Can the Schools be Regarded as Firms
(A Contribution to the Theory of Firms and the Economics of Culture)

István Magyari-Beck
Budapest University of Economic Sciences and Public Administration
Hungary

Olga Szucs
The Museum of Applied Arts in Budapest
Hungary

Schools and the Firms

The main problem to be solved in this paper is: can the schools – and other institutions of culture – be regarded as firms? Incidentally, we shall concentrate only on schools here as otherwise the topic will be too large. Not to speak of the difficulties connected with the illumination of the concept "culture". A firm is first of all an economic entity, which can survive if and only if it has a return larger than its investments per cycle of production. However, in the case of schools, we – as a rule – experience just an opposite trend. The counted, explicit investments prove far greater than returns. Especially, if both the investment and return are expressed in terms of money and the school is limited both in time and space, usually identified with a (group of) building(s), and a garden around it (them). It is true that there exist/existed a great number of private schools, but these kinds of schools are/were either extremely expensive or extremely poor intellectually. As for the historical past, we all remember the classical novels of Dickens on this matter.

Let us put aside for the time being the economic terminology and discuss the question in its usual pedagogical way! As far as the product of education is concerned, it is the healthy, well-socialized personality who can be successful on the labor market. This should be accepted as the goal of teaching process (Magyari-Beck, 2003). Different concrete schools contribute to this end according to their places in the school system. As a matter of fact, input comes not only from another schools but also from the families, peer groups and the society in general. Although certain types or kinds of schools – like religious or military institutions of education – try to separate themselves from their environment, there is no school, which would be able to build a non-permeable wall around itself. Neither the output can be grasped in an exact way. The whole problem is not only the question of space but also that of the time. Frequently an excellent teacher's influence can be so powerful that many students from his or her former classes act according this teacher's advices years after the graduation.

Briefly speaking, the cycles of production in the schools – taken as firms – revolve far beyond the physically visible and physically identifiable schools, reduced to buildings, teachers' staff, pupils, and so on. If this is true, both the input and output – economically speaking, the investment and return – should also be looked for far beyond the traditional image of schools. That is, it is something wrong with the method by which the contemporary economists are trying to establish the ratio between the investment and return in education practice.

Remarks on Our Method

As for the method of this paper, we shall deliberately simplify our subject. Now, is simplification a wrong path in sciences? Not in the least! Sciences started their wonderful historical career exactly by the simplifications. Scholars called them abstractions. According to their definition, abstractions are deletion of those unimportant details, which should be forgotten in the process of reaching and understanding the essence of things, processes, trends and so on. We preserved this definition. The only difference between the first modern scholars and our contemporaries can be found in the opinion concerning the number of possible essences. The first modern scholars maintained that every piece of reality has only one essence per level of abstraction. We – and our contemporaries – on the contrary allow a number of essences, depending on the problem, within which the piece of reality is being studied. As a consequence, a number of papers can be written about the topic of this paper and most of them will perhaps arrive at more optimistic conclusions, others – at much more pessimistic ones. The only aspiration of the present authors is to outline one of the most likely backgrounds of today's culture in terms of its institutions. We do hope that the problem statement in this paper touches upon actual difficulties, which cry for appropriate solutions.

What is the Firm?

So as to answer the question of schools versus the firms, let us give a few definitions of the latter. We shall approach the firm from physical, ethical, epistemological, economic and – finally – political points of view.

A Physical Definition of Firm

In physical respect, the firm is a set of visible entities like buildings, machines, workers, managers, computers, offices and so on and so forth. As we have already seen, this definition of firm is the most superficial one. Although it outlines the firm on the perceptible level – thus satisfying the norms of obligatory empiricism in sciences – mostly the laymen prefer to stop at this sort of approach. It is all the more curious that a lot of economists could not free themselves from what may be called only a starting point of scientific investigation.

An Ethical Definition of Firm

In this understanding the firm is a "free ship" on the see of market and tries to survive amidst the adversities of social and economic climate via the free decision making processes of the competent crew. Freedom is appreciated as a value number one. Production, security etc. come only after it. Stefano Zamagni expressed this point in a very unambiguous way: "In fact, what is at stake is not the problem of the optimal use of scarce resources, but the problem of freedom. Freedom to decide both the composition of the overall kinds of goods produced (more private or public or relational goods) and the way they are supplied (the utility I derive from the consumption of a good or a service does not depend only on the intrinsic characteristics of that good or service, but also on the degree of my involvement or my participation in the act of choosing itself)." (Zamagni, 2003.pp.203-204.)

