inadequate. China may have twice as many engineering graduates as America, but only 10% of them are equipped to work for a Western multinational. Geography also imposes limits. In large countries such as India and China many graduates live far away from international airports. In China only about half the talent pool is accessible to multinationals, according to McKinsey.

There are other worries too. In his recent book, "Three Billion New Capitalists: The Great Shift of Wealth and Power to the East", Clyde Prestowitz quotes a Chinese friend: "We've had a couple of hundred bad years, but now we're back." Yet shrugging off the burden of history is not so easy, particularly when, as recently as



1966-76, the brightest and sparkiest people were dumped in labour camps. The Chinese have been able to turn their country into a manufacturing giant because of their willingness to work harder and longer; but turning it into a service giant, let alone an innovation hub, will require different qualities.

China's biggest problem is a culture of deference—a culture that was refined by the mandarin tradition and then reinforced by the Communist Party. For many Chinese it is bad form to question superiors. So far, China has been much more adept at borrowing other people's ideas than producing its own, particularly when it comes to high-level innovation. But there are plenty of other problems, ranging from poor English-language skills to weak intellectual-property rights. Many Western companies are rightly nervous about developing new products in a country where ideas are routinely stolen.

India's difficulties have more to do with another intractable problem: poor government. The country's infrastructure is crumbling and the education system is hugely uneven. The Indian Institutes of Technology are very good at producing a highly educated elite, but run-of-the-mill colleges are often of poor quality. The result is graduate unemployment of 17% at a time when the high-tech economy is booming.

Don't overdo the gloom

Americans are right to worry about losing out in the international competition for talented people, particularly as highly qualified Indians and Chinese based in America go home. America's immigration system is hopelessly antiquated, geared more towards reuniting families than attracting high-quality workers. The 2005 allocation for H1B visas for skilled workers ran out on the first day of the fiscal year. The terrorist attacks of September 11th 2001 have made things worse. Students complain that they have to wait months for a visa, and some decide to accept offers elsewhere. One-third of American companies report serious delays in bringing skilled employees into the country.

But again these worries are exaggerated. America remains the world's number one destination for foreign students, soaking up almost 30% of the global supply. There is every reason to think that the absolute number of people from India and China who want to study in America will rise as those countries get richer. It is true that some foreigners who might have stayed in America a few years ago are going home. But David Zweig, of the Hong Kong University of Science and Technology, argues that the best Chinese students remain abroad. The pattern of geographical mobility is likely to get more complicated in the future as people divide their careers between the developed and the developing world, but America is unlikely to be denuded of talent.

Another concern is that America is suffering from a brain drain from science and engineering, starting in high schools, where there are too few teachers qualified to teach difficult subjects and too few pupils willing to grapple with them. The Higher Education Research Institute at the University of California at Los Angeles found that the proportion of incoming undergraduates planning to major in computer science is now 70% below its peak in the early 1980s. But here, too, things are not as bad as they seem. Many of the figures that have set alarm bells ringing—those millions of Chinese engineers, for example—are misleading because they fail to take quality into account. McKinsey calculates that, in 2003, America had far more young engineers who were capable of working for multinational companies than China—540,000 against 160,000.

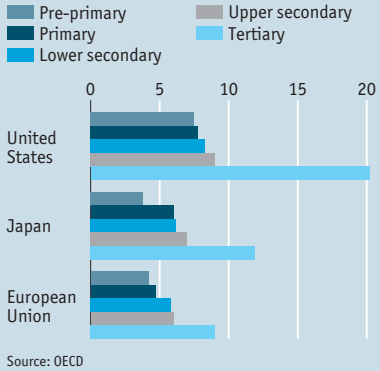
Besides, the argument is based on a misunderstanding of how science progresses. America does not become less competitive because China invests more in science; indeed, outside highly proprietary areas, Chinese investment in science will help to advance scientific knowledge in general.

