More than 1 in 3 Welsh graduates leave Wales to work. The importance of universities is massively increased if graduates stay in the area.

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Internal migration in Britain is typically dominated by the young, highly educated, start-of-career or early career professionals. Cities and regions are increasingly interested in retaining their most highly qualified graduates to boost invention, innovation and ultimately productivity. Tim Leunig analyses the unusual case of Welsh universities, which attract a surplus of students yet fail to retains graduates, and what this could mean for the prosperity of Wales.

Four Welsh academics have recently written an excellent paper looking at what happens to Welsh graduates and students who graduate from Welsh universities. Their careful work helps us to understand something about the development and interaction of the national and regional economies within the United Kingdom.

First off, in 2009/10 around 16,000 Welsh students choose to study outside Wales, but 26,000 students from the rest of the UK choose to study in Wales. Welsh universities therefore have 10,000 more students than it would on its own without the rest of the UK. Scotland also gains 15,000 students, while England and Northern Ireland each lose around 12,000. This is a good start for Wales.

Graduates from Welsh universities are, however, much less loyal to Wales than are graduates from Scottish universities: 62 per cent of those graduating from Wales and in work after six months can be found in Wales, compared with 84 per cent for Scotland. The figure is even higher for graduates of Northern Ireland (93 per cent), and although graduates from English universities move region a lot, 94 per cent are still found somewhere within England.

Those who graduate from Welsh universities and stay in Wales are almost all Welsh by original residence. 58 per cent of UK students at Welsh universities are Welsh, but this group make up 82 per cent of those in work after graduation. Those who move to Wales to study generally leave on graduation. This is not true for those who move to England or Scotland to study; this group overwhelmingly stay on after graduation.

Wales is thus in the perhaps unlikely position of being a net-gainers of students and a net-loser of graduates, disproportionately losing outsiders who arrive to study and failing to attract back those who left to study elsewhere.

This is a fairly bleak picture, and clearly makes the Welsh economy less skill based than it would otherwise be. 18 per cent of those aged under 45 and resident in Wales have a degree. This is a fraction lower than the figure for Scotland or Northern Ireland, but the comparison with England is mixed. 26 per cent of that population living in London and the South East have a degree, but the figure is 17 per cent for the rest of England.

The main conclusion is that London and the South East is the outlier, not Wales or any other nation or region within the United Kingdom. That is both good and bad for Wales. It is good in that it suggests no particular failing on the part of Wales. But it is bad in that nowhere outside Wales has found a way to resist the pull of the South East for the brightest and the best. For these people the streets of London are perceived, at least, to be paved with gold, and they move accordingly.

It does mean, however, that creating large numbers of graduates in an area should not been seen as a straightforward route to prosperity. Wales has more university places than its population would imply, but that does not lead Wales to be a wealthy place. Universities are important, but their importance is hugely increased if graduates stay in the area. It is easy for the state to build universities, but not easy for it to ensure that students remain in the area after graduation.