Global talent and local growth, part II

Calculating the positive impact of international students on domestic living standards in the UK

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Global talent and local growth:

Calculating the positive impact of international students on domestic living standards in the UK

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International students make up almost a quarter of the higher education population in the UK. Previous work from London Economics calculated that the aggregate economic benefit of these students to the UK was £41.9bn (21/22 figures) and will have risen since then owing to the rise in international student numbers since that date, as well as the rise in fees[1].

Students make up 48% of entry visas to the UK in the latest Home Office data[2]. Despite more than £40bn of economic benefits, and despite the fact that the majority are only temporary immigrants, the political salience of migration means that some argue for a reduction in the number of international students in the UK.

In this and our previous analysis, we build on the aggregate and constituency level economic work done by London Economics to explore two things:

- International students as an export industry for the UK, and the value of exports and jobs supported by parliamentary constituency
- Whether international students increase or decrease living standards domestically.

This note and analysis focuses on the second of these two questions; a previous briefing note published here addressed the first.

The evidence that international students increase GVA and GDP in the aggregate is unambiguous. We look instead at the question as to whether international students raise or lower GDP per head for the existing population. We calculate this both nationally and at a local level. We therefore answer the question as to whether

[1] As an order of magnitude, any numbers for today (ie 24/25) will be a little over 10% higher in cash terms than the numbers reported here and throughout the paper

[2] Home Office, "Entry Clearance Visas", table Vis_02, year ending December 2024. Student visas granted made up 369,419 out of 874,780 entry visas granted (excluding visitor visas)

international students increase, or decrease, living standards and wealth for the resident population of our country, and of places within it.

This report contains our headline findings, while the methodology can be found in the technical annex. An accompanying spreadsheet with constituency-level impacts is also available.

We are grateful for the support of the **University of York** in commissioning us to conduct these two analyses, and from our colleagues **Maria Rodriguez** and **Rhiannon McQuone.** This report and research is entirely the work of Public First, who maintained editorial control throughout the project.

We conclude that:

- GDP per capita is the wrong measure to use when looking at the impact of international students on living standards of those people who are already in the country. Instead, the question is the rise of living standards among the domestic population.
- On this measure, we find that international students raise living standards in every constituency in the country. On average,
    - **Every UK resident person - man, woman, child; working, non-working and retired - is £355 a year better off on average as a result of international students.**
    - **Every UK resident working adult - on a full time equivalent basis - is £466 a year better off on average as a result of international students.**
- International students' positive effects are spread across the country. In more than 100 constituencies, we find the wage benefit from international students to be worth more than two and a half week's wages for the average earner.
- Labour currently hold 80 of the 100 seats that benefit most from increased wages, including 6 Cabinet Ministers. Many other Cabinet Ministers are in, or very close to, areas of significant wage gain from international students.

What is the right measure to assess the effect of international students on living standards?

That international students have a positive effect on aggregate GDP, and that this effect is large, is not contested. This is the case even by those who think that student migration should be reduced. For example, a Centre for Policy Studies report by leading thinkers in the last Conservative government notes that the export revenue - then estimated at £35bn - was "nothing to sneer at."[3]

They argue, however, that the effect on GDP per person, rather than the aggregate GDP, is a better measure of the effect of international students on the standard of living in the UK. The critique of the aggregate measure has validity: per person measures of income are always to be preferred in assessing living standards.

However, although aggregate GDP is certainly not the right measure, GDP per person is not the right measure either. The issue under consideration is the effect of international students on living standards of those people who are already in the country. GDP per person does not do this, because it includes the students in both the numerator and the denominator. Put bluntly, most people do not care if the migrating student is better off by coming here, they care whether they - and others like them - are better off.

There are three ways in which an international student can make people already in this country better off. First, they can spend money here in a way that increases employment, or raises the wages of people who are employed here already. It is straightforward to see that a self-employed hairdresser is better off if they cut an international student's hair, or if someone who would otherwise be unemployed gets a job working in the kitchens of a now-busier than ever university canteen.

