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ADDRESS TO THE 25TH ANNIVERSARY IIF MEETING
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In our pursuit to better understand and coordinate macroeconomic and financial management internationally – and your conference program which includes a formidable array of speakers on these issues – there is some risk, I think, of losing sight of the human purpose of our shared institutional arrangements. Human development – building human capabilities, constructing opportunities for people to lead better lives, sharing knowledge and building interconnected institutions – if we don't achieve these things then our financial intelligence and macroeconomic structures have little meaning.

So I hope you will allow me to deviate somewhat from the mainstream of Washington discourse. I'd like to raise some concerns about global coordination in the arena of skills, careers, human capital formation and how these issues impact on development prospects of poor countries.

Global inequality of wealth and opportunity is clearly bound up with global inequality of human capital – the distribution of knowledge, skills and institutional capacity. While knowledge is to some extent a shared public good and skills are comparatively mobile, there are clearly quite powerful dynamics that work to reinforce, perhaps even widen human capital inequalities, both within and between nations. Investment in people is a proportionately larger industry in developed countries - richer nations can invest more in their education and training systems and, of course higher income families can concentrate more resources on cultivating and branding their progeny. There is no doubt diminishing returns here, which is partly why it is a sensible public policy to aim for equal access to good quality schooling. But the equalising dynamics don't operate very rapidly and the human capital gap remains very wide and tends to persist across generations, even in societies with a long history of redistributive social policies.

The practical implications for developing countries can be deeply debilitating. National leaders look in despair at the outflow of their talented and educated people to opportunities in other countries – this is all too-easily a self-reinforcing deteriorating spiral: people leave because the outlook for their own countries looks unfavourable, and the outflow itself reduces the prospects for growth and development. The mobility of skilled people means that the widening earnings gap in the US and other developed countries over the past two decades has contributed to even more extreme remuneration gaps in developing countries. Some countries have tried to intervene in the movement of people, and of course international donor programs include substantial technical assistance and capacity building efforts, but these bring their own problems as well.

I don't need to belabour these points – we could all add our own illustrative experience and examples. And of course high and rapidly rising remuneration has been a particular feature of the banking and financial sector, and so one does have to ask whether the status of finance as a well-paid career is perhaps disproportionate by comparison with, say, engineering or teaching or health services. There are market incentives at work here, of course, but let's not forget that professional qualifications, training and accreditation systems and many categories of professional remuneration are regulated or administered in specific ways, with considerable variation between countries, so it is possible that incentives work, in practice, in perverse ways. Education and training are about long-term capabilities, and perhaps our problems are partly about both developed and developing countries under-investing in expensive categories of professional competence. There is the additional victim of short-term approaches to training that has been highlighted in so many failures – from banks to engineering – and that is the underinvestment in the values that should guide the choices of professionals.

Shortages of skills are in part the result of past spending and institutional decisions - such shortages can become binding constraints on growth, and lead to rising inequality in income. Such things can all too easily be blamed on globalisation and finance capital, where in fact there are deeper distortions or policy failures at work that may go back many decades.

Globalisation and growth have accentuated shortages of skills for engineers, doctors, nurses, plumbers and other artisans, in both the developed and developing worlds. But these shortages are not due to globalisation itself, but to past fiscal and market failures. From the perspective of the South it seems that developed Western countries, who in their quest to save and minimise costs and maximise returns, are producing too few engineers, doctors and nurses to even meet their own demands. And so the developed world plunders developing countries for the skills that they have failed to create, and makes it more difficult or impossible for developing countries to reduce poverty and attain their development goals.

According to the United Nations, about 90 percent of highly skilled migrants live in a member state of the OECD. Until the 1960s, Western Europe was the biggest supplier of qualified professionals to the United States. Now the developing countries have emerged in recent years as the biggest suppliers of qualified professionals to the advanced countries as a whole. During the mid-1990s, there were more than a million and a half skilled expatriates from the developing countries in Western Europe, the US, Japan and Canada. These migrant professionals, strongly needed in developing countries, contribute to larger disparities between rich and poor countries.

Africa, with its serious shortages of manpower, was the biggest loser, having lost 60,000 professionals (doctors, university lecturers, engineers, surveyors, etc) between 1985 and 1990 and an average of 20,000 annually until the mid-1990s. On average, 10.4 percent of skilled migration is from Africa.

Asia also experienced an increase in outflows of skilled professionals to the US, Canada, Australia and the UK during the 1990s, partly due to the strong demand in

OECD countries for IT and other skills in science and technology, as well as selective immigration policies that favour skilled workers.

Migration from developing countries has enormous implications for them, as their growth potential and service delivery suffer enormously as a result, leading to more poverty and unemployment. Whilst there are many complex reasons for such migration, both of an economic and political nature, there can be little doubt that for many professions, it is the higher remuneration prospects (in a hard currency) that drives such migration of skilled professionals. And whilst there are benefits in terms of remittances which have increased significantly, and which does help to reduce poverty as a result, it does not however really improve the growth potential of such developing countries.

Let's take the health sector as an example.

