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I Z A
World of Labor
Evidence-based policy making

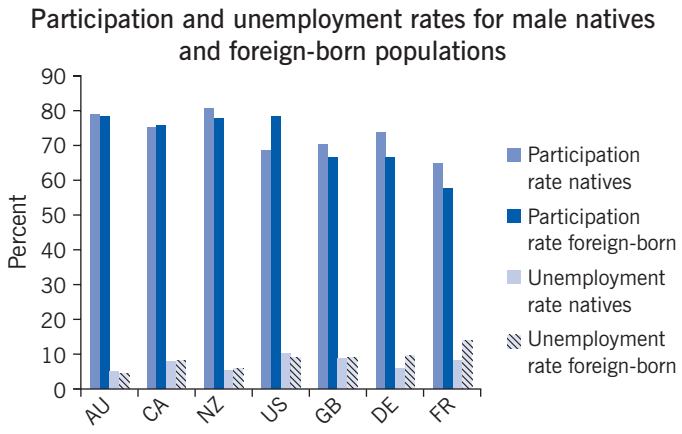
Using a point system for selecting immigrants

A point system can select economically desirable immigrants but it cannot prevent poor labor outcomes for immigrants

Keywords: migrants, immigration policy, selection, point system

ELEVATOR PITCH

Restricting immigration to young and skilled immigrants using a point system, as in Canada, Australia, and New Zealand, succeeds in selecting economically desirable immigrants and provides orderly management of population growth. But the point system cannot fix short-term skilled labor shortages in a timely manner nor prevent poor labor market outcomes for immigrants, since domestic employers can undervalue schooling and work experience acquired abroad. Furthermore, the efficacy of a point system can be compromised if unscreened visa categories receive higher priority.



KEY FINDINGS

Pros

- A point system acts as an effective binding constraint on applicants.
- Individual applicants are selected according to the objectives set by the country of destination.
- A point system elicits better quality immigration candidates.
- The initial phase of the immigration process is streamlined, requiring fewer resources to process valid applications.
- The assessment process is transparent.

Cons

- Comprehensive and regular data collection is needed for policy evaluation and fine-tuning.
- Applicants are selected solely from observable characteristics, not from unobservables like innate ability or attitude.
- Successful applicants may still end up in jobs and at pay levels below their true potential.
- A point system is unsuitable for providing fast responses to skill shortages in the domestic labor market.
- The effectiveness of a point system can be compromised if higher priority is given to unscreened classes of applicants.

AUTHOR'S MAIN MESSAGE

A point system using measurable criteria selects economically desirable immigration applicants and results in the orderly management of population growth, which can reassure the native population that immigration is being properly managed. Yet the point system does not avoid the possibility that immigrants will end up in jobs below their level of education, ability and experience, hence contributing less than their true potential to the economic well-being of the host country.

MOTIVATION

Selecting immigrants using a point system, typically biased in favor of young skilled workers, is increasingly seen as a potentially effective tool to address short-term labor market problems, such as sluggish productivity, skill shortages, and worsening ratios of productive workers to dependents. With a point system (in essence a scorecard combining several observable criteria such as age, education, and language skills), the initial screening of prospective applicants is implemented through self-assessment. Starting with Canada in 1967, an increasing number of countries have adopted the point system to screen immigrants for visa categories other than family reunification and humanitarian reasons. Should this approach to immigration be more widely adopted?

DISCUSSION OF PROS AND CONS

The evolution of the point system

The point systems used in places such as Canada, Australia, and New Zealand embed an economic approach to migration policy that originated in the 1950s. Prior to that, regulations addressed permanent migration in terms of population size and kinship or country of origin. Demographic criteria were applied to reflect a preference for younger immigrants, while kinship with domestic residents and the country of birth were used to limit or prevent changes in the ethnic mix of the native population. Exceptions were made for refugees, who have been able to resettle within annual caps regardless of their ethnicity and country of birth.