Second, they can raise profits, rents or the return to other assets. If our hairdresser is employed on a fixed wage, the extra haircut will boost the profits of the salon owner. Similarly, firms that employ international students, or graduates, may be able to grow more quickly as a result of their new employees.

Third, international students pay tax. This is true both while they are studying and if they remain in the UK to work after they graduate. Although very few students will pay income tax, they will pay VAT and other forms of duty, for example on alcohol or air travel. We estimate, for this report, that international students contribute approximately £940m in VAT receipts on 21/22 figures (to align with London Economics base year for calculating economic impact of international students). Based on inflation

[3] Jenrick, O'Brien and Williams / Centre for Policy Studies, "Taking back control: why Britain needs a better approach to immigration" May 2024, page 86

since then, and increased international student numbers we estimate this number for the 23/24 year to be almost £1.15bn.[4]

There is much academic debate about the salary level at which migrants become net tax contributors. The OBR's last assessment looked at migrants as a whole over their life cycle. Since we as a nation do not have to pay for many migrants' education (if they come here as adults, or, like most international students, they cannot bring dependents with them), and as they pay an additional surcharge for use of the NHS, migrants are more likely to be net contributors than are people born in the UK.[5] That does not mean, of course, that all migrants will be net contributors.

London Economics show that the holders of the Graduate Route visa - that is to say international students graduating from UK universities and working in the UK for a time-limited period after graduating - are on average net contributors to the Exchequer. This contribution averages around £1,240 per graduate, for a net "profit" for the UK government and all tax payers of around £70m[6]. These figures apply to the 22/23 tax year: adjusting for inflation gives rates of around £1400 per person and £80m in aggregate in today's values. This average will again hide a range of outcomes for different individuals.

These figures allow us to see clearly that thinking about the specific contribution of international students is a better way to assess their contributions than looking at the effect on GDP per head. An international student on a Graduate Route visa, working in the UK for a year or two after graduation will typically have lower wages than the national UK average for all employees. It is very rare to earn more than the national average in the first 18 months after graduating, whether the person concerned is an immigrant or born locally. But does not mean that such people have made the rest of us worse off. On the contrary, the £80m in net tax that Graduate Route holders pay a year is literally £80m that the rest of us do not have to pay.

The same is true for an international student doing some part-time work - in line with their visa rules - while studying. As part-timers, they will clearly earn less than the UK average, but they are not eligible for benefits, and have to pay a charge to use the NHS. Even if they do not pay income tax, they will pay VAT and other duties, which as above we estimate at around £1.15bn a year, and are likely to be net contributors.

What is true at national level will be even more true in some areas. The most extreme cases occur in and around the City of London. The local area average income per head is very high - for example ASHE data at constituency level shows that gross pay for a resident in the cities of London and Westminster is £67,395 for 2023[7]. It is implausible

[4] We start here with the OBR estimates on the proportion of household spending that is subject to VAT, and ONS data on spending patterns for an under-30 individual in the UK. From that, we calculate the average VAT rate across such spending, and apply this to the non-fee spending assigned to international students, to construct the estimate. We start with baseline 21/22 data and then uprate by inflation, and HESA figures for international students in 2023/24.

[5] OBR, "Fiscal risks and sustainability", Sep 2024

[6] London Economics, "The Exchequer benefits and costs associated with the Graduate Route visa", May 2024

[7] Annual Survey of Hours and Earnings, constituency profiles, 2023 data

that any student will earn more than this amount. Again, however, the reduction in GDP per head across the constituency does not mean that these students are harming local people: they will still be net contributors via the taxes that they pay.

It can clearly be demonstrated, therefore, that international students are making a contribution to their local area (as an export, as per our previous paper, and by generating VAT and other tax revenues as well), even if they are (irrelevantly) reducing GDP per capita.

We conclude that:

- It is unambiguously the case that international students raise aggregate GDP.
- It is likely that international students lower average GDP per person.
- But both of these contentions are irrelevant to the key question: **whether those students raise living standards for people already living here.**

To answer this third question - which we consider key for the policy question of whether to reduce the number of international students coming to the UK - we undertake new analysis looking at the impact of international students on living standards for two groups:

- The economic impact of international students on increased income, profits and rent for every domestic individual in the UK
- The wage impact for UK workers, assessed per full time equivalent worker

Both of these are broken down by the Parliamentary constituency in which the students reside.