America still has overwhelming advantages in the war for talent. One is the quality of its universities, which regularly dominate global league tables. The second is the quality of its business environment—from the availability of venture capital to the quality of its management cadre to its willingness to pay for the best people. The state of California alone has more venture capital than any country outside the United States. Robert Huggins Associates, a British-based economics consultancy, found that the world's top seven regional "knowledge economies", measured by things such as patent registrations, investment in R&D and the proportion of knowledge workers, were all in the United States.

Europe has less reason to be cheerful than America. Business is burdened by rigidities and regulations. The universities are not what they were. The EU invests 30% less in R&D than America does, and most of its 400,000 researchers working on the other side of the pond have no intention of returning. Yet Europe, too, still has huge strengths in the "tacit" skills that are at such a premium in a knowledge economy. Germany has deep expertise in engineering, Italy in design and Finland in wireless technology. Europe is also doing more than America to reform its immigration system in hopes of attracting talent. All the same, Europe needs to get serious about freeing its economy and its universities from intrusive controls. ■

Follow the money 5

Spending per student, '000, $PPP



Source: OECD

Masters of the universe

The war for talent is shifting the balance of power from companies to workers

THE world headquarters of what its proprietor jokingly calls "Pink Inc" is in the attic of a redbrick house in north-west Washington, DC. Children's pictures decorate the walls; highbrow novels are jumbled up with business books. Daniel Pink spent much of the 1990s working for the Clinton administration, ending up as chief speechwriter for Al Gore. But in the late 1990s he decided to branch out on his own. He now makes his living as what he calls a "free agent"—doing a bit of consulting, giving speeches, writing articles (he is a contributing editor to "Wired") and books, including, in 2001, a book about people like himself, "Free Agent Nation: How America's New Independent Workers are Transforming the Way We Live". Mr Pink has no doubts about the changing balance of power in the corporate world: "Talented people need organisations less than organisations need talented people."

Part of the reason is technology. Mr Pink calls it "Karl Marx's revenge": the means of production, in the form of computers, are now in the hands of the workers, often literally, "cheap enough to buy, small enough to house and easy to operate". The most dramatic example of the power of ordinary people is the so-called pyjama revolution. Bloggers have repeatedly outflanked the mainstream media on domestic political news. Glenn Reynolds, a law professor at the University of Tennessee, with no background in the media, gets half up to half a million page views a day for his blog, instapundit.com.

At the same time organisations are losing many of their bargaining chips, such as being able to offer job stability and security. Starting in the 1980s, many corporations tore up the old corporate contract—a permanent job in return for the employee's loyalty—first in America and then in much of the rest of the world. Even companies that wanted to provide such jobs had a hard time delivering them. Of America's 100 biggest industrial firms in 1974, half had disappeared by 2000. Mr Pink argues that free agents may actually enjoy better security than people with regular jobs: they diversify their risks rather than relying on the wisdom of their bosses.

The upshot is a steady decline in the number of people willing to wear the company collar. The number of one-man businesses in the United States is growing by 4-5% a year. At the same time, the average length of job tenure for American workers has shrunk: the median period for which men aged 55-64 had been with their current employers declined from 15.3 years in 1983 to 10.2 years in 2000. Some of this movement is no doubt involuntary, but some of it reflects a disenchantment with their current employers. A survey by Hewitt Associates, a consultancy, found that 40% of employees expressed an interest in working somewhere new. The Conference Board discovered that 40% of mid-level managers maintained relationships with professional recruiters.

The shift in the balance of power between workers and organisations is particularly noticeable among top talent and among young workers. Being a free agent is fashionable among sports stars and Hollywood celebrities. Technology stars routinely hop from job to job. A growing number of high-flying managers change organisations on the way to the top. Companies that have recruited CEOs from outside in the past few years include Hewlett-Packard, 3M, Boeing, Merck, Kodak, Motorola, Honeywell and Home Depot.

Young high-fliers are also finicky about jobs. They have a strong sense of their market value: unemployment among American graduates is currently around 2%, and that is before the baby-boomers have started to retire in earnest. They also have access to inside information, from websites such as vault.com, where they can find unofficial accounts of what it is like to work for a particular organisation, and salary.com, which gives them a good idea of what they can expect to earn.

