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Massimiliano Tani Using a Points System for Selecting Immigrants



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INTRODUCTION

A point-based system to select immigrants is an approach based on scoring a set of observable determinants of productivity like age and education, which lead an immigrant applicant to qualify for permanent residence when a minimum threshold, set by the host country's immigration authorities, is reached. This selection mechanism typically applies to economically-motivated immigration. Its key feature is to effectively transform the decision to grant permanent residence into a relatively transparent administrative, as opposed to a political process that is easy to implement and adjust when circumstances change.

Varying points are assigned to observable characteristics that are considered good predictors of individual productivity such as age, host country language skills, educational qualifications and achievements, as well as relevant work experience. Information about the characteristics attracting points and their relative weight is generally sourced from domestic employers and empirical research on the economic outcomes of previous immigrants. Upon passing the point test, applicants are still required to pass additional minimum standards in areas like health, as well as social and cultural integration.

Point-based systems regulate the immigration of large volumes of economic immigration in Canada, New Zealand, and Australia. Past experience from these three destination countries suggests that the point-based system admits those possessing the desired observable characteristics (Tani 2014). Host country citizens are generally supportive of selective immigrant policies, as these are perceived as an essential tool for the orderly management of population inflows. These features underpin some of the reasons why the merits of introducing a selective immigration mechanism are regularly raised in policy discussions in host countries that do not apply such a mechanism, especially at times of surging and apparently uncontrollable immigrant flows.

A point-based immigration system, however, does not guarantee complete success in removing local skills shortages, nor does it secure a positive labour market outcome for every selected migrant. Migrants' skill mismatch and discrimination seem to differ little internationally, regardless of whether or not host countries have adopted a point-based selective immigration policy. This raises the question of whether the success of an immigration policy can be evaluated

using migrants' subsequent labour market outcomes (Tani 2017).

These considerations caution towards the provision of unconditional support for using a point-based system. They also suggest that valuable insights for policy discussions may be gained by looking at the most recent policy developments in the countries that have historically applied such selection mechanisms, as finely-tuned policies typically address the drawbacks of previous norms. In this respect Australia's initiatives are worth studying. Over the past year immigration authorities have been reforming the criteria for temporary migration. Temporary migration was previously uncapped, supplying large volumes of applicants to the permanent point-based migration programme. To prevent such arbitraging and abuse between the relatively relaxed temporary-migration qualifying criteria and those applied to permanent residence (e.g. salaries below minimum wage rates), the criteria have been reformed. While those changes continue to rely on employers to attract suitably skilled migrants, the new restrictions on the number of occupations effectively experiencing skill shortages, along with new requirements relating to work experience, minimum language skills and salary rates, are intended to better screen migrants who, once onshore, decide to apply for permanent residence. The reform is ongoing, with additional changes expected in March 2018, but the recent changes highlight the general need for a holistic approach to the design of migration policies, so that the reasons for selecting migrants based on a points system are not compromised by the possibility of carrying out the same tasks in other, non-screened visa categories.

ORIGINS

The points system embeds an economic approach to migration policy that has its origins in the 1950s, when insufficient inflows of temporary immigrants to sustain persistently high employment growth in the years of reconstruction that followed World War II raised calls for the introduction of migration policies addressing the needs of the labour market, rather than meeting population size targets.

Since then, migration policies have started to take into account employers' calls for migrants able to satisfy their production requirements. This was initially addressed by opening up the set of countries from which potential immigrants could be drawn, while remaining within the family reunification/sponsorship categories that regulated most migration flows in the post-WWII period. As new applicants were often not employable due to their poor language and literacy skills, a separate migration stream was created from the late 1960s onwards to exclusively cater for economically motivated migration. Canada was the first destination country to create a new visa class for "skilled" immigrants in 1967, who were assessed according to

a points system. It was followed by Australia in 1988 and New Zealand in 1991. Over time, the fine-tuning of migration policies to address skill shortages in the domestic labour market has led the points systems of these three countries to evolve in different directions. Canada has opted for population growth and highly qualified migrants, downplaying past work experience. Australia targets migrants that can ease current skill shortages and be immediately employed. New Zealand follows a mixed approach that includes labour market needs and population growth.