Finding One: In every single constituency in England, international students raise domestic living standards - measured as the total increase in income per individual, and by the wage increase per working adult

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This report contains new analysis looking at the impact of international students on the domestic residents in the parliamentary constituencies in which these students live. We consider this through two lenses: the impact on every domestic resident in an area (including children, working and non-working adults, and pensioners); and the impact on wages for working adults in the constituency.

In doing so, we build upon our previous model allocating international students to constituencies, and estimating the economic impact of their presence.

To estimate the impact of international students we used our estimates from our previous work on student spending, derived from work published by London Economics. We then calculate how much of the economic impact of student spending is retained in each constituency using a location quotients methodology (more details in the appendix). For example, we account for the fact that the economic impact of student spending in a supermarket is not entirely within the constituency where the spending takes place, given the nature of supermarket supply chains. We use GVA for all these calculations because it focuses more specifically on the value added by each sector (in this case, the international student population).

When calculating the benefit per domestic person we subtract international students from the total population and divide the GVA by the remaining population (including children, working-age adults, and pensioners).

To estimate the impact on wages we take estimates of the number of full-time equivalent workers who work in that constituency (regardless of where they live). In this way, we look at the benefits in the local labour market, rather than to workers who may live there, and work elsewhere. We then take into account the national share of wages in GVA.

We construct two new measures:

- First, the increase in income in all forms per domestic resident. This is GVA divided by the number of residents in the constituency, excluding international students. This is the estimated average benefit to each local person from having international students in their community.

- Second, the increase in wages per FTE adult who works in the constituency. This is the previous measure of gains in that constituency, less profits, rents and other forms of income that are not wages, and this time divided by the number of full-time equivalent employees working in that constituency. Again, it is expressed as an average value by constituency.

All gains are expressed in 21/22 numbers, for consistency with London Economics. The full constituency breakdown is in the accompanying spreadsheet. But in summary, we find that international students raise the incomes of existing domestic adult residents in every single parliamentary constituency in the UK.

On average,

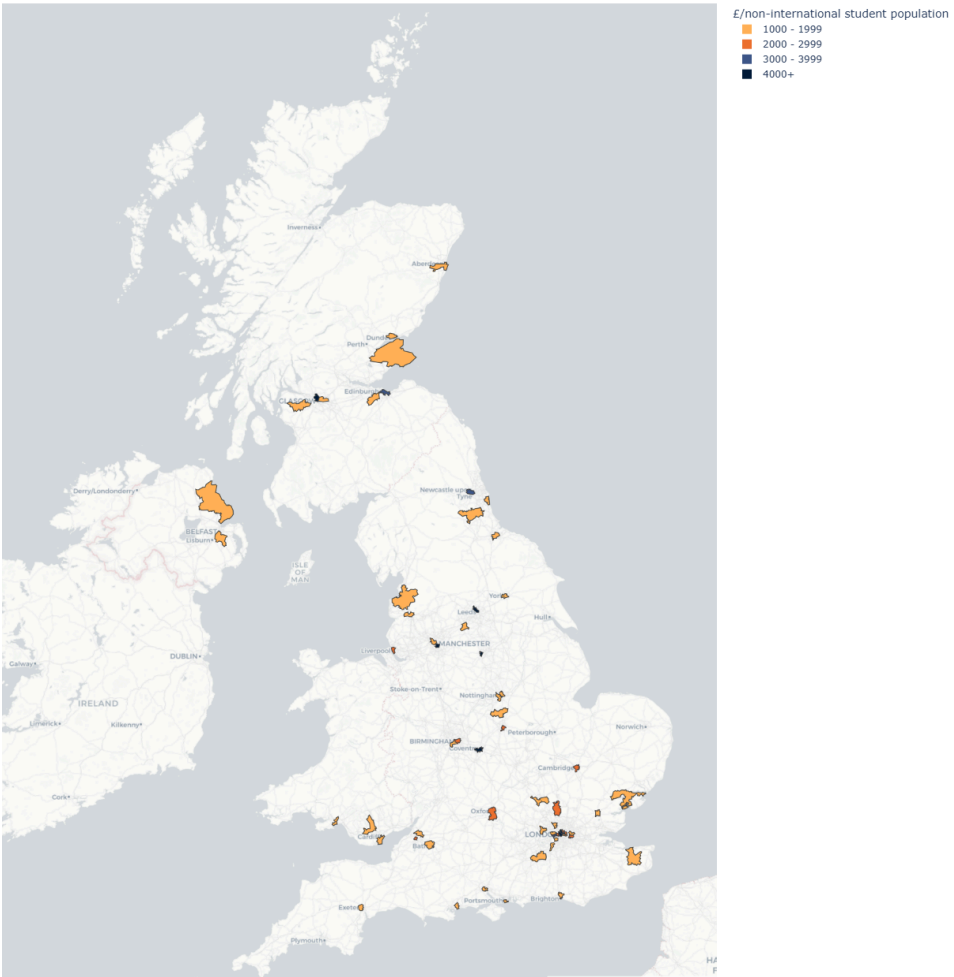
- **Every UK resident person - man, woman, child; working, non-working and retired - is £355 a year better off on average as a result of international students.**
- **Every UK resident working adult - on a full time equivalent basis - is £466 a year better off on average as a result of international students.**