The discreet charm of the water cooler

But organisations still have a few things going for them. First, many people actually enjoy the sense of belonging and the rituals of office life. Second, the best companies are repositories of skills that are hard to replicate. Talent may reside in the brains of individuals, but it is also nurtured by organisations.

This was underlined by a study of star security analysts in American investment banks in 1988-96, conducted by Boris Groysberg of Harvard Business School and Ashish Nanda of Harvard Law School. These analysts might look like the perfect free agents. Their skills are highly portable, and if they want to change jobs all they have to do is walk across the street. In fact, the research showed an immediate decline in their performance if they switched employers. This was most marked for those who moved to lower-rated firms and did not take other members of their team with them, but was noticeable even for those who moved between similar firms. Talented people may think that their brainpower allows them to walk upon water, but in reality many are walking on the stones that their employers have conveniently placed beneath them.

What should companies do to convince brainy people to work for them? The Corporate Executive Board argues that

they need to focus on their "employment value proposition". The EVP is what employees gets out of working for a particular organisation. Obviously pay and benefits are a big part of that. But there is much more—from a congenial culture to the chances to develop their skills.

On the basis of a detailed study of about 90 companies, the Corporate Executive Board argues that the rewards for managing an EVP effectively are huge, increasing a company's pool of potential workers by 20% and the commitment of its employees fourfold. It can even reduce the payroll: companies with well-managed EVPs get away with paying 10% less than those with badly managed EVPs. But most companies are falling down on this job. Three-quarters of new recruits feel that their employers are failing to deliver on their promises, making the recruits feel less committed to their work.

Companies need to put more effort into defining their EVP, says the CEB. Most human-resources departments put the emphasis on the company's ethos, but potential employees are more concerned about rewards and opportunities. Companies also need to fine-tune their EVPs for different segments of the talent market, and particularly for different geographies, which account for most of the differences in what employees are looking for. Americans are keenly interested in health and retirement benefits, whereas Indians emphasise growth rates and innovation.

Companies also need to devote much more effort to getting their message out. Most people are cynical about information in advertisements (except, oddly, in India). They put much more trust in what current and former employees say. Companies have to find ways to turn informal networks into recruiting tools. Mitre, an engineering company, operates in a tight market for talent, with low unemployment for software engineers and big-name competitors such as Lockheed Martin. The company improved its recruitment by encouraging its existing employees to act as "champions", telling them what sort of people it was looking for and asking them to get involved.

Seat of learning

The most important thing that companies can do to attract talented people is to boost their workers' long-term employability. Employees no longer expect companies to offer job security (according to one survey, 94% of those questioned thought that it was they, not their employers, who were responsible for that). But they do expect their employers to help them keep their skills up to date.

This may not be as simple as it sounds. Most companies make much of their corporate universities and their online training, but there is often less to these than meets the eye. The CEB found that company investment in learning and development in America in 2004-06 barely kept up with inflation. The average company spends only $800 per employee per year, about 1.25% of the annual payroll. The average company provides training for only two-thirds of its employees, and some do much less.

Besides, most employees value informal training more than formal teaching: in a survey by Deloitte, 67% of respondents said that they learn most when they are working with a colleague, with only 22% saying that they do best when they are conducting their own research, and only 2% happiest with a manual or a textbook.

Clearly the best way for companies to win the talent wars is to turn themselves into learning organisations. The trouble is that few of them know how to do this. ■

The revenge of the bell curve

As talent becomes more valuable, inequalities are widening

FRANCIS GALTON, a cousin of Charles Darwin, was a Victorian gentleman-scholar of eccentric genius. He devoted his life to measuring everything imaginable—from the frequency of fidgets in a bored audience to the size of the buttocks of a Hottentot woman (from a discreet distance, using a sextant). But what obsessed him above all was mental distinction. Why were some people cleverer than others? Why did intellectual distinction run in some families? And how were intellectual abilities distributed in the population?

Galton came to two conclusions. The first was that ability owed more to nature than to nurture. The second was that the range of mental powers between the cleverest and the dumbest was enormous—"reaching from one knows not what height, and descending to one can hardly say what depth". He put these together to produce a theory of human inequality: the more open society becomes, the more an aristocracy of talent will replace an aristocracy of birth.

