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July 21st, 2025

Universities are engines of growth and must be backed by policy

The UK's Industrial Strategy identifies growth-driving sectors that will require a highly-skilled workforce. Higher education will be a key to unlocking this ambition. But as universities aim to recruit the best talent from around the world, Aadya Bahl and Sandra McNally write that the Government's recent immigration policies risk destabilising the sector at the very moment it is being asked to do more.

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The UK's [Industrial Strategy](#) identifies key growth-driving sectors as central to the country's future economic success. These sectors rely increasingly on a workforce equipped with high levels of [formal education](#) and technical skills, as evidenced in the [Economy 2030 Inquiry](#) — a collaboration between the Resolution Foundation and the Centre for Economic Performance at LSE, funded by the Nuffield Foundation.

To expand these sectors and spread good jobs across the UK, the workforce must be prepared. This means ensuring access to high-quality higher education that equips students with the relevant skills to meet labour market demand, both today and in the future.

Higher education as a growth engine

The Industrial Strategy highlights the UK's strengths in higher education—more than [80 per cent](#) of university research is classified as “world-leading” or “internationally excellent”— and the central role universities play in delivering the country's growth ambitions. But this role cannot be taken for granted, with many universities having declined in the [recent world rankings](#), which is being attributed to increasing financial pressures as well as competition elsewhere.



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Higher education delivers significant **economic benefits** like higher wages and lower unemployment to individuals. It also generates wider societal gains, such as improved health, civic participation, and social mobility. Individuals with university degrees receive a high **wage premium** compared to those with no university degrees and have a positive impact on **economic productivity**. Research shows that having a population with an extra year of education can raise a country's long-run growth rate by **0.58 percentage points**, depending on the quality of education. In the UK, the expansion of higher education accounted for around **15 per cent** of national growth between 2000 and 2007.

A more educated workforce supports innovation and more decentralised, productive workplaces. Regions with **higher graduate concentrations**, such as London, the South East, and East of England, also have the highest output per hour worked. Agglomeration effects mean that non-graduates benefit from working in graduate-dense environments. For instance, a **10 per cent** increase in the number of universities is associated with a 0.4 per cent rise in GDP per capita in a region.

International students as an asset

The UK's universities have also become more international. English-language provision, strong institutional rankings, and global academic reputations have allowed UK universities to attract large numbers of international students. These students are not just a **financial asset**, they also contribute to local economies, university research ecosystems, and the country's soft power globally.

In 2015, international students were estimated to contribute **£17.6 billion** to the UK economy. Many remain in the UK after graduation, boosting the skilled labour force and contributing around **£100 million per year** fiscally. An increase in overseas students stimulates entrepreneurship and **start-up activity** in university towns and has a positive impact on the learning experience for domestic students.



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Crucially, international students subsidise provision for domestic students. In **STEM subjects** especially, their tuition fees help sustain courses that might not otherwise be viable. Research has found **no evidence** that international students crowd out domestic students. In fact, they often enable more places for UK students.

Despite this, the current policy landscape poses a threat to the vibrant global community created through higher education, and actively undermines its financial and operational resilience.

Funding and policy pressures as a threat to success

The real value of domestic tuition fees has fallen by around **20 per cent** over the past decade, as fees have remained mostly frozen while inflation has surged. Per-student teaching resources for home students are down **16 per cent** since 2012. This has pushed universities to rely increasingly on higher international fees to cross-subsidise teaching and research.

But this source of funding is now also under threat. Recent visa restrictions—such as the removal of dependents' rights for international postgraduates—have already deterred applicants. The latest **Immigration White Paper** proposes even stricter rules: raising the minimum pass threshold in the Basic Compliance Assessment, shortening post-study work rights, and potentially introducing a new 6 per cent levy on international student income.

These measures threaten to erode a vital income stream for universities. Recent policy changes are estimated to result in a **£1.4 billion** funding shortfall for English higher education institutions by 2025–26. In some cases, courses have already been cut due to **falling enrolments** from abroad, narrowing educational opportunities for domestic students. These pressures threaten not only the sustainability of the university sector, but also the UK's ability to meet its own industrial strategy ambitions.

Contradictory policy goals hold back growth

The contradiction at the heart of current policy is stark. On one hand, the government's strategy recognises the need for a highly skilled, innovation-ready workforce. On the other, its policies are weakening the very institutions that deliver those skills.

Employers consistently report **skills gaps** in key areas like STEM and languages. As technological changes and the transition to net-zero reshape the labour market, the need for lifelong learning and workforce reskilling will only increase. Universities and further education colleges are **critical** for meeting this demand, providing flexible, broad-based education to learners at all life stages.

A coherent industrial strategy cannot rest on a higher education system in retreat. It must instead recognise universities as strategic national assets that are worthy of sustained investment and an enabling policy environment. Without this, the UK risks asking more of its universities while giving them less—and in doing so, jeopardising the very growth it seeks.

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