An Epistemological Definition of Firm

Epistemologically, a firm is a hypothesis according to which the products and services provided by it will meet the needs of agents on the market. The stability of a firm indicates the validity of the hypothesis in question. However, if the firm is changing then either its actual hypothesis failed or a new and seemingly better hypothesis is in operation. It follows from this view the inappropriate nature of forcing any economic hypothesis using the means, which have nothing to do with strictly economic behavior. Violence and validation are two opposite things. The benefits, which have been "gotten" by means of force, were firmly rejected as early as in the periods of Old Testament (Isaiah, 33.15). The firms, which try to use either military, or political, or psychological, or "economic" violence instead of the honest validation of their hypotheses on the market, exclude themselves from the universe of firms epistemologically.

An Economic Definition of Firm

In economic perspective, the firm is a certain proportion between the input and output. Namely, when the ratio of the input and output is less, than 1. Without satisfying this condition no firm is thinkable. Here, we encounter a serious difficulty connected with the laws of conservation of energy and mass. To formulate it as a question, we can ask: From what sources comes the additional part of output? ***If the economy and environment together create a unity, then economy can grow if and only if the environment is gradually disappearing. This is especially true when a great number of people are fired in the process of mechanization and automation of production***. The only manner the fired people-producers would be able to support economy is via the consumption. But as mechanization and automation is progressing, the demand on the part of fired people will decrease because of well understandable reasons: namely the decrease of purchasing power. The scarcer demand leads to further firing and this to an even more shrinkage of production. This magic spiral – like a whirlpool – may gradually swallow economy, which results in an "economics of fear" (P. Krugman's term, cited by Zamagni, 2003. p.204.). How shall we achieve the main goal of economy, namely "the wealth of nations" (Smith, 1776)?

A Political Definition of Firm

The firm can also be defined as the source of economic power. The state's strategy towards the firms acting on the market was formulated first by Adam Smith (Smith, 1776). The essence of this strategy is the policy of liberalism, in the framework of which, firms fight against each other by the way of competition. The underlying principle, the old Roman "divide et impera" can easily be recognized not only in the works of Smith, but earlier also in political writings of Montesquieu. What Smith could not foresee clearly enough was the concentration of capital in oligopoly and monopoly systems as a result either of competition, or of different merger movements (Rosenberg and Birdzell, Jr., 1986). From the period of the Great War – the First World War –, the method of "divide et impera" has been applied by the banks and firms towards the states. States still are trying to preserve their diminishing independence from the – one-dimensional economic – power of firms. They use two means: business ethics and international danger. At this point we shall mention only the stakeholders theory formulated in the framework of business ethics. "Stakeholders are all those individuals and groups which legitimately claim that their rights and interests be taken into account whenever corporations are active in the market – and in society at large, for that reason. Several lists of stakeholders have been elaborated, including employees, clients, suppliers, shareholders, the local community, and sometimes governments, at home and abroad, future generations, and the natural environment." (Henk Van Luijk, 2003.p.161.) However, if we study this list more carefully, nothing will prevent us from recognizing that the stakeholder theory intends to reshape the firms into the states by making them as multidimensional as the states are. No wonder, the firms concentrating first and foremost on economic efficiency will not fulfill the state's functions. (This state of affairs gave rise to the recognition – and "introduction" – of international danger)

Externalities and Internalization

It is comparatively easy to discover a common weakness of the definitions given above. Neither of them can outline the exact boundaries of firms. What is the firm and what is its environment? What is internal and what is external for a firm? As the essence of an entity and its boundaries are two sides of the same coin, and a definition should grasp the essence of the phenomena to be studied, a definition, which cannot grasp also the boundaries, is not a definition in all respects. Up till now, we have only quite a few semi-definitions of firms. But if we do not know in general what is the firm, then every single firm is free to define itself – its essence and boundaries – in an arbitrary way. It is the question of the conscience and power of an entrepreneur what is internal and what is external – what is the firm and what is the firm's environment – for him or for her. The overall picture of economic battleground is more than dim.