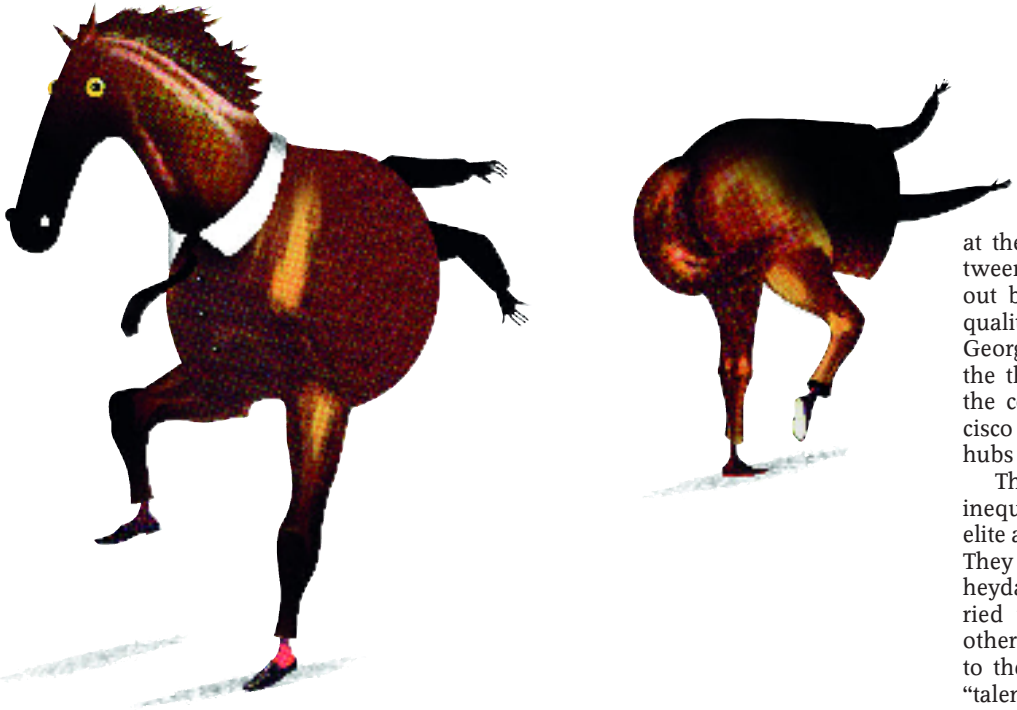
Galton's argument contained a good deal of nonsense. He understated the importance of nurture, and he ignored class privileges. But it did offer an important insight: that a free market in talent could end up widening social inequalities.

The rich get richer

America, the country with the world's freest market in talent, is seeing a dramatic increase in inequality. Emmanuel Saez of the University of California at Berkeley and Thomas Piketty of the Ecole Normale Supérieure in Paris have dissected tax records to examine changes in income distribution, and found that the share of income going to the highest-earning 1% of Americans doubled between 1980 and 2004, to 16%. The share going to the top 0.1% more than tripled over the same period, to 7%.

Part of the reason lies in social convention: Europeans have strong cultural objections to paying their CEOs the sort of salaries that American bosses get. Part of it is political: inequality has risen faster under the Republicans than under the Democrats. The unions are weaker than they were. But a bigger reason is rising returns to talent and skill.

This is most obvious with sports stars and Hollywood celebrities. The picture is a bit murkier when it comes to CEOs. There are well-publicised examples of company bosses who pack their board with cronies and rig their compensation so that they profit whether their company does well or not. On the other hand, the best CEOs, such as Jorma Ollila of Nokia and A.G. Lafley of Procter and Gamble, create huge value for their organisations. And most of them work in a highly competitive market. The average length of tenure of CEOs is going down, and a growing number of them are recruited from outside. Relative to mar-



ket capitalisation, by some measures executive pay is now falling.