A shortage of workers was generally seen as a temporary economic problem, to be addressed through temporary, or "guest," foreign labor. Guest workers had to satisfy certain age and literacy criteria to ensure their immediate employability in the host country. They were often directly recruited. Although some foreign workers could remain indefinitely, temporary migration was an unlikely pathway to permanent settlement.

A structured economic approach to migration arose in the 1950s in response to insufficient inflows of suitable immigrants to sustain persistently high employment growth in the years of reconstruction following World War II. Several other factors contributed as well, including the need to resettle large numbers of displaced people after World War II, progressive economic internationalization premised on the belief that economic development and cooperation could help maintain peace, and a general cultural shift toward a more open and non-discriminating society.

The initial response to employers' calls for more immigrants was to relax the country-of-origin criterion within the family reunification/sponsorship category by extending the list of preferred countries. This policy shift led to more applicants, but their human capital was often unusable in the domestic labor market owing to a lack of language skills.

Facing the inconsistent objectives of addressing discrimination based on country of origin and managing the skill level of immigrants to suit domestic employers' requests within the straitjacket of the family reunification/sponsorship framework, Canada created separate classes of immigrants in 1967 for relatives and independent applicants. Independent applicants were assessed according to a point system and admitted only if they passed a minimum mark. Australia introduced a point system in 1988, followed by New Zealand in 1991.

These three countries developed their point systems along different trajectories in their search for a better set of rules to address short-term domestic labor market needs. Canada now focuses on the human capital of prospective immigrants, moving away from short-term labor market needs. Australia focuses on immediate employability. New Zealand focuses on employability, acquired

locally through a prior temporary visa, and demographic growth. In Australia and New Zealand the point system also screens temporary migrants who apply for permanent settlement. Each country's point system is still evolving, in response to the findings of regular policy evaluations.

Several other countries (including the Czech Republic, Denmark, Japan, Singapore, Sweden, and the UK) have introduced point systems, but on a reduced scale. This experience is both too novel and too narrow to be considered here.

The point system contrasts sharply with immigration policy in the US, where family reunification prevails (although a highly selective employer nomination scheme is also in place), and in much of the EU, where citizens are free to choose where to live and work. However, growing discomfort with non-EU illegal immigration, particularly from former Soviet bloc countries, has prompted policy discussions about more stringent selection policies for non-EU applicants, according to each member state's domestic labor market needs.

Objectives of a point system

A point system is a preliminary screening tool for prospective permanent settlers. The selected criteria typically arise from the findings of applied research on migration and surveys of immigrants to determine the ingredients for successful economic assimilation. Thus, points are assessed based on short-term labor market criteria, such as having skills in high demand domestically, and desirable individual characteristics, such as youth, education, and language proficiency. Throughout the article "skills" is used as a synonym for "ability" acquired through formal education and work experience. Once applicants pass the point test, they must still meet additional minimum standards in such areas as health and good character.

The economic principle underpinning the point system is to identify prospective immigrants' net benefit to the host country, such as their effect on gross domestic product or the public purse, which has to be positive.

As a result, points are awarded to younger immigrants, who can potentially contribute longer to the public finances through income taxes and are less likely to need welfare assistance in the short term. Points are also given to applicants with high levels of formal education or vocational training, as their human capital can be employed without further training costs for the host country. These characteristics are also associated with high levels of adaptability and mobility, which help to minimize time out of the labor force. Furthermore, points are awarded for proficiency in the host country's language, as this reduces retraining costs and facilitates rapid economic and social integration.

Canada, Australia, and New Zealand each award points to prospective immigrants, assigning different weights to desired characteristics. Such differences reflect the evolution of each country's migration policy objectives.

Canada's objective is to select immigrants with high levels of human capital who can potentially contribute to its domestic productivity. Canada's point system thus favors formal education and language proficiency over specific skills. Since 2003, points have no longer been given for intended occupation, and points for prior work experience have been reduced. Canada also admits as immigrants about 1% of its population each year regardless of the state of the economy. As of December 2012, Canada assessed skilled applicants in its Federal Skilled Worker Program primarily on the basis of language proficiency (a maximum of 28 points) and education (25 points). Remaining factors, such as prior work experience (15 points), age up to 45 years (10 points), arranged employment (10 points), and adaptability (10 points) have a broadly similar weight.

