SUPPLY-DRIVEN POLICY SYSTEMS PROVE MOST EFFECTIVE IN ATTRACTING HIGH-SKILLED MIGRANTS

Mathias Czaika and Christopher R. Parsons

In the global contest to attract talented individuals, destination countries employ a range of policies to attract and select high-skilled migrants. Points-based systems prove more effective in attracting and selecting high-skilled migrants than requiring a job offer, labor market tests and shortage lists.

Faced with a limited domestic supply of certain skills and occupations, national governments increasingly vie to attract talent to respond to immediate and long-term labor requirements and skill shortages. At the center of this global contest for talent are the countries of the Organisation for Economic Co-operation and Development (OECD) that historically have attracted the largest proportion of high-skilled migrants. Increasingly, highly developed destinations are redesigning their immigration regimes, with two-thirds of OECD nations having implemented, or in the process of implementing, policies specifically aiming to attract high-skilled migrants. While they have been doing so, the countries of the OECD have witnessed an unprecedented rise of 70 per cent in the number of tertiary-educated migrants to 35 million, between the last two census rounds in 2000 and 2010.

High-skilled migrants are motivated to move internationally by myriad factors, and therefore the efficacy of nation states' high-skill immigration policies remain highly contested. Academics have argued that factors such as skill premia and cultural proximity or indeed broader economic and social factors play far more important roles in attracting human capital than do specific immigration policies. To date, scant empirical evidence exists on the efficacy of immigrant-selection policies. This brief introduces the results from the first judicious cross-country assessment of such policies.

High-Skilled Migration Policy Systems

Labor immigration systems may be broadly categorized as demand- or supply-driven. Demand-driven systems require labor migrants to have obtained a job offer before gaining entry to the domestic labor market and employers typically take a leading role in the recruitment process. Most European systems as well as the U.S. labor immigration system are, at least in part, employer driven. The job offer requirement is in effect a general test about a foreign worker's employability in the domestic labor market. Such requirements are effective in selecting migrant workers that are immediately employable, but skilled migrants that do not fill an immediate shortage in the domestic labor market might be deterred.

In supply-driven systems, highly qualified migrants can apply for work permits without job offers, although a job offer may still confer preferential access. Qualifications, age, work experience, language skills and previous wages are usually assessed on an individual basis in points-based systems, whereby applicants are selected independently of prevailing labor market conditions. Canada and Australia pioneered these skill-selective immigration systems, which aim to attract high-skilled migrants in large numbers.

Whether a country has implemented an employer-driven (demand) system, an immigrant-driven (supply) system, or a mixture depends upon policy makers' priorities when addressing long-term deficiencies in human capital compared with short-term labor market shortages. In practice, regardless of whether countries lean toward a demand- or supply-driven orientation, immigration policies tend to comprise a mixture of elements, both demand and supply, termed "hybrid systems."

To assess the efficacy of immigration systems, therefore, it is necessary to assess the effectiveness of various constituent elements of countries' high-skilled migration policies. In recent work, we choose six separate policy elements that collectively capture many of the key differences between destination countries' policy stances—job offer, points-based system, labor market test, shortage list, offers of permanent residency, and financial incentives.

Labor market tests are case-by-case assessments of whether an "equivalent" domestic worker is currently available to fill an advertised position. Labor market tests prevent the recruitment of unemployable migrants and those that might reduce the employability of native workers. To lower the bureaucratic burden of labor market tests, particularly if it is obvious that entire occupations cannot be filled locally, countries have developed shortage lists of occupations that are exempt from labor market tests. High-skilled migrants are also hypothesized to be strongly attracted by prospects of permanent residency. Today most OECD destinations offer a "road to permanency" after a migrant

lives and works in the country for a number of years. Financial incentives, including tax exemptions and other economic incentives, also predominantly target high-skilled migrants.

What Country Characteristics Attract High-Skilled Migrants?

We find strong evidence that points-based systems increase both the absolute numbers of high-skill migrants and the skill composition of international labor flows. The provision of post-entry rights, as captured in our model by the offer of permanent residency, is effective in attracting high-skilled migrants, but overall is found to reduce the human capital content of labor flows since "roads to permanency" prove more attractive for non-high-skill workers. Conversely, demand-driven systems, which are usually based on the principle of job contingency and that are often supplemented by case-by-case (labor market tests) or occupation-by-occupation (shortage lists) assessments of labor market needs, are shown to have rather little, and potentially even a negative, effect.

We find that bilateral agreements that serve to recognize credentials earned overseas and transfer social security rights between country pairs foster greater flows of high-skilled workers in addition to improving the skill selectivity of immigrant flows. Conversely, double taxation agreements on net are found to deter high-skilled migrants, although we find no evidence that such policies alter the overall skill selectivity of labor flows. Our results also demonstrate that being a member of a freedom-of-movement area increases the overall numbers of highly skilled immigrants but that such membership also serves to reduce the overall skill selectivity of total labor flows.

Higher skilled wages increase both the overall number of high-skilled workers and the degree of human capital within migration corridors. We find the opposite when countries have higher levels of unemployment. Finally, many of our variables that capture various migration costs—migrant networks, contiguous borders, common language, and freedom of movement—while all encouraging greater numbers of high-skilled workers all exert greater effects on non-high-skilled workers, thereby reducing migrant skill selection. Our measure of distance, however, has the opposite effect, and while deterring both types of workers, affects the high skilled less, such that greater geographic distances are associated with an improved selection of skills.

Recent policy developments demonstrate an increasing "hybridization" in skill-selective immigration systems, with the coexistence of demand- and supply-driven policy elements that attempt to balance the conflicting aims of numbers versus employability. Therefore, policy makers need to carefully consider what the specific aims of their immigration policies are to judge what combination of immigration policies needs to be used.