Top performers are doing well in every field. Even universities, which were once bastions of collegial equality, are willing to pay a premium for academic stars—not only because their ideas are so valuable but also because they will attract other high-flyers. These huge rewards may offend egalitarians, but they make a lot of economic sense. Stars have a dramatic impact on the fortunes of organisations. Alan Eustace, a vice-president of Google, told the *Wall Street Journal* that in his view one top-notch engineer is worth "300 times or more than the average". Bill Gates says that "if it weren't for 20 key people, Microsoft wouldn't be the company it is today."

Success in climbing to the top of an organisation requires many kinds of talent. Most consultancies eventually shed 80% of their recruits. Only one in ten law students makes it to senior partner at a top law firm. Managers suffer a huge attrition rate as they move up their organisations.

Trickle-down

Now the tendency for the best to pull away from the rest is spreading down the corporate hierarchy. Companies are determined to keep their wage bill under tight control because they face competitive global markets. But they are also desperate to keep their best talent from falling into the hands of rivals. So they have been keeping their overall wage bill more or less steady but giving a larger share of it to the top performers.

A survey by the Society for Human-Resource Management found that the share of companies taking special measures to keep their best workers rose from 35% in 2004 to 49% last year. A survey by the Corporate Executive Board found that 88% of organisations wanted to increase pay differentials. Those differentials could get a lot wider in the future. The CEB says that the variance in performance increases with the complexity of the job. The best computer programmers are at least 12 times as productive as the average.

The link between talent and inequality is being strengthened by two things. The first is the tendency of talented people to cluster together. You might have thought that the advent of the internet would have eroded the connection between place and talent. In fact, the opposite is happening. Bright people gather in university cities such as Boston and San Francisco, or in technology hubs such as Austin, Texas, or Redmond, Washington, or in rural idylls such as Camden, Maine, and Jackson Hole, Wyoming. They cluster together because they feed off each other's intellect. Christopher Berry, of the University of Chicago, and Edward Glaeser, of Harvard, have studied the distribution of human capital across American cities. They found that in 1970 about 11% of people over 25 had a college degree, and they were fairly evenly distributed throughout the country. Since then the proportion of Americans with college degrees has more than doubled, but the distribution has become much more uneven.

Increasing numbers of high-flyers are moving from inland locations to the coasts: once flourishing cities such as St Louis, Missouri, are losing young talent to New York and Los Angeles. And the places where talent likes to cluster are becoming increasingly unequal, with the talent elite at the top, service workers at the bottom and nothing much in-between. The middle layer is being driven out by sky-high house prices and low-quality public schools. Richard Florida, of George Mason University, points out that the three most unequal metropolises in the country—Raleigh-Durham, San Francisco and Washington-Baltimore—are also hubs of what he calls "creative workers".

The second factor that links talent and inequality is that members of the talent elite are good at hogging "human capital". They marry people like themselves. In the heyday of "company man", bankers married their secretaries; now they marry other bankers. They work in jobs that add to their intellectual capital. They live in "talent enclaves", away from ordinary middle-class suburbs, let alone inner-city ghettos. Above all, they pass on their advantages to their children. Students from the top income quartile increased their share of places in elite American universities from 39% in 1976 to 50% in 1995.

None of this is peculiar to America or other rich countries; the same thing is happening in the developing world in even starker form. Members of the talent elite there live in gated communities, some of them with American names such as Palm Springs, Napa Valley or Park Avenue, that boast international schools, world-class hospitals, luxury housing and splendid gyms. And they try hard to give their children every possible advantage. One recent bestseller in China, "Harvard Girl", tells the story of two parents who trained their daughter for Harvard from birth, barraging her with verbal stimuli, subjecting her to a strenuous regime of home study and making her swim long distances. One of the most successful schools at getting students into American Ivy League universities is Raffles Junior College in Singapore.

The talent war is producing a global meritocracy—a group of people nicknamed "Davos men" or "cosmocrats" who are reaping handsome rewards from globalisation. These people inhabit a socio-cultural bubble full of other super-achievers like themselves. They attend world-class universities and business schools, work for global organisations and speak the global language of business.