These circumstances were made use of by Pigou, when "More than a century and a half after Smith's ***Inquiry into the Nature and Causes of the Wealth of Nations***, Pigou (1946) introduced another rationale for government intervention into the marketplace that at first appeared not to involve public goods ***per se***. The Pigouvian correction concerned externalities, in which the action of one economic agent influences the utility or production function of another, and no mechanism for compensation exists." (Cornes and Sandler, 1996.p.5.) The point of this proposition is that it should be the task of the state to find ***the external*** to the firm and thus encircle its internal area. The concept of externalities was defined in an extremely large sense afterwards. "An external economy (diseconomy) is an event which confers an appreciable benefit (inflicts an appreciable damage) on some person or persons who were not fully consenting parties in reaching the decision or decisions which led directly or indirectly to the event in question." (Meade, 1973. cited by Cornes and Sandler, 1996.p.39.) In this understanding almost all the events – even within the firm – belong to the domain of externalities: new technology, strategic decisions by the management, firing people from the job, reorganizations and so on and so forth. In this case the actual size of the firm is extremely small. Is it possible that – ceteris paribus – ***the larger a firms official size the smaller the set of externalities and vice versa***? ***The positive answer to this question could be a law of exceptional importance.***

Since the concept of externalities has been associated with the term of market failure, an adequate solution to this problem seems unavoidable. Let us reformulate the problem we referred to in the previous sentence! We are in fact interested in the reasonable limits of the market. The expression "market failure" is an activist, dynamic counterpart of the static and logical expression "limits of market". While "market failure" speaks of the frustration "achieved" by certain non-cautious economic actions, the "limits of market" presuppose a classification of economic mechanisms within which the market is only a member. Of course, we establish the limits of market by the way of practical experimentations where the market failure plays a very important role. Returning to the Pigouvian way of reasoning, the problem of externalities finds – till now – its solution in the internalization merely post festa. Expressing this in terminology of our paper, any instances of internalization can be conceptualized as a correction and/or redrawing of the original boundaries of the firm in question, which also means the firm's redefinition by the state. The concrete measures of correction/redrawing/redefinition depend on the nature of externalities. The matrix below gives the latter's superficial two-dimensional classification with examples.

	Goods	Bads
Input	Making use of people's well established skills, by which these skills get a further training and confirmation	Consuming by the firm its natural environment and the original culture without any compensation and/or their re-establishment
Output	Improvement of life quality via the larger demand for labor force and new products offered on the local market	Introducing the conditions where crime and drug use increase

Of course, the positive externalities and the negative externalities – which can be called respectively as goods and bads as well – appear as results of the firm's function. However, a part of them evolves at the input side, whereas another part at the output side. The state has a right – sometimes an obligation – to compensate the firm for positive externalities and punish it for negative externalities. In the present historical period, we are far from being aware of every concrete negative and positive by-product created by firms, not to speak of the price side of this circulation. Money is far from being a universal equivalent of values. Certain things can be measured by money, but to most of them can only be ***attributed*** a price in terms of money. This is a clear instance of voluntarism.

Further Problems to be Solved

It follows from the above train of thought that the present day understanding of the firm is a practical-pragmatic compromise between the state and the market forces. Both the state and firms have a double feeling as far as the size of firms is concerned. If the firms tend to be smaller they will produce a lot of externalities. "The problems associated with externalities were perceived as arising from the fact that the generators of an externality would only incorporate their own costs and benefits into their economic calculus, and would ignore the incidental costs or benefits experienced by others." (Cornes and Sandler, 1996.p.6.) As industry – both low and high-tech – lives on nonrenewable raw material and a primitive type of work, the bads at the input side of the production process proves to be especially numerous. For a short period, this helps the industry and related firms flourishing. On the other hand, the smaller the firms, the larger the playground for the state (in making use of the market failures). Conversely: the larger the firms, the smaller the externalities' set. Large firms can and should incorporate and treat as much as possible inputs and outputs and thus enlarge their power vis-á-vis that of the state. However, the loss of undeserved benefits could be painful for the large firms.

