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Selective Immigration Policies: Point System versus Auction Model

Wolfgang Ochel

In Europe and especially in Germany, restrictions on employment-based immigration from non-EU countries are about to be eased and/or redefined in immigration laws. The number and composition of immigrants may be selected on the basis of priority lists or point systems. One could also think of selecting the immigrants according to their willingness to pay for an immigration certificate or the willingness of domestic to pay for such certificates for employees of their choice – the auction model. How do point systems and auction models compare as selection mechanism for permanent immigration?

Why employment-based immigration may be desirable

Employment-based immigration may be desirable in receiving countries for a number of reasons. It can prevent spiralling wages that result from labour-market bottlenecks. It can contribute to a more dynamic economy and thus boost economic growth. It can also counteract the ageing of the population and help maintain the pension system.

In general, immigration increases the income of the domestic population since immigrants contribute more to value added and hence to the GDP of the receiving country than they receive in wages. For this reason the host country has good reasons for easing immigration restrictions. On the other hand, immigration also causes considerable distortions in income distribution, since those domestic workers whose services are substitutes for those of the immigrants will lose from immigration. The gainers are domestic workers with complementary services, whose incomes will increase, and especially the owners of capital who can achieve higher returns on capital. Since the gains outweigh the losses, immigration makes sense, but since there are serious redistribution effects, it matters whether immigration is controlled by quotas or by prices.

In addition to the economic and demographic benefits of employment-based immigration, attention must also be given to social and cultural aspects, and hence to the new immigrants ability to integrate. Immigration should also pose no threat to national security.

Mechanisms for immigrant selection

Various instruments may be used in the selection of immigrants. Countries with a tradition of immigration use priority lists (United States) or point systems (Canada, Australia, New Zealand). The American priority lists contain a ranking of desirable skills, with priority given to applicants with the highest qualifications. In the point systems, points are awarded for the various requirements met by an applicant. Applicants who reach a minimum of points may immigrate unless an annual immigration quota is surpassed.

As an alternative to selection methods now in use, some economists have proposed selection on the basis of a sale of immigration rights (Becker and Becker, 1996, pp. 58ff.). These could be in the form of immigration fees or immigration taxes. This instrument would select those immigrants who are prepared to pay a price set by the government of the receiving country. Or the immigration permits could be auctioned, in which case the price of immigration would be determined by what it is worth to the bidder. An auction could be directed at potential immigrants. Immigration rights could also be bought by domestic companies that wish to employ foreign workers (Bauer 1998, pp. 79ff.).[1]

Determinants of the efficiency of selection mechanisms

The efficiency of selection mechanisms depends on various factors, including the immigration objectives of the receiving country. Efficiency is influenced by whether the objectives are short-term like meeting current labour needs, or longer term, such as achieving permanent employment for the immigrants.

For the selection of the immigrants, it is not sufficient to know the objectives that are being pur-

[1] The implementation of selection decisions can be made via border controls (visas, etc.) or in the receiving country (work permits). See Brochmann 1999, p. 1ff.

sued. More important is knowing the immigrant mix to be achieved by the chosen objectives. This means that the effects of immigration must be known that result from immigrants with differing structural characteristics.

The efficiency of the selection mechanism is also dependent on the state of information of those who develop the point system or who take part in the auctions. The governments of the receiving countries that create the point lists know the economic and demographic situation of their own country relatively well. They can also appraise the social, cultural and security implications of immigration. They do not, however, have sufficient knowledge of the qualifications of the immigrants. Domestic companies have precise knowledge of their short- and medium term labour needs, and of the skills of the foreign workers they wish to employ. They, however, are not so well informed of the demographic, social, cultural and security consequences of immigration as the government. The immigrants, finally, are very well aware of their qualifications but are not well informed about the conditions that prevail in the receiving countries. For all three groups, the state of information declines with an increasing time horizon.

The effectiveness of the selection mechanism is also determined by the fact that the decisions of governments, domestic companies and immigrants are based on their own interests. Governments, as a rule, take into consideration not only the economic and demographic but also the social, cultural and security aspects. Domestic companies are primarily guided by their short-term and medium-term profit expectations. What they are willing to pay depends on the contribution the immigrant is expected to make to the company; other consequences of immigration are not taken into account. Immigrants are interested in achieving a high standard of living in the host country, and what they are willing to pay is an expression of these expectations. They are only interested in the consequences of immigration for the receiving country to the extent that this affects their own standard of living.

Finally, the costs associated with the implementation of the individual selection mechanism affect its efficiency. The costs of the point system are probably higher than those of the auction model.