Countries that still insist on clinging to egalitarianism are paying a heavy price. Sweden, for instance, finds it hard to attract foreign talent. And across Europe, egalitarian universities are losing out to their more elitist American rivals. ■

Meritocracy and its discontents

Not everybody is happy with the talent elite

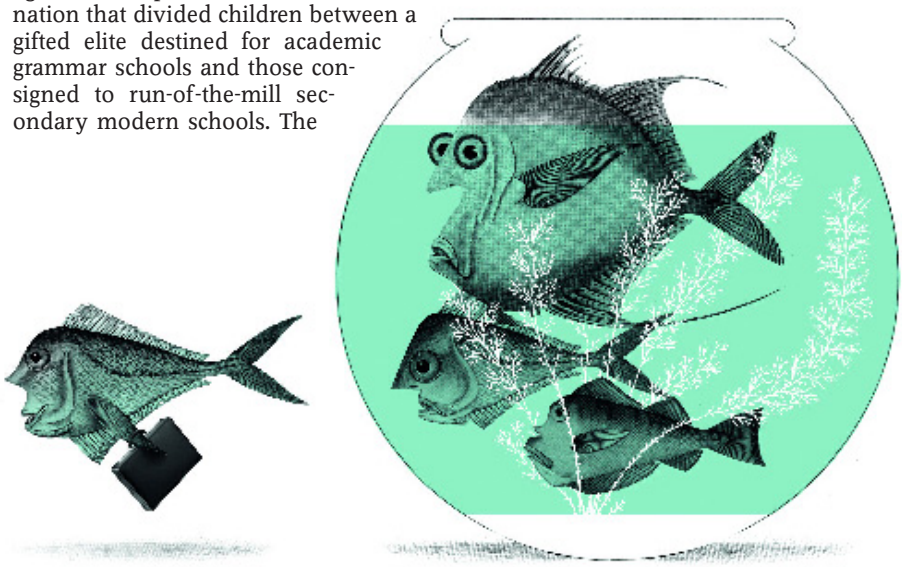
IN "THE RISE OF THE MERITOCRACY", published in 1958, Michael Young, a British sociologist and Labour Party activist, conjured up an image of a society obsessed with talent. The date was 2034, and psychologists had perfected the art of IQ testing. But far from promoting social harmony, the preoccupation with talent had produced social breakdown. The losers in the talent wars were doubly unhappy, conscious not only that they were failures but that they deserved to be failures. Eventually they revolted against their masters.

The rise of the talent elite has bred resistance, which started on the right. T.S. Eliot, a 20th-century poet and critic, argued that choosing people on the basis of their talents would "disorganise society and debase education". Edward Welbourne, a Cambridge don, dismissed IQ tests as "devices invented by Jews for the advancement of Jews". But after the second world war the resistance spread leftward. Leftists argued that meritocracies were not only unpleasant but unjust. If "talent" owed more to nature than nurture, as many social scientists insisted, then rewarding people for talent was tantamount to rewarding them for having privileged parents.

This resistance has occasionally boiled over into outright rebellion. Young's book was an opening shot in a successful war against the 11-plus, a British school examination that divided children between a gifted elite destined for academic grammar schools and those consigned to run-of-the-mill secondary modern schools. The 1960s saw widespread student revolts against selection and elitism.

There are plenty of signs that another backlash is on the way, from John Kerry's complaints about American companies outsourcing jobs to a rash of riots in China. Much of this resentment focuses on growing inequalities. People complain that these are straining the bonds of society to breaking point: a new aristocracy of talent is retreating into golden ghettos and running the global economy in their own interests. "The talented retain many of the vices of aristocracy without its virtues," said the late Christopher Lasch, an American historian, in one of the best analyses of the trend. The logic of talent wars is meritocratic: the most talented get the most rewards. But the reality of democracy is egalitarian: the people can use their political power to defeat the bell curve.