To make matters worse, states – in today's democracies – do not represent the majority of society. Why? Well, usually only a little more than a half of the authorized population takes part in elections. These circumstances result in the support of elected power, the size of which does not go beyond 25-40 percent of the voters. These figures clearly represent a minority of the society's members. If we take into consideration that the voters themselves are only a part of the whole population, democracies have to be defined as special cases of a minority power. "So what is needed is [……..] 'democratising democracy' " – announces Zamagni (Zamagni, 2003.p.196.) The noisy scandals – directed by various officially registered parties – serve for creating a false impression that all the problems lie on the tactical level of practical execution. The system itself and the principles behind are all right. In order to enrich the political scene, the concept and organizations of civil society have been put forward. We have already left the historical stage when the state on the one side and the market on the other side fought for their autocracy. Neither the state rule alone nor market economy alone is fashionable today. At the beginning of the twenty first century we are approaching the so-called institutionalism, where the "basic institutions" are state, market and civil society (Luijk, 2003.p.159.)

Apart from the difficult question of how can the civil society obtain the necessary for participative democracy means of power between the arms and bureaucracy of the state and the monetary capital of the market, it is quite clear that the problem of firms has not yet been solved even in the framework of institutionalism.

A Hypothetical Theoretical Solution and its Consequences

Let us start with the assertions – put down above – that the phenomena and notion of externalities are artificial by-products of the narrow understanding of firms. As a general medicament, the internalization has been proposed. However, we already had an opportunity to stress the post festa character of internalization, which in fact enlarges the firm's actual size only temporarily. This fluctuation in between the enlargement and contraction of firms regulated for the most part by the state-market bargaining gives an interesting flavor to these days' economic and political life. But instability and a lot of improvisation in public life indicate the weaknesses of the solution by internalization. ***Perhaps a better idea would be to start the whole issue with – and on the level of – strategic coordination***.

Michael Dietrich – in his very interesting notes on the development of the firms' images and/or theories – distinguishes three main stages. "Initially the firm was considered as a black-box production unit or a production function. This was followed by recognition of motivation issues. Perhaps the most influential school of thought here is transaction cost theory, but in addition motivation is central to principal-agent and property right perspectives. I tend to agree with the transaction cost critique of the latter two schools of thought hence I will assume that 'motivation issues' and 'transaction cost economics' are one in the same. The third stage is recent writing that emphasises strategic coordination. Particularly important is recent 'competence' writing in economics (e.g. Langlois and Foss)." (Dietrich, 2003a. pp. 2-3.) The way of organizational practice goes in the opposite direction to the way of understanding the firms: "In terms of actual decision making processes within firms we can schematically suggest that initially strategic coordination issues must be solved, even if by default there is no strategic change; secondly, given the strategic coordination, motivation and organisational (i.e. traditional transaction cost) issues must be solved; finally, given these solutions production is possible." (Dietrich, ibid. p.3.)

To be more concrete in applying the above cited considerations, firms should define – or redefine – themselves – that is establish their borders – at the very beginning of ***every production cycle*** in such a way that would minimize the number of possible externalities and the need for their internalization. In all likelihood, this will lead to larger definitions of firms in comparison with what is common today. I do not think that externalities will disappear in the future once and for all. However, their moral status alters in this way. Instead of accepting them as normal outcomes to be corrected afterwards, we shall see either unpaid services or unearned benefits as everyday people see such kind of things. Namely, externalities will be conceived as mere mistakes resulted in by inappropriate self-definitions of firms. Surely, any instance of externalities is harmful or for the firm – these are called positive externalities – or for the environment – these are called negative externalities. ***The chief difference between the "traditional solution" and the solution proposed in this paper is that in the latter case the self-definitions of firms occur before the production cycles and on the level of conscious strategic coordination.***

At this point, we have to experience an enormously important change in the image of the market. In place of isolated and independent of each other enterprises, which fight against or support each other economically, a great system of overlapping economic organizations becomes visible. ***An economic atomism of Adam Smith has already been outdated. It is high time to accept the organic theory of economy in general and the market in particular***. The firms in fact mutually permeate each other even before any – formally established – coordination and/or cooperation occurs. This state of affairs creates the necessary practice of combination of competition and cooperation between the firms, which is especially true for the cultural organizations. ***As the products of cultural organizations are people: their physiological, mental quality and human capital, there is no firm, which would not overlap cultural organizations in general, and the schools in particular.*** If we allow for a certain intuitive guess of this structure on the part of political agents then there is a matter of course that states base their activity on the need of cooperation between the overlapping firms, whereas the pure market economy emphasizes the mutually independent parts or sectors of firms.