Australia's approach has evolved into one that is highly utilitarian, emphasizing specific skills that can be used immediately by domestic employers and which contribute to public finances. As a result, not only does it adjust the cap of the annual intake of immigrants according to the state of the economy, but it also streams prospective immigrants through a pre-assessment of their education and work experience using an online Expression of Interest form. Skills must be on a skilled occupations list set by a government agency. The highest-ranked candidates are invited to submit a formal application where (young) age, good English proficiency, and formal education at the time of the invitation (rather than when completing the Expression of Interest form) receive broadly similar weights.

New Zealand's point system favors skilled workers who have already gained relevant work experience in New Zealand under a temporary visa. Formal qualifications also carry considerable weight, and applicants must achieve a minimum score in formal tests of English proficiency (6.5 in the International English Language Testing System).

A summary of points available for these three countries across various categories (excluding bonus points) for a single prospective immigrant is presented in Figure 1. The points differ significantly from what each country had previously required in the not-so-distant past, as countries have sought to overcome the changed economic environment following the global financial crisis of 2007–2008. Canada reduced the weight of work experience (from 21 to 15 points) in favor of host-country language proficiency (from 24 to 28 points) and age (from 10 to 12 points). Australia removed the points previously assigned to occupations to make this criterion a "must" for any prospective immigrant and removed the possibility for international students to waive relevant work experience if applying for permanent residence within six months of completing their degree in Australia. New Zealand trimmed the number of occupations listed as experiencing skill shortages and increased the responsibilities of employers sponsoring immigrants, including those applying for a temporary working visa.

Figure 1. Maximum points available on the immigration point system in Canada, Australia, and New Zealand, as of March 2013

Criterion	*Canada*		*Australia*		*New Zealand*	
	Points	*%*	*Points*	*%*	*Points*	*%*
Language proficiency	28	28	20	16.6	hurdle	
Education	25	25	20	16.6	55	30
Age	12	12	30	25	30	16
Skilled occupation in host country	0	0	hurdle		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) = specific; (e) = employer; (r) = state government. *Hurdle* applies to criteria that lead to automatic exclusion if not met. The data exclude bonus points for education acquired in the host country (5 points, Australia), for work experience gained in the host country (15 points, New Zealand), and for job offers in areas of domestic skill shortage (10 points, New Zealand).

Source: Canada: http://www.cic.gc.ca/english/department/media/backgrounders/2012/2012-12-19.asp; Australia: http://www.immi.gov.au/skills/skillselect/index/visas/subclass-189/#australianstudy-requirements; New Zealand: http://www.visabureau.com/newzealand/emigration-point-system.aspx#employment

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Arguments in favor of a point system

A point system is a tool for selecting would-be settlers who, because of increased international mobility and their transferable skills, can enhance their income or quality of life by moving to another country. Historically, the point system has been implemented to limit and regulate the inflow of migrants when they exceed the cap set by host countries.

More recently, the point system has been proposed as a policy tool for recruiting economically desirable immigrants, most likely motivated by the skills shortages exposed by the information and communications technology revolution in the 1990s. But viewing an immigration point system as a quasi-marketing device to attract skilled foreign specialists to migrate conflicts with established notions about the immigration decision.

The standard model of immigration

A vast migration literature supports the view that the migration decision is supply-driven, motivated by an individual's aspirations, and absent of any targeted recruitment by the host country or a multinational company's relocation of personnel. In that context, the need to establish a selective migration program arises when the market forces for migration to a host country are inadequate to attract the desired type of immigrants without government intervention.

The Roy model of immigrants' self-selection presents credible cases for when this could occur. Individuals compare their income at home with their expected income in a prospective host country—with full knowledge of their abilities and associated potential rewards in both countries—and then decide where to live. The set of abilities includes not only skills like education, work experience, and language proficiency, which are observed, but also unobserved personal characteristics, like innate ability and motivation. The income an individual might expect is viewed as reflecting that person's skills, so that higher skills and abilities imply a higher position along a country's income distribution. Of course, average differences in incomes between home and host countries play a critical role in determining who migrates where. If average incomes at home are below those of the host for each level of observed skill, then every home citizen will have an incentive to emigrate (Case 1 in Figure 2).