In some ways things are worse than they were when Young wrote his book. Inequalities are much wider—in both America and China they are returning to early 20th-century levels—and the talent elite has gone global. Young's rebels can now add patriotism (or bigotry) to egalitarianism. Manuel Castells, a sociologist, complains that "elites are cosmopolitan, people are local". Samuel Huntington, a political scientist, argues that " a major gap is growing in America between its increasingly denationalised elites and its 'thank God for America' public." On American television personalities such as Lou Dobbs and Bill O'Reilly beat the populist drum against those cosmopolitan elites. In China people denounce returning émigrés as "bananas" (yellow on the outside, white inside). Across much of the developing world the targets of choice for rioters are rich ethnic minorities and foreigners.



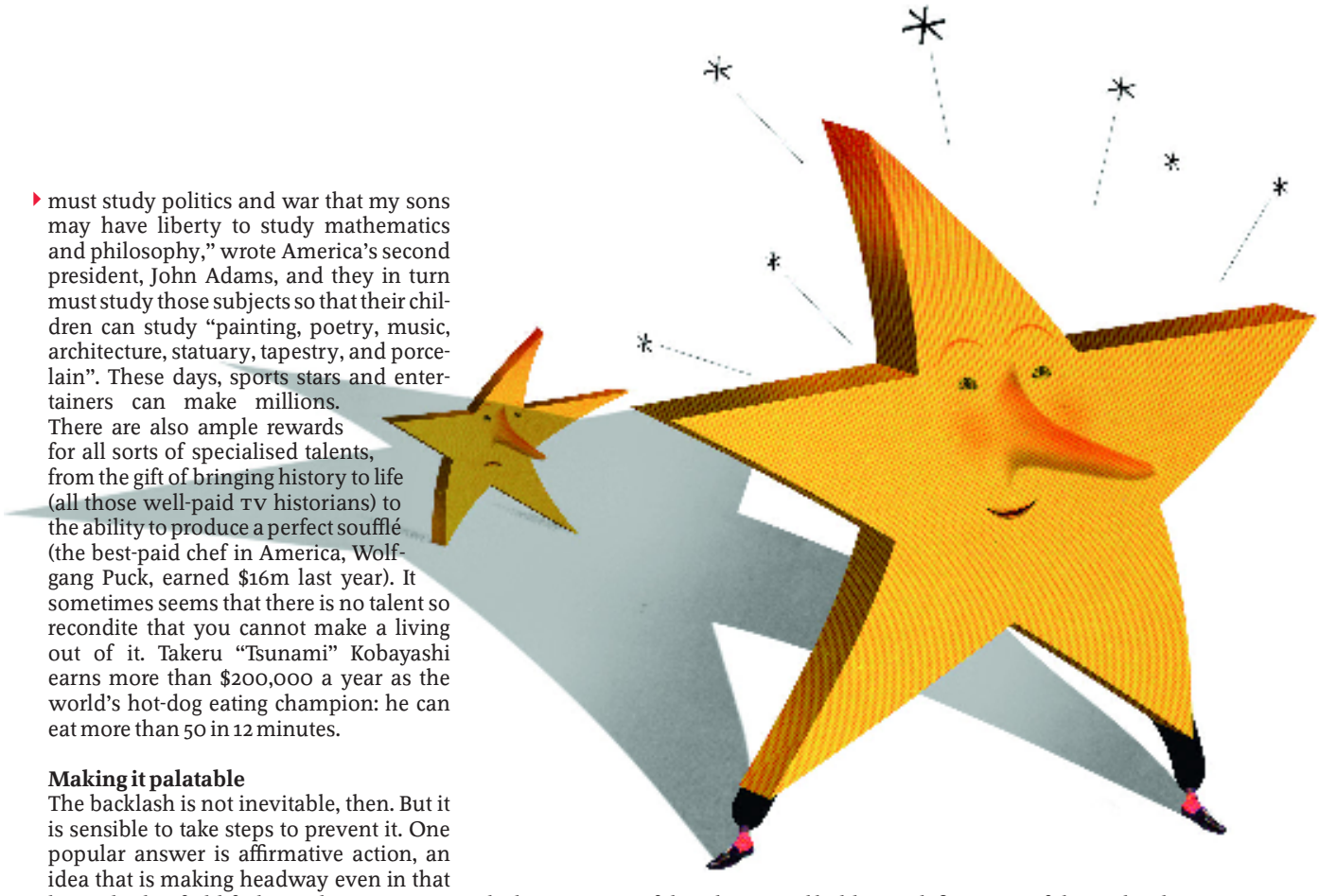
But in other ways things have got much better. The number of winners now is much larger than it was in 1958. In Young's day, the meritocrats concentrated on spotting recruits for Oxbridge and the senior civil service. The rest were labelled failures. Since then, America and Europe have created a mass higher education system, and developing countries are determined to follow suit. When Young was writing, China and India were trapped in poverty. Today they are growing so fast that they, too, are suffering from talent shortages.