Type of Goods

How are all these relationships reflected in the domain of goods? Before outlining – and redefining – the widely accepted types of goods, let me agree once more with Zamagni who put down the following idea: "the assumption ***goods are goods*** is a false one" (Zamagni, 2003.p.203.). My distinction between the goods and bads – shocking in all likelihood for a real market fundamentalist – turns the reader's attention to the objective benefits or objective harms caused by a product, irrespective of its subjective evaluation by the consumer. A chemical or spiritual drug (Magyari-Beck, 1993) is always harmful objectively for the user, no matter what he or she thinks of his or her habits of drug use. But since we do not have a general encompassing term for both goods and bads, I shall apply the traditional term of goods as if it refers to the both.

Most of the goods we are interested in can be arranged within a two dimensional Cartesian space, where excludability and formality are the dimensions in question. From the excludability point of view, the literature distinguishes purely public goods, impurely public goods and finally private goods. Rival and non-rival nature of goods is also mentioned as a dimension parallel to the excludability. Public goods are identified with the products that do not exclude anybody from their consumption. One of the most frequently cited instances of public goods is the street lighting. But what about the people who live far away from e.g. London? They are excluded not only from the lights of London but from another public services of this wonderful capital as well. Thus, in the opinion of the present author, ***the exclusion of excludability*** is a paradox, which makes purely public goods nonexistent in real life situation. Purely public goods have to be taken as only a theoretical extreme on the one end of excludability dimension.

Is there something similar in the case of private goods? "Accordingly, when I buy an ice cream I do not merely act privately" – says a Dutch philosopher Arjo Klamer. "You might say that I contribute to the commons of ice-cream culture. I am supporting the cause of ice cream even if in a miniscule way and so benefit others who like ice cream. Ice cream is partly a common good insofar as it represents tastes and values that I share with others." (Klamer, 2003.p.6.) Put aside the neologism of common goods for the time being and realize that neither is such thing as pure private goods! Zamagni went as far as the fear that "the market is the vehicle through which cultural standardisation is carried out". (Zamagni, 2003.p.190.) Taking all these critical remarks seriously, we are justified to speak only of the degree of "publicity" and "privacy" of goods in the sense very similar to that of yin or yang: the more public a certain set of goods, the less private it is and vice versa. The pure cases are only thinkable, but not recognizable in this domain. All the goods are both impurely public and impurely private at the same time, but – of course – to a different degree.

Another dimension of goods is their formality. By formality we mean the nature of exclusion mechanism, which – as we could see – exists everywhere in economic life. However, in traditional economic thinking, exclusion and formality are treated as – at least – semi-parallel characteristics of goods. Formality there describes the so-called club goods, that is, goods for a well defined group of people. "The essential difference between club goods and pure public goods depends on the existence of an exclusion mechanism, which establishes a pseudo-marketing device to overcome preference-revelation problems. With technological advances, exclusion may be invented for some pure public goods, thus transforming them into club goods." (Cornes and Sandler, 1996.p.34.) This is the point we cannot agree with, especially, after the discovery of the common goods by Klamer (Klamer, 2003). Although Klamer –

as a convinced post-modernist – did not give any clear definition of common goods, one can easily arrive at the conclusion that the place of common goods is on the formality dimension. In this approach, club goods are the goods accessible for more or less strongly defined groups of consumers, whereas common goods are the goods accessible for those interested in them. In the latter case the access is – again more or less – informal.

In Klamer's understanding the set of common goods "is arguably the most important class of goods at all". (Klamer, ibid.p.1.) They are the bases of morality as well: "Taking ***common goods*** into account makes all the difference. The dominant role of common goods in our lives can account for cooperative behavior, altruistic actions, loyalty; for the prevalence of trust, for a sense of social responsibility, for the role of the so-called third sphere, for the way the sciences and the arts function, and for many other phenomena that the standard framework with distinction between private and public goods has great difficulty incorporating. [It also accounts for the dominance of homo moralis over homo economicus…]" (Klamer, ibid.p.1.) In my opinion it can also be added that common goods are perhaps ***the original, primeval or proto-goods*** having existed well before the institutionalized economic practice. If this is true then common goods can be a kind of "soil" capable of generating new types or sorts of goods.