Several other countries, including Singapore, Hong Kong, Japan, the United Kingdom, Denmark, Sweden, and the Czech Republic, have adopted a points system in recent years, but on a reduced scale. Other countries, including the United States, are considering¹ the introduction of a points system to counterbalance fears of uncontrolled inflows of immigrants that resonate with broad swathes of the native population.

THE POINTS SYSTEM AS A FILTER OF MIGRANTS' SELF-SELECTION

Migration is generally seen as the outcome of a cost-benefit analysis, where individuals or households compare the net expected benefits of staying in the home country to those obtained by moving elsewhere (Sjaastad 1962). As personal characteristics and circumstances differ, migration is not a random phenomenon, but the result of self-selection. Migrants' self-selection, however, is not always welcome news for the host country, as migrants can be either positively or negatively selected respectively, implying that they are at the top or bottom part of the ability distribution of their countries of origin.

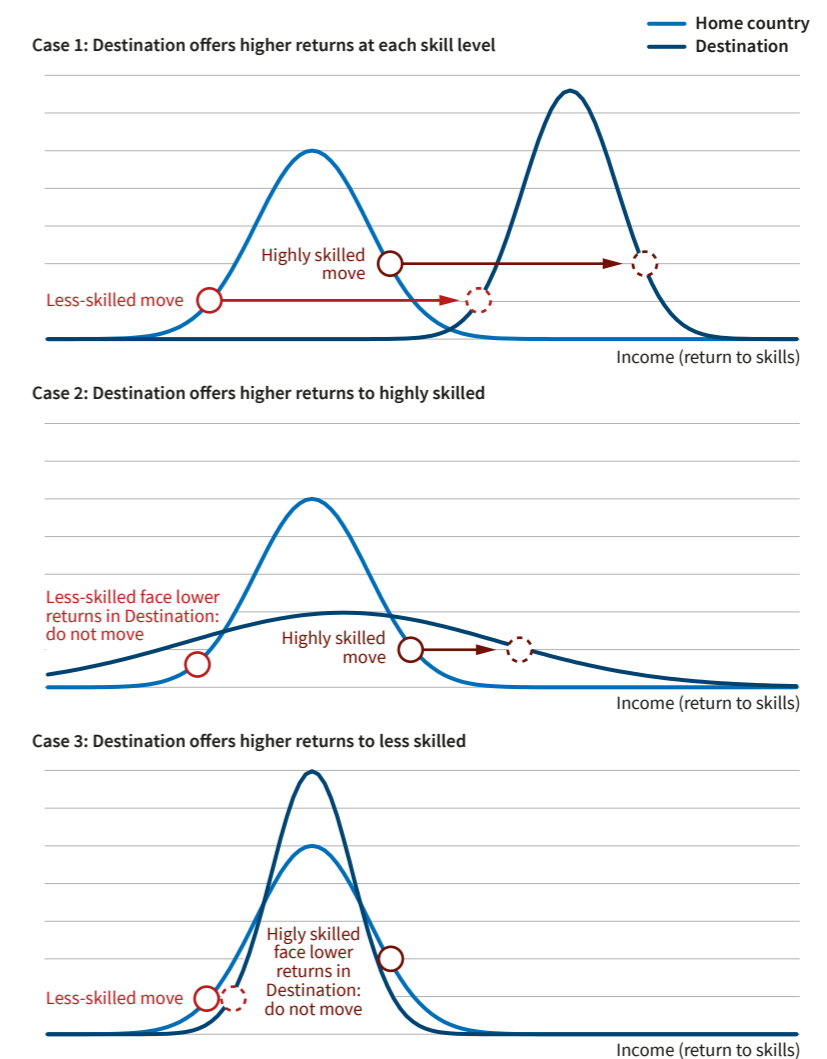
The economic literature on this issue generally considers income inequality of home and host countries as key indicators for gauging whether migrants are positively or negatively selected (Roy 1951; Borjas 1987 and 1991). This approach is based on the hypothesis that

the distribution of ability in each country's population is reflected in income distribution. In other words, income (a price measure) contains by assumption all the information about an individual's productivity and worth in the labour market. When home and host countries place a similar value on abilities, then average incomes per capita are similar². However, if income inequality is higher in the host country, for instance, then the most able individuals from the home country will find it attractive to migrate there, as their ability is better rewarded. Conversely, the least able individuals of a host country will find it attractive to migrate to a home country with a more compressed income distribution, because this