Finding Two: There are more than 20 constituencies where the average person is more than £2000 better off, and more than 60 where they are over £1000 better off.

The impact on domestic residents obviously varies - both by the density of international students in a constituency, the level of fees at different universities, and the overall number of domestic residents in that area. We find that in more than 20 constituencies, broadly those with the highest ratio of international students to resident adults, there is at least a £2,000 gain per head - with an average annual gain per resident across these constituencies of £3,424. We further estimate that wages for those employed in these places are £1,277 greater than would otherwise be the case.

In more than 60 constituencies, we find a gain of at least £1,000 per resident. For these 60 constituencies, the average gain per resident is £2,117, and wage gains average £1,363, as can be seen here:

Estimated increase in income, profits and rents per non-international student population by parliamentary constituency

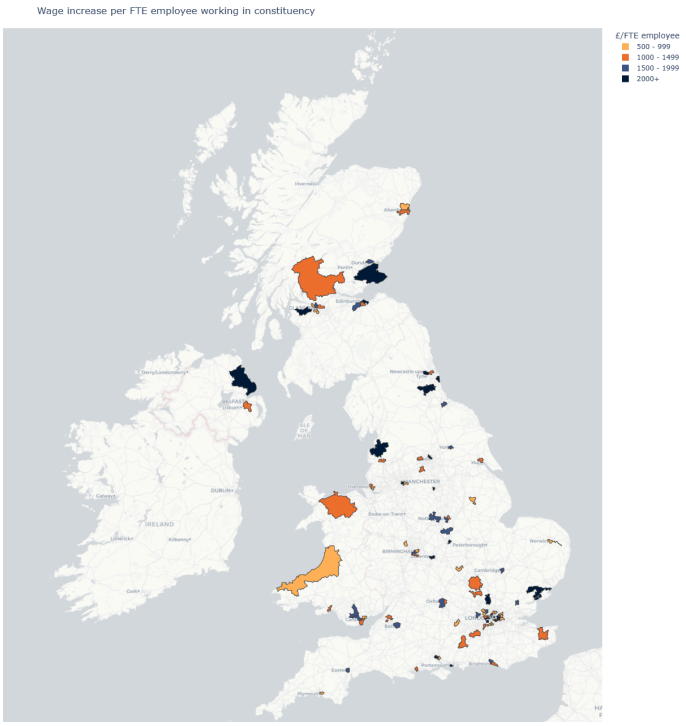


Finding Three: In more than 100 constituencies, the wage benefit from international students is more than two and a half week's average wages.

In our previous work, we looked at the 100 constituencies where higher education makes up the biggest export. Here, we conduct a similar analysis, looking at the 100 constituencies with the biggest impact on wages. Although, fairly self-evidently, there is an overlap, these are not the same constituencies. Here, we are measuring the benefit to people working in the constituency, not necessarily living there. We assign the wage benefit to commuters to the constituency in which they work (because that is where the activity is taking place). This means that wage benefits are more dispersed.