Moreover, some problems could prove self-correcting. Many talented people not only create jobs and wealth, they turn their hands to philanthropy, as Bill Gates and Warren Buffett have done. The growing returns to education create incentives for people to get themselves educated, producing a better-trained workforce as well as upward mobility. In China families spend more on education than on anything else, despite the one-child policy. Multinational companies routinely promote local talent in the developing world, putting an ever more multi-ethnic face on the global talent elite. Overheated talent markets prompt companies to move production elsewhere—to Mysore rather than Bangalore, say, or Austin, Texas, rather than Silicon Valley.

Above all, there is something appealing about the meritocratic ideal: most people are willing to accept wide inequalities if they are coupled with equality of opportunity. In America, where two-thirds of the population believe that everyone has an equal chance to get ahead, far fewer people favour income redistribution than in Europe.

Growing wealth also means that society can reward a wider range of talents. "I ▸▸

must study politics and war that my sons may have liberty to study mathematics and philosophy," wrote America's second president, John Adams, and they in turn must study those subjects so that their children can study "painting, poetry, music, architecture, statuary, tapestry, and porcelain". These days, sports stars and entertainers can make millions. There are also ample rewards for all sorts of specialised talents, from the gift of bringing history to life (all those well-paid TV historians) to the ability to produce a perfect soufflé (the best-paid chef in America, Wolfgang Puck, earned $16m last year). It sometimes seems that there is no talent so recondite that you cannot make a living out of it. Takeru "Tsunami" Kobayashi earns more than $200,000 a year as the world's hot-dog eating champion: he can eat more than 50 in 12 minutes.



Making it palatable

The backlash is not inevitable, then. But it is sensible to take steps to prevent it. One popular answer is affirmative action, an idea that is making headway even in that last redoubt of old-fashioned meritocracy, the French establishment. However, experience in America—which introduced the practice in the 1970s—suggests that it raises a host of problems. In practical terms, many "affirmative-action babies" fail in highly competitive environments. On a more philosophical note, why should the children of rich blacks be given a head start over the children of poor whites? The biggest problem with affirmative action, however, is that it comes too late. The best way to boost the life-chances of poor people is to intervene much earlier in life—to set them on the right path in kindergarten and primary school and reinforce those lessons in secondary school.

Progressive taxation can help. For much of the post-war period most rich countries taxed talent too heavily, causing bright flight. But today, in America at least, the danger is the opposite. The Bush administration is trying to reduce taxes on both earned income and inherited wealth at a time when the talented are reaping huge rewards: American CEOs earn 300 times more than the average worker. This threatens to turn the children of the rich into playboys and playgirls and widen inequalities to unacceptable levels.

The best way to head off a backlash is to give everybody a fair chance. This means investing in childhood nutrition and preschool education. It also means repairing the lowest rungs of the educational ladder. Developing countries need to continue the march towards universal primary education: failure to do so will exacerbate skill shortages as well as widen inequalities. Developed countries need to toughen up their schools. In the 1960s too many schools were lowering standards in the name of child-centred education and shifting the emphasis away from science and mathematics. The chief victims of this were underprivileged children who could not rely on their parents to make up for the deficiencies of their schools.

The success of advanced economies is increasingly dependent not on their physical capital but on their capacity to mobilise their citizens' brainpower. The rise of a global meritocracy offers all sorts of benefits, from higher growth in productivity to faster scientific progress. It can boost social mobility and allow all sorts of weird and wonderful talents to bloom. The talent wars may be a source of trepidation for companies and countries. But they should also be a cause for celebration. ■