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Opinion: Crain's Forum reveals sobering trends in higher education

By Patrick O'Keefe

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Crain's analysis of the [12-year trend of enrollment and the respective finances](#) of colleges and universities in Michigan should have been sobering.



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Many of our Michigan colleges and universities have lost over 25% of their enrollment. Not one university that lost enrollment cut its expenses sufficiently to make up the shortfall in revenue from that decline. In the case of those few universities that had an increase in enrollment, they had a substantially higher increase in expenses. In essence, those universities spent \$1.10 for every extra dollar in revenue, another losing and unsustainable position.

The insufficient resolve demonstrated by the economic leaders of our higher education institutions is concerning and may not be sustainable in the long term. These 12-year statistics demonstrate that higher-ed leadership does not understand the cost of educating a student in Michigan. What else could explain spending more than you take in and not cutting your expenses to meet your loss of income? Neither is sustainable and is symptomatic of a failing industry.

So, what causes this phenomenon? There are many reasons. In some cases, it's not knowing your cost structure to be able to react. Other times, it's not admitting that there are fewer high school graduates seeking to matriculate into higher ed. Sometimes the cost-benefit of a four-year degree isn't justified in light of employment opportunities in Michigan. The incremental budgeting method used by most universities is devoid of cost rationalization.

I can speak firsthand to one university that substantially increased its enrollment but still had deficits because it couldn't make up the loss of revenue from foreign students with

more in-state students. This impacted every university in Michigan that generally took in these students. Also, in many cases, the cost of educating marginal students is higher due to the increased academic support required for a marginal student to have a degree of success. Some universities have rebranded their offerings to not be all things to all students and to provide only the resources necessary for strong academic programs defined by high student interest, which usually means gainful employment.

Strategically, there is a higher cost of education for marginal students. A college reduced its enrollment by raising its academic standards for admission and wiped out unsustainable deficits in a five-year period. They learned that students who had the ability to learn also had the ability to pay. They had less discounted tuition and used their limited resources for the best-paying students. Right now, the increases in student tuition are subsidizing this, and the question is: Are colleges and universities pricing themselves out of the market as these same students seek alternative forms of education, like community colleges that are substantially cheaper?

The solutions here should be obvious. First, colleges and universities should rationalize their cost structures in the face of declining enrollment. Not one college or university in the Crain's study has done this. You can't continue to sell dollar bills for 90 cents and think you are going to stay in business any more than not cutting 20 cents of expenses when you lose 20 cents of revenue. Cutting expenses 10 cents when you lose 20 cents is simply not sustainable. Second: who pays to educate the marginal student who costs more? It is hard to attract taxpayer money when you don't act like a fiduciary, as noted above.

Society benefits from an educated and productive populace. We all have a vested interest in solving the revenue problem. The question of how to attract more students in light of a declining population in Michigan needs to be answered. A strategic rebranding needs to happen for most colleges and universities to be sustainable. This trend is not going away anytime soon. We are not going to restructure our failing and unsustainable higher education world until we acknowledge the facts and respond.

Rationalizing the cost structure and providing a meaningful cost-benefit to our students is an imperative exercise. The delivery cost of education, with all the new technological improvements, needs to be seriously reviewed for cost savings. The status quo is unsustainable.

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