However, if home and host countries place a similar value on skills, average incomes per capita will be similar, and the most skilled individuals will migrate to the country with the higher income inequality to increase their returns to skills and abilities (Case 2). Conversely, the least skilled will migrate to the country with a compressed income distribution for the same reason (Case 3).

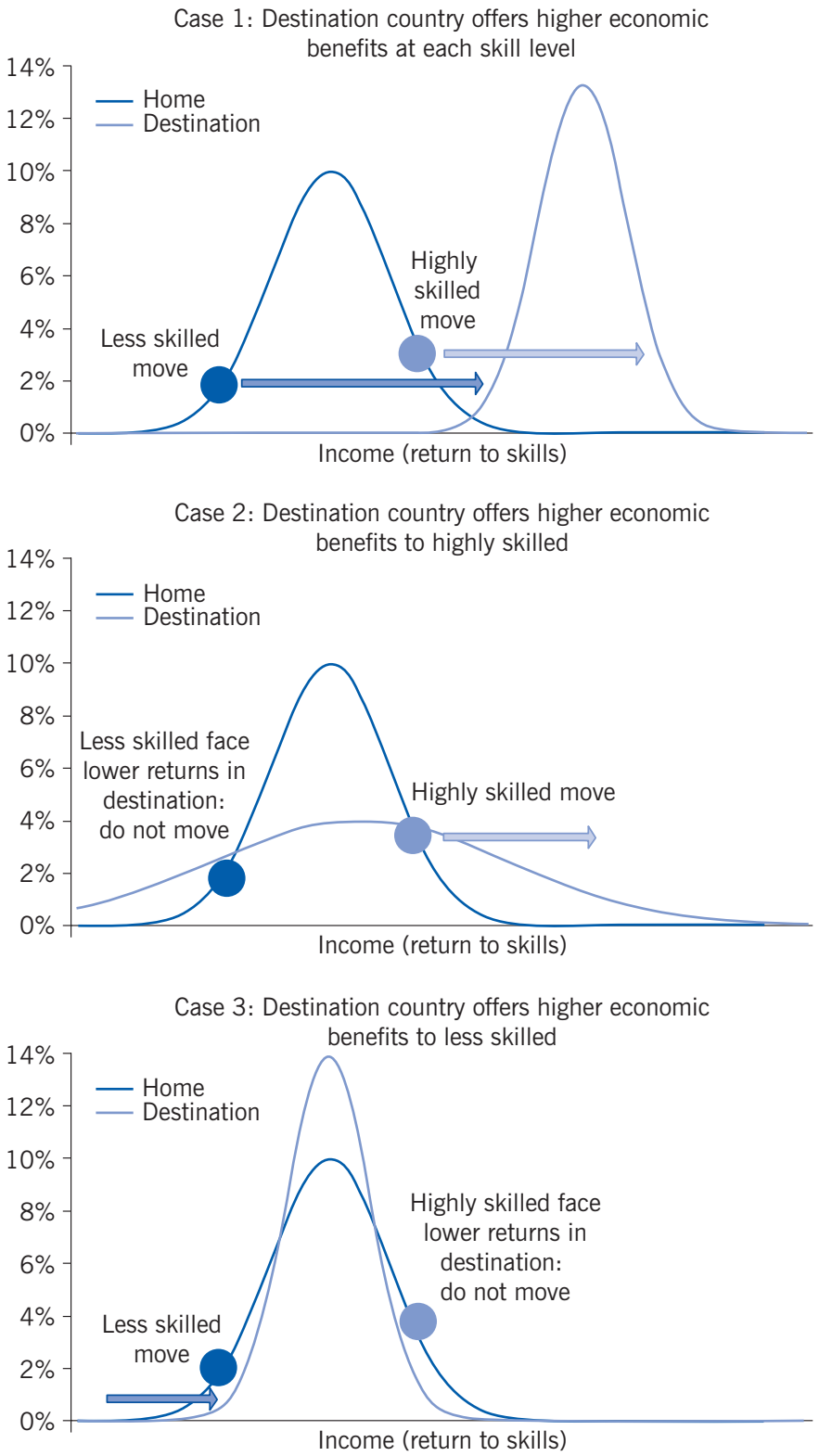
Roy's model of self-selection has been extended by taking into account the distance from the host country, immigrant networks present there, and cultural issues—as these also matter in attracting immigrants.