There exists another interesting point worth mentioning in connection with Klamer's innovation. Institutionalism records three basic institutions, namely the state, the market and the civil society. Two of them have their own types of products to handle. The mainly public goods belong to the state's competence. The mainly private goods belong to the market sphere. But no type of products has been attached to the civil society. Is it not possible that it is exactly the common goods, which fit into this gap? The question is all the more intriguing, because civil society can also be characterized as something, which has the features of ***the original, primeval or proto-society,*** capable of generating new types or sorts of society. It is relatively easy to discover common sections not only of the firms we discussed in the previous chapter of this paper, but also the common sections of three basic institutions. In this framework, any changes of any systems in the history of mankind promote shifts in terms of goods and basic institutions: what were yesterday mainly public goods and/or state sector can be tomorrow mainly private goods and/or market economy, or what were yesterday common goods and/or civil society can be tomorrow formally defended club goods and/or political society and so on. Now, we shall return to the problem of schools. But before that, let us take another important example of cultural institutions, namely the museums. This will be a step towards a generalized view of cultural institutions.

Another "Hot" Example: Museums

Let's have a short glance at the instances of museums as cultural institutions, close by their functions to the schools. Here, The Budapest Museum of Applied Arts can be mentioned as one of the typical examples. Theoretically, there are four sources of income the museums have: the state, the firms, the civil organizations and the visitors. During the last few years, the state's financial support decreased considerably. It became necessary to find new ***actual*** sources to finance one of the largest state museums in Hungary, namely The Budapest Museum of Applied Arts. Up to the present, the Marketing Department of the museum contacted 34 firms. However, all of them refused to give any kind of monetary aid. Unfortunately, a museum is not able to contribute to the increase of the firms' profit. It is true, however, that – in a few cases – the museum received material donations like paper for children's artistic activity or meal and drink for a variety of opening ceremonies. The third potential supporter would be the sector of civil organizations. However, this sector is itself poor and has in fact no economic means worth mentioning. As for the visitors, it would be impossible to raise the tickets' price till the Heaven. The standard of living in many Central European countries is still decreasing.

The museum in question has to make use of its local conditions in a way, which is not totally adequate for a museum's mission. For example, it frequently lets out its beautiful Glass Hall in order to organize different sorts of professional meetings there. Many times, in the evenings, the museum turns into a restaurant or a dance hall. The result is not only a disorder in the physical sense but also a disorder in the domain of the institute's fundamental functions. The modest income has gotten in this manner as well is spent as a rule on the museum's basic activities, namely to arrange exhibitions. The Museum does not have enough financial means for purchasing new pieces of art, support scientific investigations, organize national and international conferences on arts and so on.

Seemingly, the museums – like the schools – are loss-making firms, but only according to a narrow – more exactly: monetarist – economic point of view. At the same time, the same museums are nevertheless regarded as the major centers in the production of well-educated people. For us, the museums are almost the most profitable units in the process of maintenance of society, including even the market. Why? Because their money input is extremely small, whereas the output in terms of human capital is extremely large. A condition number one of a well-operating economic system is the advanced and well-developed cultural life. Without the quality culture a continuously flourishing economy is simply unthinkable. "The Wealth of Nations" depends on the wealth of culture and its institutions. In this respect, the most

wonderful firms are the cultural institutions, as they produce a large output within the circumstances of being under-financed.

Can the Schools Be Reduced to the Firms?

Now, if we return to our semi-definitions of firms, the schools – and other cultural institutions – are firms beyond any doubt. Schools have their physical appearance, which is true for the "e-schools" as well. Schools contribute to our being able to make use of freedom via raising our competences in various fields. Schools teach – sell – programs on the basis of presuppositions concerning the usefulness of these programs: teaching staff is always experimenting with new contents and methods. Schools – competing for students – work on the budget basis, where the income should surpass the investment. Schools are sources of human capital, thus, of intellectual power. It would be a great mistake to exclude schools – and other cultural institutions – from the realm of firms.