² Of course, average differences in incomes between home and host countries play a critical role in determining who migrates where, as does the quality of the information set facing migrants. If information is complete and average incomes at home are below those of the host for each level of skill, then every home citizen will have an incentive to emigrate. If the information is incomplete or imperfect, then 'irrational' migration behaviours may be observed (e.g. Mbaye 2014).

Figure 1

How Self-Selection Works



Source: Tani (2014).

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Table 1

Points System for a Single Individual: Maximum Points Available, Excluding Bonus Points

	Canada		Australia		New Zealand	
	Max pts	%	Max pts	%	Max pts	%
Language proficiency	28	28	20	16.6	Must have	
Education	25	25	20	16.6	55	30
Age	12	12	30	25	30	16
Skilled occupation in host country			Must have		60	32
Work experience	15 (g)	15	20 (s)	16.6	30	16
Sponsorship	10 (e)	10	5–10 (r)	8		
Other	10	10	20	16.6	10	6
Total	100	100	120	100	185	100
Pass mark	67	67	60	50	100	54

Notes: (g) = generic; (s) = skilled; (e) = employer; (r) = state government. Bold proportion indicates largest component. Source: Figure 1 in Tani (2014).

is where their ability is best rewarded. This approach is illustrated in Figure 1, sourced from Tani (2014).

A selective immigration policy becomes relevant if the host country has a relatively high average income compared with the home country (most home citizens would want to emigrate), a compressed income distribution (low-skill/low-ability home citizens want to emigrate), and possibly a comprehensive welfare system for its low-income earners³. It is perhaps no coincidence that Canada, Australia and New Zealand have implemented a points system that effectively keeps out low-skill prospective immigrants, as they are all high-income, high-tax, high-welfare countries with relatively compressed income distributions.

Keeping out low-skill immigrants in favour of skilled immigrants may not only “protect” the host country’s welfare system and address its domestic employers’ needs, but also offer an automatic mechanism to stabilise income inequality trends between skilled and unskilled native workers. This is because the earnings growth of skilled immigrants will be constrained (as there will be plenty of them), whereas unskilled (native) workers will be in shorter supply, and will therefore command higher wages.

One important caveat of applying a points system to select immigrants is the need to have regular data collection and a revision of the policies in place, which add to costs of such a system.

The effects of imposing restrictions using a points-based system are discussed in several papers on immigration⁴, especially with reference to the determinants of selection on education (McKenzie and Rapoport 2010; Beine et al. 2011) and the influence of immigration policies on the selection process from both a theoretical (Docquier et al. 2007; Bertoli and Brucker 2011;

³ Clemens and Pritchett (2016) test the idea that restricting migration from low-income countries could be efficient because it prevents migrants of countries where average productivity is low from “transmitting” their lower productivity to high-income countries, where average productivity is high. The authors find that current restrictions to migration are still excessive for the ‘low productivity contagion hypothesis’ to be empirically supported based on current migration flows.

⁴ Examples are Borjas (1987), Antecol et al. (2003), Chiquiar and Hanson (2005), Jasso and Rosenzweig (2009), Moraga (2011), Ambrosini and Peri (2012), Dequiedt and Zenou (2013), and Kaestner and Malamud (2014).

Bertoli and Rapoport 2015) and an empirical perspective (Antecol et al. 2003; Jasso and Rosenzweig 2009; Aydemir 2011; Belot and Hatton 2012). The key message in Bertoli, Dequiedt and Zenou (2016), for example, is that screening potential migrants based on observable characteristics, and especially education, may reduce admitted migrants’ quality because education also influences migrants’ self-selection due to variables that are not measured like ability and motivation. An increase in selectivity based on education may lead to the admission of less able and motivated migrants. After all, history shows that successful migrants, like entrepreneurs, tend to be highly motivated and hard-working, but do not necessarily hold high levels of formal education.

