

## THE ORIGINS OF THE HUNGARIAN WELFARE STATE IN A COMPARATIVE PERSPECTIVE<sup>1</sup>

Dorottya SZIKRA

Department of Social Policy  
ELTE University, Budapest  
1117 Pázmány Péter sétány 1/a.  
e-mail: szikra.toth@mail.datanet.hu

Received: April 23, 2000

### Abstract

In this paper we try to fit the figures of the first Hungarian social security arrangements into the Western-European trends. We concentrate on the date of introduction of such schemes and the coverage of industrial and factory workers. The major finding is that the beginnings of the Hungarian compulsory social security legislation were not belated compared to Western countries. At the same time we see differences which the paper attempts to explain.

*Keywords:* social security, insurance, industrial workers, factory workers, comparative.

### 1. Introduction

My research deals with the beginnings of the Hungarian state-run welfare system. Here I concentrate on the introduction of the compulsory social security schemes as this is the first legal step of the state intervening with the social circumstances of masses of people (and especially industrial workers). This time we try to fit figures into the comparative analysis of the first social security laws done by Peter FLORA and Jens ALBER. Their work is chosen because we found it the most detailed and the widest ranging one. It compares 12 Western-European countries (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and United Kingdom) in respect of their first social security arrangements and tries to answer the question why some countries introduced these arrangements earlier than others.

I thought it might be useful to see how Hungary, as an East-Central-European country fits into the western trends. What are the similarities and the differences and how we can explain them? In this essay I only deal with the very beginning of the history of social security (between the late 1880s and 1910) because that is where I started my own research.

---

<sup>1</sup>This paper has been written with the support of the Research Support Scheme of the Open Society Institute (640/1999). I also owe a debt of gratitude to the assistants of the Library of the Hungarian Central Statistical Office.

Finding the relevant data on Hungary turned out to be much more difficult than I thought. While the Hungarian Statistical Office (and leading Hungarian statisticians) of the time was widely acknowledged professionally, social reality was hard to map. Categories were missing or fluid; institutions were so ‘pluralistic’ and so rapidly changing that overall figures cover different realities in successive periods; the country being part of the Austro-Hungarian Monarchy consisting itself of different units, the geographic area covered may also vary. Finding such simple data as for example the number of industrial workers comparable from one decade to the next took me several months (and I am still not sure about their reliability). This is why I can only give an overview of my first findings – not the whole picture, only some bits of the beginnings of Hungarian state-run social security schemes.

I first present the data, and then attempt to explain them.

## 2. Facts

### 2.1. First Laws

First of all it is important to see when the first laws establishing compulsory systems in the main four social security schemes appeared in the countries researched and in Hungary. *Table 1* presents the average date of introduction of the basic compulsory schemes in the 12 above-mentioned countries and the year of introduction in Hungary.

*Table 1.* Year of introduction of social security laws

	First law	Average date	Hungary
Accident	1884	1914	1907
Sickness	1883	1923	1891
Old-age	1889	1922	1928
Unemployment	1911	1930	–

As it can be seen Hungary is amongst the leading countries in sickness insurance, preceding the average of the Western-European countries in accident insurance but being a little late in old age (and connected) schemes and not introducing compulsory schemes for the unemployed (until 1989).

What might be interesting is that in Hungary compulsory sickness insurance of workers was introduced much earlier than the insurance for accident. Those who worked in dangerous working places could voluntarily be insured against accident but it was not very popular until accidents became very frequent and the workers started to bring their cases to trial. The judicial decisions were many times in favour of the workers, which led to the bankruptcy of several small and middle-sized factories. Then the factory owners together with workers’ societies proposed

the introduction of accident insurance to the government.

## 2.2. *Core Laws*

FLORA and ALBER selected from all major social insurance laws those that appeared to establish the institutional core of the four insurance systems. They call them ‘core laws’ and they define them as follows: ‘A core law is defined as the introduction of a compulsory system covering a majority of industrial workers.’

I thought it would be an easy first step to find these ‘core laws’ for Hungary. It turned out to be a rather complicated task. Why?

The first problem is that we do not know whether ‘coverage’ in the above sense means the actual coverage (the number of insured persons) or the coverage in principle (the number of those who should be covered by the word of the law). In Hungary this is a very central question because there seems to be a significant number of people who should have been insured according to the law but somehow has fallen out of the insurance. I am going to present my findings concerning the number of persons covered by the law and actually insured.

The second problem came when I tried to find out the number of industrial workers in Hungary in the period of the first social security laws. It turned out to be the beginning of a big adventure in the labyrinth of early Hungarian statistical science.

## 2.3. *Coverage of Industrial Workers*

We have reliable data from 1869 but the problem is that the definition of industrial workers may have varied from one census to the other. Still the following data might be relevant:

*Table 2. Number of industrial workers*

1869	647.000
1880	800.000
1890	900.000
1900	1.000.000
1910	1.400.000

This meant about 4% of the active population in 1869, 5% ten years later and around 14% at the beginning of the century.

The next question is when the majority of the industrial workers became insured through the different social security schemes (core laws).

Data are sadly missing on this point. (The remedy may be to start archive research of the several dozens of insurance companies, but even then data will remain incomplete.) The only available information is the total number of insured persons from 1891.