Advantages and disadvantages of the point system

The point system has a number of advantages in selecting immigrants. The experience of the countries that use it shows that the system works and is easy to handle. The immigration mix can be controlled so that at least the short and medium-term economic and integration-related requirements of the receiving country are met. Selection accuracy is relatively high even though there are limits resulting from the fact that only measurable factors can be used as selection criteria. A point system is also widely accepted by the domestic population (see Table 1).

The disadvantages of the point system are the high administrative costs associated with the creation and adjustment of the point system and with the examination of applicant qualifications. There are also considerable methodological problems in identifying labour shortages by occupation and industry (Bauer 1998, pp. 117ff.). In addition, the time lag between obtaining the labour-market data used to identify labour shortages and the actual immigration may lead to incorrect choices of immigrants; moreover, most immigrants are young with long and changeable working lives ahead of them. Point systems are also relatively inflexible and slow in reacting to unforeseen circumstances (Zimmermann 2000, p. 17). Inflexibility is caused by the time involved in establishing new selection criteria. The receiving countries must also grant potential applicants sufficient planning scope. A final disadvantage lies in the distribution effects in the receiving country. The advantages of immigration in the form of avoiding wage increases resulting from labour shortages accrue to the companies; the disadvantages are felt by the affected domestic

Table 1
Advantages and Disadvantages of the Point System

Advantages	Disadvantages
• Simple and easy-to-use system • Immigration selection based on economic and integration-related needs (at least in the short and medium term) • Accepted by the domestic population	• Creation of the points system and decking qualifications of applicants is time consuming • Problems in identifying labour shortages by occupation and industry (measurement and lag problems) • Low flexibility in unforeseen circumstances • Undesirable distribution effects in receiving country

Source: Compiled by the Ifo Institute.

workers whose wages rise more slowly than would otherwise have been the case (if indeed they do not fall).

How the auction model works

Instead of an administrative determination of future labour needs and the derived skill profile of immigrants, immigrants may also be selected by auctioning immigration rights. The proponents of the auction model assume that the willingness to pay is highest among those who have the most to gain from immigration. The greater the willingness of the immigrants to pay, the higher the utility of the receiving country from the immigration (Becker and Becker, pp. 58ff.).

Before immigration rights are auctioned, several fundamental decisions must be made. First, the number of immigration certificates per year must be determined. Then the decision must be made whether to sell these to potential immigrants or to companies that need foreign workers. Finally, it must be determined whether the immigration right is tied to the purchaser or whether the buyer has the right to sell the certificate or to receive a refund when returning it to the issuing authorities (Bauer 1998, pp. 88ff.). The most practical method of auctioning immigration rights is a sealed-bid auction with the highest bidders winning the auction.

Advantages and disadvantages of the auction model

In comparison to point systems, the auctioning of immigration rights has the advantage of allocating the immigration certificates via the price mechanism thus considerably reducing administrative expenses. At the same time, the price mechanism ensures that immigration is geared to the economic and demographic requirements of the receiving country. Potential immigrants are only likely to place high bids if the labour market in the receiving country holds the promise of a good income. The skills and work experience of the auction participants with the highest bids indicate the areas with a short and medium-term demand for labour, insofar as the potential immigrants are sufficiently informed of the conditions in the receiving country. The state receives income from the auctions which can be used in part for financing the public goods consumed by the immigrants. Public acceptance of immigration is also raised if immigrants pay to get in (see Table 2).

Table 2
Advantages and Disadvantages of the Auction Model

A. Auctioning immigration certificates to potential immigrants	
Advantages	Disadvantages
• Allocation of immigration certificates via the price mechanism • Immigration geared to economic and demographic requirements via the price mechanism (limited by information deficits) • Identification of short and medium-term labour shortages (limited by information deficits) • Revenue from auctions • Payment raises public acceptance of immigration	• Selection of the "right" immigrants possible but not guaranteed • Information deficit about receiving country is greater on the part of the potential immigrant than on the part of the receiving country • Receiving country provides no information on its needs • Makes immigration more expensive; immigrants prefer countries with point systems • Ethical objections make political implementation difficult • Overlooks immigrant's ability to integrate
B. Auctioning immigration certificates to domestic companies	
The appraisals in A is changed in the following areas: • Avoidance of unwanted distribution effects in the receiving country • Companies' state of information on short and medium-term labour needs is better than that of immigrants • Disregards long-term opportunities of immigrants in the labour market (long-term employability) • Ethical objections will play a less important role	

Source: Compiled by the Ifo Institute.