INTERNATIONAL DIFFERENCES IN THE APPLICATION OF A POINT-BASED SYSTEM

The key economic principle underpinning the points system is the set of observable characteristics that attracts immigrants who make a positive economic contribution to the host country. Points are generally awarded to:

- Young immigrants, who benefit the host country through longer work lives and their lower likelihood of claiming welfare benefits;
- High levels of formal education or vocational training, as this human capital can be immediately employed with no further training costs for the host country. These characteristics are also associated with high levels of adaptability and mobility, which help to minimise time out of the labour force or unemployment spells;
- Proficiency in the host country’s language is high, as this reduces retraining costs while facilitating integration and speedy access to labour market opportunities.

Notwithstanding this basic framework to award points, there are significant differences in the ways in which Canada, Australia, and New Zealand apply a points-based system, as illustrated in Table 1, sourced from Tani (2014).

Canada focuses on population growth and the selection of immigrants with a high level of human capital, which it values as a fundamental long-term resource for its domestic productivity. Canada also admits about 1% of its population each year as immigrants regardless of the state of its economy, and its points system overvalues formal education and language proficiency and undervalues specific work experience. Since 2003, for instance, no points have been given for the prospective immigrant’s intended occupation, and points for previous work experience have been reduced.

Australia follows a utilitarian approach, viewing migrants as a short-term resource to alleviate skill shortages that can be immediately used by domestic employers. To select suitable applicants from the outset, prospective immigrants are initially streamed through the pre-assessment of their skills and work experience via an online expression of interest. The highest-ranked candidates are subsequently invited to submit a formal application. Since the late 1990s Australia has created a temporary migration scheme with relatively low restrictions allowing employer-sponsored migrants to enter its labour market for up to four years. This scheme did not have a cap, being entirely demand-driven, but allowed admitted temporary migrants to apply for permanent migration before the expiry of their temporary visa. This option of using foreign workers to fill for alleged skill shortages without subjecting them to the controls imposed by the points system has led to some excesses in the use of the scheme. Recent reforms (2017–2018) have seen the overhaul of temporary employer-sponsored immigration, with the creation of a two-year programme with no possibility of applying for permanent residence, and a four-year programme (with the option of applying for permanent residence) open to a restricted set of highly skilled occupations and imposing more onerous conditions on employers.

New Zealand follows a balanced approach, mixing the objective of population growth with that of labour market needs. Its points system favours skilled workers who have already gained relevant work experience in New Zealand under a temporary visa. Formal qualifications also carry considerable weight, while a minimum score of formal tests of English proficiency is mandatory.

Notwithstanding that the points system is an effective tool in selecting applicants with desirable characteristics because it can be easily changed to reflect new circumstances, the policy debate over its prospective introduction should include topics that sometimes are not given the attention that they deserve.

THE FUTURE OF THE POINTS SYSTEM

The first relates to the critical need for regular and detailed information on the selected migrants’ labour market outcomes. The monitoring of migrants’ performance is sometimes left to surveys covering only the first couple of years spent by new settlers in a host country, if at all. This is valuable, but insufficient as the points system is generally used to grant a permanent leave to stay, and important aspects of the policy can be better assessed with longer longitudinal data collection. Examples include relocation, job changes, and the convergence of economic outcomes with the native population and previous immigrant cohorts. These data requirements are now easier to fulfil thanks to technologies that make it possible to link data from multiple sources (from the immigration office and tax authority, for example). Yet the topic is hardly included in public discussions of the merits and drawbacks of a points-based system for selecting immigrants.