Self-selection of immigrants under the point system

Self-selection works in relative terms: the distribution of income between countries has to remain unequal over time, and the inequality needs to be stable for self-selection to continue to attract the most able and motivated workers. In the simplified world of the Roy model, income inequality and a selective immigration policy are "complementary," in the sense that they both screen in favor of observed (skills) and unobserved characteristics (innate abilities and motivation).

A point system becomes relevant if the host country has a relatively high average income compared with the home country (most home citizens would want to emigrate) but a compressed

Figure 2. Self-selection and migration



Source: Author.

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income distribution (low-skilled and low ability home citizens want to emigrate), and possibly a comprehensive welfare system for its low-income earners. Since innate abilities are unobserved, the host country has to rely only on observed individual characteristics to screen desirable immigrants. Keeping out low-skilled immigrants in favor of skilled immigrants therefore emerges as a tool to "protect" the host country's welfare system and address its domestic employers' needs. Such a measure may also offer an automatic mechanism to stabilize income inequality trends between skilled and unskilled native workers. This is because the earnings growth of skilled immigrants will be constrained (due to the additional supply of skilled immigrant labor), whereas unskilled (native) workers will be in shorter supply and therefore command higher wages.

Furthermore, as some preliminary steps of the immigration process under a point system can be easily automated and outsourced through self-assessment, the resources saved by the host country at this stage in its immigration system could fund a more careful processing of the candidates who have qualified through self-assessment rather than reviewing every applicant.

Canada, Australia, and New Zealand are high-income, high-tax, high-welfare countries with relatively compressed income distributions, and their point system is thus likely to filter out prospective low-skilled and low-ability immigrants.

Effectiveness of the point system

There have been many evaluations of the effectiveness of point systems by government authorities and academic researchers.

Canada, Australia, and New Zealand undertake large and regular official data collections and evaluation reviews to fine-tune the criteria and weights and to reduce the scope for fraud and unsatisfactory outcomes in immigrants' labor market performance. Institutional evaluations for Canada [2], Australia [3], and New Zealand [4] overwhelmingly support the effectiveness of the point system in acting as a binding constraint on applicants and positively affecting the labor market outcomes of those admitted. These evaluations were based on:

- descriptive comparisons of key variables, such as earnings and labor force status at various times after settlement, English proficiency, self-reported use of qualifications, and job satisfaction across immigrant cohorts;
- qualitative interviews with key informants and stakeholders, such as immigration officers and employers; and
- quantitative analyses relating earnings or employment probability to point-awarding selection criteria.

These official analyses draw on longitudinal surveys of immigrants, administrative data (for example, tax files), and additional large ad hoc surveys of recent immigrants.

Academic research on immigrants is concerned predominantly with their economic effect on the native labor force. However, a growing number of studies address the effectiveness of the point system. These effectiveness studies can be divided into three groups:

- One group focuses on whether the point system weightings affect specific skill dimensions, such as immigrants' education, age, occupational composition, and fluency in the host language. The evidence drawn from single-country analyses of changes in immigration policy strongly shows that the point system weightings affect these dimensions [5], [6], [7], [8].