The migration of African health-care workers to advanced economies has led to an estimated shortage of around 820,000 doctors, nurses and other health workers on the African continent. A shortage of doctors and nurses in Africa has been identified as one of the biggest obstacles to providing life-saving drugs to AIDS patients.

In South Africa we have 393 nurses and 74 doctors per 100,000 people, compared with the 901 nurses and 247 doctors per 100,000 people in the US. Moreover, a high percentage of South African nurses and doctors leave the public sector for the private sector, and shortages are especially acute in rural areas. Now whilst we can look at how to make conditions in our public health sector more attractive, to prevent the loss of health professionals to the more lucrative private sector, there is not much we can really do to stop them from leaving South Africa for jobs in developed countries like the UK, USA, Canada, Australia and New Zealand. So South Africa has become a training ground for developed countries, meeting all the costs of doing so with not a penny in contribution from developed countries.

The main problem here is that developed countries are not producing sufficient doctors and other health professionals for their own needs. In the UK, even though the NHS launched a plan to attract 2,000 new GPs by March 2004, there were not enough senior doctors or GPs coming through the ranks or staying in the profession, forcing it to recruit qualified professionals from overseas.

Even in the US, American Medical Association (AMA) has reversed its initial view and now projects a shortage of doctors as 79 million baby boomers reach retirement age, resulting in a greater demand for more medical care. The US needs to train an estimated 10 000 more doctors a year, in addition to the current 25,000 to meet these growing medical needs.

A similar story can be told about engineering and technical skills. It is estimated by the South African Institute of Civil Engineering that South Africa needs an additional 6,000 engineers to cover short-term needs, now that the momentum of economic growth has increased. In the UK, skills shortage in engineering has been identified as a business critical issue for various industries. It has also been noted that the supply shortages of engineers was being off-set in the short-term by workers coming in from Eastern Europe & South Africa, where recruits tend to be academically very strong and experienced. For the larger UK organisations, as business becomes increasingly international it also makes business sense to employ a more culturally diverse workforce with strong language skills.

Europe produces roughly three times as many engineering graduates as the US each year. Asia produces almost five times as many. Yet the same source indicates that five years after graduation, 80% of engineering graduates in the USA are working in non-engineering fields. There are fears in the US that it could lose its technological leadership position and competitiveness in the global economy due to shortages of engineering capacity in an increasingly high-tech dominated world.

Even India, which is well known worldwide for its software engineers, experiences shortages of these professionals. According to Nasscom, which represents India’s software companies, there could be a shortfall of 500,000 IT professionals by 2010. These shortages have driven up the annual remuneration of even junior software engineers to US$45,000.

So there are challenges for national education and training systems, and it seems clear that better international coordination is needed in this arena. This is not just about planning and financing investment in skills, it is surely also about curricula and learning technologies and what goes on in the classroom. We know that in South Africa, for example, we are not making sufficient progress in maths and science in our schools, and we need to find ways of using technology and better teaching methods if we are going to meet this critical need effectively.

I would emphasise that globalisation has accelerated, but not created these difficulties. There can be little doubt that mismatches between the supply and demand for skills contributes to widening earnings differentials, but it is surely not enough to rely on this as the incentive and signaling mechanism that will correct these imbalances automatically.

Education and training are investments for the long term, and their returns are not easily measured or securitised; it is no surprise that the associated financing arrangements are comparatively primitive. Alongside the enormous efforts that go into structuring financial arrangements for business investment and capital projects, perhaps it is time for more concerted efforts – across countries and involving private and public sector stakeholders – to put the financing of education and training on a better footing. This is partly about more resources, channeled in the right ways. It is also about recognising that we have a shared interest not just in the quantum of educational output but also in its distribution – we have a shared interest in ensuring that education and training opportunities become more equitably distributed across the world, and that the mobilisation of skilled capacity is more fairly distributed between nations. I am happy to accept that mobilising finance for education and training is also about financial innovation although I am of course wary of arrangements that might appear to bring greater resources to public service delivery but, in reality, pass on the costs to future generations or other parts of the fiscal envelope.

Education and training are kinds of investment that are also bound up not so much with the impersonal economic arithmetic of yields and dividends and hurdle return rates, but with the determination of earnings – and the unavoidably political character of the resulting distribution of wealth and privilege. Earnings differentials are signals that feed back into shaping learning decisions and skills acquisition – but earnings patterns are also outcomes of power relations, wealth and social values. We need a more careful and considered understanding of the connections between values and earnings, knowledge and power, education and privilege, training and access to opportunity. Professional skills are globally mobile, and there are obvious limitations on the scope for individual country attempts to control remuneration trends rigidly or interfere in the movement across borders of skilled people. But there are also limitations on the scope for addressing skills shortages by paying higher salaries or deliberate training interventions. These are issues that are talked about far too cautiously, and addressed through effective cross-border partnerships far too seldom. So let me invite your reflections on this interconnected human and financial challenge, not just as another issue on the global development agenda but as a core problem of shared values and our commitment to a shared future.

Thank you