Wage benefits - obviously - only flow to those in work. They are therefore a different calculation from the full GVA benefits of such students, which benefit every domestic resident - working or not working; and of all ages.

In total, we find the average wage value for the 100 constituencies with the highest impact to be £1,600, in 2021/22 numbers. Median weekly wage for a full time UK worker in May 2022 was £615[8]. **In other words, international students in 100 constituencies bring direct wage benefits which flow through to an FTE domestic worker as more than two and a half week's worth of extra wages.**



[8] representing the end of academic year 21/22. ONS, EARN01 Average Weekly Earnings - total pay, Great Britain (seasonally adjusted), 17 May 2022

Finding Four: 80 of the top 100 seats by wage gains are Labour seats; this includes 6 of the Cabinet. Many other Cabinet Ministers are in, or very close to, areas of significant wage gain from international students

The 100 seats with the highest gain from wages are all over the UK - and not just in England. The largest ten are East Antrim; Manchester Rusholme; Coventry South; Greenwich and Woolwich; Sheffield Central; North East Fife; West Ham and Beckton; Harwich and North Essex; Welwyn Hatfield; and Edinburgh East and Musselburgh.

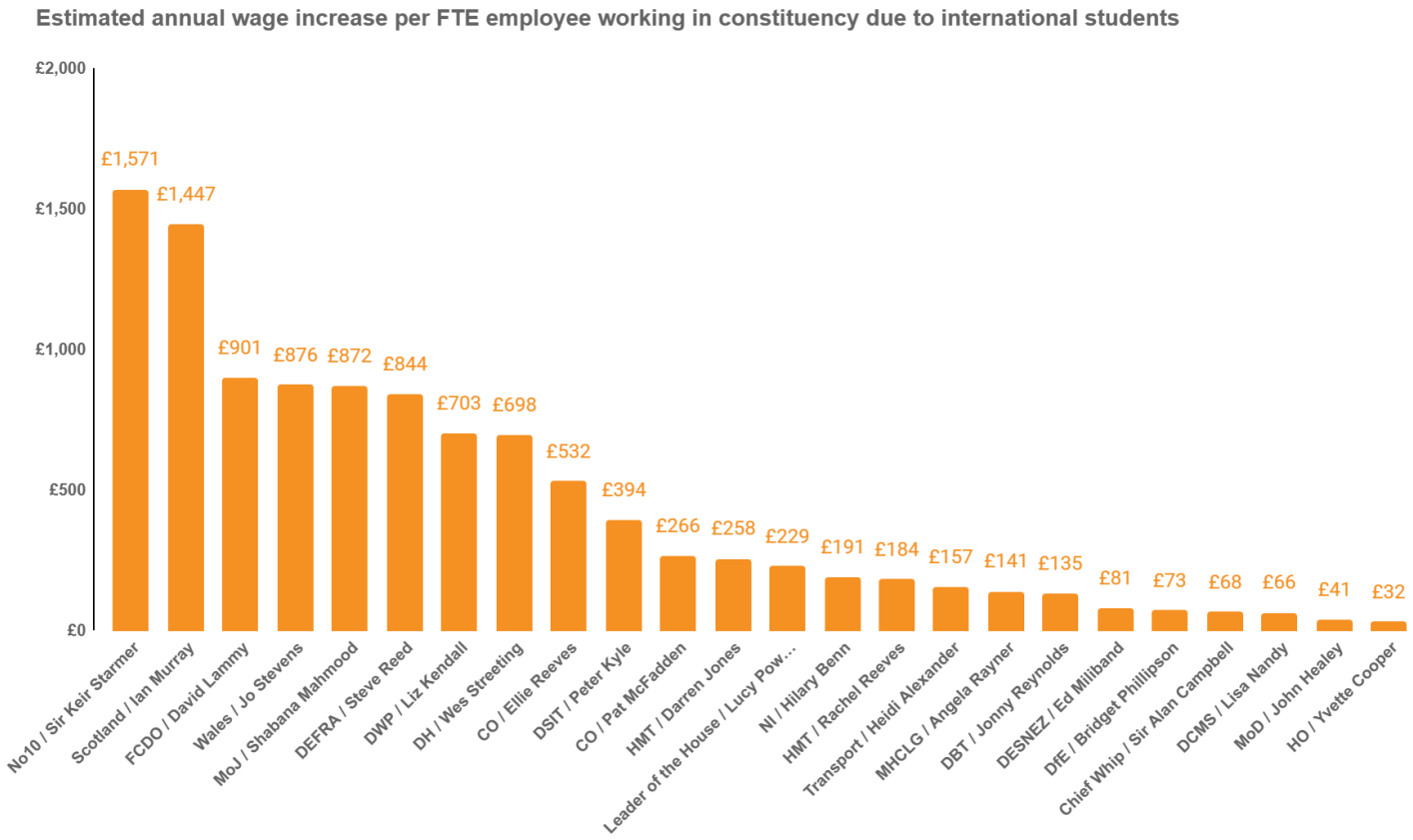
A regional analysis shows the benefits are spread across the whole UK:

Region	Estimated wage benefit		Region	Estimated wage benefit
London	£686		West Midlands	£436
Scotland	£667		Wales	£432
North East	£664		East of England	£353
Yorkshire+Humber	£452		South West	£336
Northern Ireland	£446		North West	£328
East Midlands	£441		South East	£316

6 Cabinet Ministers, including the Prime Minister, represent constituencies in the top 100 by wage gains.

Constituency	Est wage benefit	MP
Holborn and St Pancras	£1,571	Sir Keir Starmer (PM)
Edinburgh South	£1,447	Ian Murray (Scotland Sec)
Tottenham	£901	David Lammy (Foreign Sec)
Cardiff East	£876	Jo Stevens (Wales Sec)
Birmingham Ladywood	£872	Shabana Mahmood (Lord Chancellor)
Streatham and Croydon North	£844	Steve Reed (SoS DEFRA)

Looking at the benefits of international students on wages across the whole Cabinet, we see wages in many Cabinet Ministers' seats benefitting from the impact of international students:



Over time the number of international students has grown, and as such the benefits have widened. The more students there are in a city or town, the more spread out they become. Similarly, the more students, the more people employed to support them - and again, as the number needed grows, the more dispersed those workers will become. There are some constituencies whose locations mean they are unlikely to ever see significant gains to incomes from international students - Orkney and Shetland being the extreme example. In many cases, however, a rise in the number of international students would be expected to spread benefits to nearby constituencies that currently gain little. For example, although Bridget Phillipson's Houghton and Sunderland South seat sees an estimated wage increase of just £73 due to international students, the next door constituency of Sunderland Central sees a wage benefit of £2,196 - the 17th highest increase in the country. If Sunderland University increased the number of international students, or if the City of Sunderland - like Newcastle - had two universities, we would expect the benefits of international students to disperse outwards throughout Sunderland, just as we see in other places.

Conclusion

International students contribute positively in aggregate to the UK economy - and they raise living standards of domestic UK residents as against the counterfactual of none or fewer international students. We show here for the first time the benefits of such students to domestic residents in the UK, broken down on a local basis through new calculations which assign the direct economic benefit of international students to jobs and GVA in each constituency, and assigning those values to domestic residents through both wage and non-wage benefits.

It is likely that the marginal student brings down GDP per capita. They are, after all, typically younger than the average worker. But this is an incorrect metric to use as the basis for public policy debates on whether the numbers of such students should be increased, maintained or decreased. Such a decision is of course one for an elected government to make, and should be done so on the basis of a range of factors, not just the economic impact (including both benefits and costs). Nevertheless, this report (and its sister report published previously) contribute to this current debate by showing the positive impact of international students both on exports, and on domestic living standards, across the UK.