- A second group focuses on whether the point system draws better quality applicants. The evidence suggests a qualified "yes." Within-country analyses of applicants in different visa categories find that the point system attracts more high-skilled immigrants than family reunification or asylum admissions, with consequent better economic outcomes. Cross-country analyses comparing countries with and without a point system find that the point system leads to changes in the national origin mix in favor of immigrants with higher average skills. For example, although the US (no point system) and Canada (point system since 1967) received immigrant applications from people with similar skills, Canada was able to exclude large volumes of unskilled immigrants from Latin America and select relatively skilled immigrants, unlike the US [9].
- A third group of studies focuses on differences in immigrants' and natives' labor market outcomes over time. This evidence is mixed. New cohorts of immigrants are generally found to have worse labor market outcomes and low earnings relative to comparable natives, but these effects are largely explained by the low (or no) reward for their labor market experience in the home country [10]. Immigrants to Australia have experienced better employment outcomes over time, but they have also experienced rising levels of education–occupation mismatch.

A point system can also be effective in reassuring natives about the economic contribution of the newcomers and the orderly process in which immigrant flows are managed [11].

Drawbacks of the point system

These studies suggest that the selection criteria applied to skilled foreign applicants may value their pre-migration labor market experience and education more than domestic employers do and that the point system is not an ideal instrument for evaluating immigrants' economic integration. Immigration policy responds to, rather than anticipates, current labor market needs, and employers' possible discriminatory attitudes toward immigrants' qualities are outside the scope of immigration departments, which focus on managing population flows.

Too much emphasis on satisfying the needs of employers risks relying on criteria for selecting applicants for permanent residence that can easily become outdated. Practical challenges also arise if points are awarded for skills in short supply, as there is no accurate method for identifying future skill shortages using current occupation data. Furthermore, the point system weights cannot be changed overnight if a sudden shock affects the host country's economy.

The positive effects of a point system on immigrants' subsequent labor market outcomes can be diluted by one-off or spurious changes in related policies. Examples include shifting applicants into entry classes subject to lower admission hurdles in response to political pressures or introducing sweeping changes in the country-of-origin mix (which compromised the effectiveness of Canada's point system of 1967).

Developing a point system requires large and detailed data collection on the immigration process and on immigrants' performance over time. These surveys are expensive but are essential for informing policymakers. Data need to be regularly reviewed to test whether the point system is achieving its objectives or needs to be revised. For example, after an evaluation in 2006 Australia in 2008 substantially reduced the ability of international students already in the country to gain permanent status.

LIMITATIONS AND GAPS

One-off longitudinal surveys of immigrants have yielded more information on the effects of point systems than have the regular longitudinal surveys, yet research still relies on these regularly updated data sets.

Evidence is mixed for the effect of point systems on specific labor market outcomes for immigrants. A wider set of measures of labor market success is needed. For example, does the high level of education required of recent immigrants to some countries reflect domestic employers' reactions to foreign work experience and education? Do job search methods explain why immigrants achieve poorer labor market outcomes than expected, given their education and experience? Do large immigrant communities reduce immigrants' incentives to integrate?

Also, there is limited research on employers' labor demands, even though employers discount foreign work experience—a cause of immigrants' poor labor market outcomes. Future research has to address this and other questions about labor demand.

SUMMARY AND POLICY ADVICE

The point system is effective in selecting prospective immigrants based on such desired observable features as age, education, work experience, and language proficiency, particularly for a host country with high average income and relatively compressed income distribution as selection on unobserved characteristics is not possible. Such a country thereby institutes an orderly way to manage population flows.

While effective in screening and filtering an excess supply of immigrants, the system requires large data collections and regular policy evaluations. If this is not implemented, admitting unemployable immigrants becomes more likely, leading to substantial financial and social costs for the host country.

Point systems do not guarantee immigrants' immediate economic integration, particularly in the early years after migration. The systems have enabled researchers to identify the problem of employers discounting foreign work experience and education—leading to lower than expected economic outcomes for the immigrants. This evidence is crucial for policymakers, enabling them to design policies to improve immigrants' economic integration.

Acknowledgments

The author thanks an anonymous referee and the IZA World of Labor editors for many helpful suggestions on earlier drafts.

Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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Further reading

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The full reference list for this article is available from the IZA World of Labor website (http://wol.iza.org/articles/using-a-point-system-for-selecting-immigrants).