Although the auction model may result in the selection of the "right" immigrants, this is not guaranteed. Assume that the receiving country wishes to select only highly qualified workers. If, for example, a good education helps achieve a relatively high income in the home country, then qualified workers stand to gain only little from migration but unqualified workers much more. For this reason the latter will offer a higher price at an auction than the former and acquire the immigration certificate. Social transfers in the receiving country can also lead to adverse selection (Bauer 1998, pp. 97ff.; Borjas 1994). Imperfect financial markets can mean that poor but highly qualified applicants lose out at an auction to more wealthy but less qualified applicants. Moreover, the information deficits of the potential immigrants with respect to the economic conditions in the receiving country can diminish the efficiency of the auction model as a selection mechanism. A final disadvantage is that

the receiving country makes no information available regarding its needs.

Apart from the insufficient efficiency of selection, the auction model has further disadvantages. Firstly, the auction model makes immigration more expensive by taking away from immigrants a portion of their immigration gains. Immigrants will thus prefer countries with a point system which leave them a higher net income. A further disadvantage is the difficulty of political implementation, since some voters will have ethical objections to an auctioning of immigration certificates. A final drawback is that only the personal welfare gains of the immigrant go into the selection decision and that effects of immigration on the receiving country receive too little attention (e.g. the problem of integration ability).

Most of the advantages and disadvantages associated with auctioning immigration rights to potential immigrants also apply to auctions in which domestic companies are the bidders. But there are four major exceptions. Auctions for domestic companies prevent the unwanted distribution effects of immigration in the receiving country. The companies must pay a portion of what they gain from immigration for the purchase of immigration licenses. This revenue can be used by the state to compensate for detrimental effects on domestic workers. A further difference is that the state of information of the companies on the short and medium-term labour needs are better than that of the immigrants. This leads to selection advantages both in the short and the medium term. On the other hand, in their bidding, companies will tend to ignore the long-term employment opportunities of immigrants with varying skills. As a rule, they have no exact knowledge of the long-term labour needs of their company and of the economy, nor must they include the long-term employability of the immigrant in their decision since they can always dismiss the employee at a later date. Finally, ethical consideration play a less important role in the auctioning of immigration certificates to companies than to individuals.

Conclusions

Sustained immigration has considerable economic, demographic, social, integration-related, and cultural consequences for the receiving country. Public acceptance is only assured if the number of immigrants and the immigrant mix is controlled in a way that closely corresponds to the objectives of the receiving country.

The point system and the two auction models take advantage of the information available to the administration of the receiving country, the domestic companies, or the potential immigrants. All three have information advantages and deficits in their own areas. Their interests are also different. In appraising the advantages of the selection mechanisms, an assessment of the relevance and validity of the information on which the mechanisms rest is necessary. In doing this, the differing interests of the information holders must be taken into consideration. A combination of selection methods may also reduce the information deficits as much as possible.

The point system and the auction model have advantages and disadvantages as instruments of a selective immigration policy. In a comparison, the point system seems to come out on top. To be sure, the auction model has the considerable advantage of allocating the immigration certificates via the price mechanism and gearing immigration to the economic and demographic conditions of the receiving country. It thus avoids the high administrative costs of the point system. On the other hand, the selection of “suitable” immigrants only works well when domestic companies bid for the certificates, and then only in the case of short and medium-term labour needs. The long-term employability and the integration ability of the immigrants are largely ignored. The auction model also makes immigration more expensive and thus reduces the attractiveness of the auctioning country vis-à-vis countries with a point system. Finally, the auction model, especially when directed at individual applicants, faces ethical objections and is thus more difficult to implement than a point system.

Compared to the auction model, the point system has the advantage of having proven itself in practice. As a selection mechanism it fulfils its function very well and can take account of both the economically relevant criteria for immigration as well as integration and other long-term aspects. To be sure, the point system has high administrative costs, unwanted distribution effects in the receiving country, less flexibility, and more problems in determining labour market needs. However, the

latter two deficits have negative effects primarily on short-term selection decisions rather than on those of long-term relevance which are typical for immigration.

For selection decisions of short or medium-term relevance, i.e. for temporary immigration, auctions in which domestic companies participate are a better option. The strength of auctions is their ability to identify short and medium-term labour shortages and to react flexibly to market changes. Moreover, they avoid the undesirable distribution effects of immigration in the receiving countries because the companies pay out a portion of their gains from immigration and the state can use its income to lower taxes for the benefit of the substituted labour.

With a combination of the point system and the auction model, the long-term immigration criteria would be taken indirectly into consideration even for temporary immigration. In choosing a country of immigration, a potential immigrant contemplating a temporary working visa would also work out his chances of passing the point test later for receiving permanent immigrant status; if the chances for this are not good, he may choose another country where permanent status is more likely (self selection). Conversely, applicants for permanent immigration may include immigrants who came on a temporary basis, for whom domestic companies indicated a high demand during the auction.

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