Top 100 constituencies for impact of international students on domestic residents *Ranked by estimated increase in FTE wages for people working in the constituency*			
Constituency	**Estimated increase in wages per FTE adult**	**Estimated increase in income and profits per domestic resident**	**Seat currently held by**
East Antrim	£5,784	£1,746	DUP
Manchester Rusholme	£4,613	£4,442	Labour
Coventry South	£4,524	£4,831	Labour
Greenwich and Woolwich	£3,156	£2,104	Labour
Sheffield Central	£3,132	£5,036	Labour
North East Fife	£2,987	£1,451	Liberal Democrat
West Ham and Beckton	£2,980	£1,665	Labour
Harwich and North Essex	£2,771	£1,344	Conservative
Welwyn Hatfield	£2,639	£2,925	Labour
Edinburgh East and Musselburgh	£2,625	£3,156	Labour
Leicester South	£2,519	£2,947	Independent
Portsmouth South	£2,500	£1,479	Labour
Paisley and Renfrewshire South	£2,462	£1,145	Labour
City of Durham	£2,430	£1,873	Labour
Southampton Test	£2,336	£1,854	Labour
Leeds Central and Headingley	£2,288	£4,297	Labour
Sunderland Central	£2,196	£1,629	Labour
Newcastle-u-Tyne Central and West	£2,177	£3,022	Labour
Putney	£2,115	£1,067	Labour
Lancaster and Wyre	£2,100	£1,217	Labour
Lewisham North	£2,092	£894	Labour
Hammersmith and Chiswick	£2,013	£3,114	Labour
Exeter	£1,953	£2,000	Labour
Pontypridd	£1,951	£1,237	Labour
Middlesbrough and Thornaby East	£1,932	£1,827	Labour
Mid Derbyshire	£1,918	£753	Labour
Cambridge	£1,911	£2,120	Labour
York Central	£1,897	£1,792	Labour
Birmingham Edgbaston	£1,842	£1,993	Labour
Nottingham South	£1,826	£1,988	Labour
Hendon	£1,789	£1,063	Labour

Oxford West and Abingdon	£1,757	£2,190	Liberal Democrat
Bethnal Green and Stepney	£1,746	£2,232	Labour
Loughborough	£1,740	£1,166	Labour
Islington North	£1,711	£791	Independent
East Ham	£1,705	£504	Labour
Brighton Pavilion	£1,671	£1,764	Green
Kensington and Bayswater	£1,629	£2,359	Labour
Holborn and St Pancras	£1,571	£9,026	Labour
Glasgow North	£1,570	£4,351	Labour
Edinburgh South West	£1,548	£1,823	Labour
Chelmsford	£1,531	£1,265	Liberal Democrat
Dundee Central	£1,522	£1,423	SNP
Cardiff West	£1,514	£681	Labour
Uxbridge and South Ruislip	£1,512	£1,514	Labour
Bath	£1,511	£1,340	Liberal Democrat
Huddersfield	£1,482	£1,018	Labour
Canterbury	£1,481	£1,121	Labour
Preston	£1,462	£1,419	Labour
Edinburgh South	£1,447	£630	Labour
Swansea West	£1,437	£1,065	Labour
Glasgow North East	£1,369	£1,156	Labour
Kingston and Surbiton	£1,343	£1,018	Liberal Democrat
Bournemouth West	£1,293	£1,049	Labour
Filton and Bradley Stoke	£1,258	£1,682	Labour
Stirling and Strathallan	£1,243	£928	Labour
Kingston upon Hull North and Cottingham	£1,231	£854	Labour
Nottingham East	£1,210	£1,699	Labour
Brighton Kemptown and Peacehaven	£1,193	£671	Labour
Luton South and South Bedfordshire	£1,193	£1,242	Labour
Oxford East	£1,178	£989	Labour
Farnham and Bordon	£1,171	£655	Conservative
Bradford West	£1,161	£951	Labour
Liverpool Riverside	£1,152	£2,294	Labour
Bangor Aberconwy	£1,116	£728	Labour
Guildford	£1,110	£1,131	Liberal Democrat
Birmingham Selly Oak	£1,104	£382	Labour