The second topic is the extent to which one should count on, or evaluate the effectiveness of, migration policy when using indicators determined by the domestic labour market. In this respect, migrants’ labour market outcomes in countries applying a selection mechanism do not appear better than those in countries that do not. For example, using the incidence of a skill mismatch between education at tertiary level and education required for the job carried out (over-education if the difference is positive) as a raw indicator of migrants’ economic integration, hardly any prima facie differences emerge between the situation in Canada,

Table 2

Over-Education among Natives and Migrants

Country	Year	Natives	Foreign-born	Author(s)
Australia*	1996-2000	7.4%	~30%	Green, Kler and Leevs (2007)
Canada*	1999-2001	12%	30%-50%	Wald and Fang (2008)
NZ*	1996-2006	36%	41%	Poot and Stillman (2010)
US	2009-11	baseline	5%	de Matos and Liebig (2014)
EU (22)	2002-09	13.7%	22%	Aleksynska and Tritah (2009)
EU 27	2007	22%	35%	Nieto, Matano and Ramos (2015)
Sweden	2008	11.9%	25%-30%	Joona, Gupta and Wadensjö (2014)
Denmark	1995-02	8%	13%	Nielsen (2007)

* = country selects immigrants based on a points system. Source: Tani (2017).

Australia and New Zealand and other countries reported in Table 2.

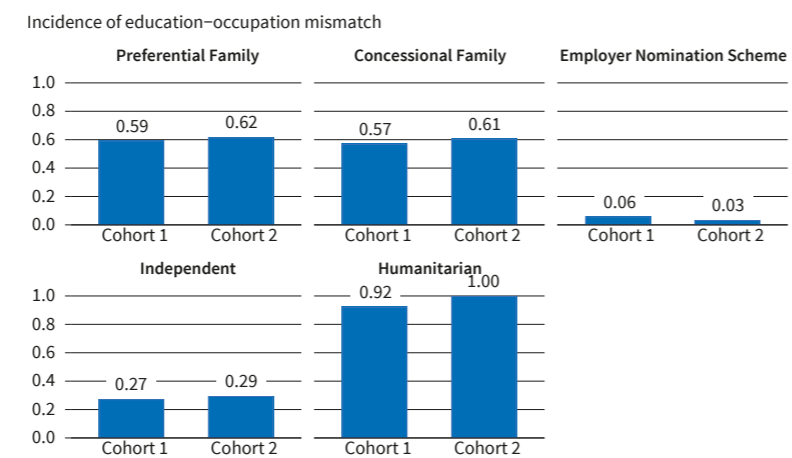
A similar picture emerges when using quantitative analysis of the determinants of over-education across several countries (e.g. OECD 2015 – Table B2 p. 41-41) or when the analysis is carried out by visa type, as shown in Figure 1, which depicts the case for Australia (Tani 2017).

The relatively high incidence of over-education among selected immigrants (“independent” in Figure 2) is counterintuitive when one considers that selective policies are designed to admit only the most productive migrants. This raises the question of the appropriateness of measuring the effectiveness of migration policy with outcomes determined by the labour market. This is especially the case when there is limited institutional support to further ease migrants’ entry into the host country’s labour market besides the provision of a permanent visa. Employment departments may play an active role in overseeing whether or not the skills offered by immigrants, especially if they are highly-educated, are efficiently used, and if intervention is necessary? This question raises another: namely, to what extent it is desirable for immigration and employment policies to coordinate their aims and policy tools, at least with respect to migrants undergoing a selection process. The division of responsibility between immigration departments attracting foreign talent and employment departments ensuring its efficient usage in the labour market may generate discrepancies if carried out independently from each another. This presents a cost for the migrants, who may spend additional time working in jobs for which they are over-qualified before their skills are properly utilised and rewarded; and for the host country’s society due to the inefficient valuation of its immigrants’ skills. Immigration and employment policy-making may work jointly to address issues of recruiting foreign talent and its subsequent utilisation in the labour market. Possible examples of collaborative work include the development of accreditation programmes to ease the path into licensing for foreign-trained professionals, subsidised host country language support, or easier access to finance for new start-ups.

Unfortunately issues related to the efficiency of the labour market do not yet appear to be at the forefront of employment policies even in countries applying a points system to select immigrants. At times of sluggish economic growth, however, even a small for-

Figure 2

Incidence of Education–Occupation Mismatch by Visa Class in Australia Graphs by major grouping of visa category



Source: Longitudinal Survey of Immigrants to Australia (1993–2000).

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ward step in improving efficiency in skill utilisation can make a substantial positive contribution to a country’s economy.

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