However, it would be again a great mistake to reduce schools – and other cultural institutions – to the firms. This is not only because schools overlap – or permeate – virtually all other firms: The number of – especially positive – externalities in the case of schools is enormous and most of them are immeasurable. That means the impossibility of their internalization. How would we be able to take into consideration in terms of money the contribution of the great British universities to the famous English model of society and economy? How is it possible to compensate those outstanding professors and lecturers who – for example – died of overwork in their early fiftieth at Aberdeen University many-many decades ago? (Boyle, 1993) It would equally be impossible to plan beforehand the exact results of education and, in this process, to expand the actual and real size of schools till a measure, which excludes the unsolvable in this sector problem of internalization. ***Even the schools, which are seemingly over-financed and/or loss-makers for a bookkeeper, give an incommensurably greater return in comparison with their money input. The explanation of this counterbalance lies in the fact that both teachers and students are human beings, the only sources of values.***

Schools – and possibly other cultural institutions as well – must be listed among the most complex institutions, which have aspects in common with the firm, with the state and, finally, with civil society. Thus, schools overlap – or permeate – both the state and civil society as well. ***Since it is the job of the state to establish the most general rules of the game in society, the legal order in education – which virtually permeates every institution – should also be the state function.*** Conversely, the quality of state's functioning depends on the quality of schools. As for the civil society, the Parents' and Teachers' Association, Sports Clubs, environmentalism, amateur movements in art and so on connect the schools to nongovernmental tasks. Expressing the same relationships in terms of goods, schools produce: the mainly public goods, the mainly private goods, the club goods and the common goods. In schools, the concept of mainly public goods refers mostly to the minimum level of curriculum, mainly private goods – to the knowledge accessible only to the exceptionally gifted, club goods – to various subgroups, e.g. different age groups, common goods – to the network of informal friendship, love, conversations (Klamer, 2003), psychological climate and so on. To a certain degree, all concrete institutions share the role of schools in contribution to the people's enlightenment.

There are two types of economic thinking and practice today. One of them works in a very constructive way. However, lately, another type of economic thinking and practice appeared on the social scene. We can call it destructive by its results. What is the main difference between them? Well, ***while constructive economic thinking and practice is aware of the real processes of production, consumption and purchase in different fields of social life and applies economic models accordingly, the destructive version of economic reasoning and acting merely takes the pure and empty economic models and generalize them without their proper abstraction and application. This is the method we call economic imperialism (Szabó, 2000).*** The ignorance concerning the real processes results in collapse and decline where the exclusively a priori models are used, no matter what kind of positive motivations the users have. Destructive effects of economizing on learning the real processes and thinking of them carefully are especially frequent cases in the field of cultural institutions. The mission of this warning cannot be overestimated. The whole future of economic approach to the life depends on the success this approach can achieve in the realm of culture.

References

Boyle, D. G. (1993) Psychology – the Aberdeen Connection. University of Aberdeen.

Cornes, R. and Sandler, T. (1996) The Theory of Externalities, Public Goods and Club Goods. Cambridge University Press, Cambridge, New York, Melbourne.

Dietrich, M. (2003a) Proposal to Establish a European Network on the Economics of the Firm. Background Discussion. Manuscript distributed at the EAEPE Conference in Maastricht, 2003.

Dietrich, M. (2003b) European Network on the Economics of the Firm. Report of the meeting held at the EAEPE conference, November 9th 2003. Manuscript.

Isaiah (1990) The Prophets. Szent Biblia (Bible) Magyar Biblia-Tanács (Hungarian Bible Council), Budapest, 1990. p. 686.

Klamer, A. (2003) Homo moralis versus homo economicus. Or: the economy of the common goods. Presentation at the EAEPE conference, Maastricht, 2003.

Luijk, Henk Van (2003) Competition and Corporate Reputation. Society and Economy, 2003. 2. pp. 159-170.

Magyari-Beck, I. (1993) Culture and the Market. An Essay on Culture and the Drugs Called Culture. Society and Economy (a special issue) 1993.5.pp.19-107.

Magyari Beck, I. (2003) Érték és pedagógia (Value and Education). Akadémiai Kiadó, Budapest.

Rosenberg, N and Birdzell, L. E. Jr. (1986) How the West Grew Rich. The Economic Transformation of the Industrial World. Basic Books, A Division of Harper Collins Publishers, USA. The Soviet Union and especially the socialist countries did almost the same after the Second World War as the banks and firms in the North America after the Secession War. Socialist factories, banks etc. were also created via the simple unification of smaller units of the same kinds.

Smith, A. (1776) The Wealth of Nations. Penguin Books, London, New York, Auckland, 1986.

Szabó, K. (2000) Personal communication (Dr. Katalin Szabó is a Full Professor of Economics at Budapest University of Economic Sciences and Public Administration. She is a first class expert at postmodern organizations and networks.)

Zamagni, S. (2003) A Socio-economic Reading of Globalisation. Society and Economy, 2003. 2. pp. 181-205.