Mid Bedfordshire	£1,103	£592	Conservative
Ealing Central and Acton	£1,092	£1,029	Labour
Belfast South and Mid Down	£1,085	£1,928	SDLP
Newcastle upon Tyne East and Wallsend	£1,058	£439	Labour
Bristol Central	£1,038	£2,760	Green
Cardiff South and Penarth	£1,017	£1,787	Labour
Aberdeen South	£1,010	£1,199	SNP
Wolverhampton West	£996	£547	Labour
Aberdeen North	£944	£963	SNP
Norwich South	£938	£887	Labour
Plymouth Sutton and Devonport	£935	£765	Labour
Lincoln	£934	£706	Labour
Ceredigion Preseli	£927	£435	Plaid Cymru
Northampton South	£911	£909	Labour
Southampton Itchen	£905	£612	Labour
Tottenham	£901	£361	Labour
Liverpool Wavertree	£879	£339	Labour
Cardiff East	£876	£517	Labour
Queen's Park and Maida Vale	£876	£333	Labour
Birmingham Ladywood	£872	£2,229	Labour
Barking	£869	£366	Labour
Streatham and Croydon North	£844	£211	Labour
Erith and Thamesmead	£839	£334	Labour
Ilford South	£833	£353	Labour
Mitcham and Morden	£833	£222	Labour
Gorton and Denton	£816	£246	Labour
Earley and Woodley	£804	£809	Labour
Glasgow West	£802	£355	Labour
Peckham	£773	£401	Labour
Harrow East	£769	£313	Conservative
Brent West	£753	£460	Labour
Glasgow South	£745	£206	Labour
Walthamstow	£721	£269	Labour

Technical appendix

- We split the GVA by international students into three channels:
    - The tuition fees paid by international students.
    - Subsistence and other spending by students on e.g. subsistence such as housing, energy and food, as well as (say) leisure activities while they are in the UK, including visiting other parts of the UK.
    - Spending by overseas visitors who come to the UK while the students are here.
- To quantify the value of these channels by constituency, we drew on estimates published by London Economics. This analysis uses data on the fee income received by UK higher education institutions in the 2020/21, and estimates the average fee charged per international student by location, uprated to 21/22 prices.
- The London Economics estimates take into account flow-on benefits of each of the export channels described above, including indirect and induced economic effects.
- To produce a "direct" impact which excludes these flow-on benefits, we backwards calculated using economic multipliers set out by London Economics in its methodology.
- The direct impact from subsistence and other spending by students and spending by overseas visitors was left assigned to where the student resided. The direct impact from tuition fees, however, was updated to be assigned to the location of the university attended, to more accurately reflect which constituencies fee spending ended up in.
- GVA at constituency level was then calculated using the following method:
    - Public First used a location quotient methodology (the Flegg Location Quotient) - to produce constituency-level input-output tables detailing the interrelationships between different sectors of the economy within each constituency, and to map how much economic activity is retained in an area versus leaking out through supply chains and employee spending. This was used to produce local-level economic multipliers to apply to student spending figures, and quantify the GVA and jobs impacts retained in each constituency.
    - An overall GVA multiplier for each channel of international student spending was calculated for each parliamentary constituency. This took into account the different types of sector spending by channel, for example, international student subsistence and other spending considered spending on rent and bills (amongst other spending), while visitor spending used ONS data on tourist spending.
    - Total GVA was calculated by applying the relevant local-level overall GVA multiplier to the direct spending in each channel. This includes not just direct spending, but additional gains to the local economy along supply chains (indirect effects) and through employee spending (induced effects).
- Within each constituency, some of the spending from international students will flow back to international students working in the local economy. ONS data on the share of international students working at a regional level, the share of GVA that is wages, and average pay and workforce size was used to estimate GVA from international students spending that doesn't make its way to the domestic population. This was subtracted from the overall GVA to isolate GVA that stays with non-international student population.
- The GVA per domestic population was calculated by dividing the GVA by the domestic population (excluding international students) in the parliamentary constituency. The increase in wages per Full Time Equivalent (FTE) employee was estimated by applying the share of GVA at a national level that is wages to the GVA of the constituency, and dividing by the number of FTE employees working in that constituency. Part-time employees were converted to FTE using ONS data on average hours worked for full-time and part-time employees.