*Table 3.* The number of insured persons in sickness insurance companies

1891	446.000
1895	523.000
1900	600.000
1905	685.000
1910	1.018.000

As we cannot put the two data together (because not only the industrial workers were insured) we can only make guesses about the percentage of the industrial workers being insured. We know for instance that around the turn of the century about 80% of the total number of the employed persons worked in the agriculture, 14% in the industry and 6% elsewhere ('services'). The agricultural population was not insured at all thus out of the total number of insured persons about one quarter might have been employed in other sectors than the industry. Thus we can guess that in 1900 out of the 600.000 about 450.000 might have been insured persons working in the industry. This might mean that out of the 1 million people working in the industry 45% was insured.

If we take another way in the labyrinth and turn to the statistics on employment at the time (which has completely different categories than those we have been working with until now...) and try to see how many people were not insured, we get a different ratio: It turns out (let me not reconstruct the calculation) that only 30% of the industrial workers were insured at the turn of the century.

I also found a third data in a third source, which says without explanation that 40% of the industrial workers has been insured by 1889.

So when we get out to the sunshine after having spent some hard months in the labyrinth of the library of the Hungarian Central Statistical Office the only thing we know is that around the turn of the century the ratio of insured persons amongst industrial workers might have been between 30–45%. Not a good basis for testing a central hypothesis. . .

#### *2.4. Coverage of Factory Workers*

Thanks to the bright statisticians of the time (and the factory laws which go back to the mid 1880s in Hungary) we are in a much better situation when trying to find out the number of insured persons in the factories. (The factory means more than 10 employees and/or machines according to the law.)

*Table 4.* Number of factory workers

	Factory workers	Insured	%
1889	100.000	73.000	73
1900	260.000	220.000	85
1910	434.000	366.000	84

As we can see already at the end of 1880s the majority of industrial workers have been insured by the voluntary sickness insurance schemes. The compulsory scheme was enacted in 1891. It further improved the tendency without arriving at full coverage even after 10 years. (Full coverage at this time was almost impossible to achieve anywhere.) It has to be emphasised that the factory workers constituted only about 20% of the industrial workers at the turn of the century, and just about 3% of the active population.

All in all we can say that compulsory sickness insurance in Hungary came really early (1891), soon after the German and Austrian laws. It intended to cover the totality of industrial employees (except for seasonal workers). It did almost succeed in this amongst the factory workers but it failed if we take all the industrial workers as it could cover less than half of them. The Law for insurance against accidents came in 1907, and intended to cover the same population as the sickness law.

At that time the insurance system became centralised which helped it to be more effective. Following the law in 1907 we can say that the majority of the industrial workers was covered.

At the same time neither of these laws intended to cover the agricultural workers who constituted the vast majority of Hungarian employees at that time. There have been attempts in 1900, 1912, 1925 etc. to make arrangements to cover the agricultural workers with some forms of insurance but these attempts all failed. The law said that the employer of the agricultural worker should pay the costs of the healing of the sick employee. It seems that a very low percentage of farmers did pay for their workers these fees and later the contribution. Sadly the situation of agricultural workers remained more or less the same up until the late 1930s and then improved only slightly. Even after World War II and the advent of 'state socialism' the insurance of agricultural workers remained long unsolved.

### 3. Attempts for Explanation

As I said before I believe that the beginnings of the Hungarian compulsory social security legislation were not belated compared to Western countries. At the same time I see some differences which make the picture more opaque. These cursory attempts at explanation will be probed much further at a later stage. They have to

be seen as hypotheses rather than answers.

1. Regional gaps (in organised labour, information, etc.). Not only the timing of these laws but also their content was very progressive for the period. Yet they could hardly reach their intentions. Their implementation went very slowly. This was probably due to the fact that the laws were not very well prepared on the local level. Where workers were concentrated (mainly in Budapest and other big cities, esp. in factories) the administration of the schemes was not as problematic as in the countryside. They could hardly make employers and workers of small distilleries pay their contributions, particularly when the workers concerned might not have known anything about the advantages of compulsory schemes.
2. The special case of the agricultural workers. The non-insurance of agricultural workers for such a long time in such an agricultural country is striking. Some possible explanations follow, but all of them have to be substantiated later.
  - a./ The circumstances in the countryside were so bad that several social policy makers of the time (even in the late 1920s) argued that *it would not be sensible to insure agricultural workers because there are no doctors to see them*. By that time one third of the doctors lived in Budapest and it was not rare that the nearest doctor from the village was 50 km away. How can they even call the doctor? Also, the majority of the agricultural workers lived in such circumstances that first had they to learn how to wash hands or live in a house rather than being conscious about their possible rights to see a doctor. Thus the health care of the countryside remained for long time in the hands of charitable societies (who actually did a fantastic job).
  - b./ Also it would have been very hard to check whether an agricultural worker is really ill in the winter or there is simply no work. The capacity of the insurance companies and the state were too small even to try to check the misuse of the system in the countryside. This was another reason to oppose such a scheme.
  - c./ The third reason at least as important as the previous ones is that Hungarian landlords strongly opposed the introduction of any kind of social insurance for the agricultural workers. As they had big influence in the parliament they could veto any kind of proposition of this kind for a long time. They lived in a very patriarchal and feudalistic relationship with the lower agricultural classes which meant that there should be no right of any kind given to these people because they might misuse them.
3. The dual society. The famous Hungarian historian Ferenc ERDEI described the Hungarian society of the time with this term. He meant that there is a very small but growing part of the society which takes on 'bourgeois mentality', rising into the middle class, whereas the majority of the society remains in the old feudalistic structures being not even touched by the 'other', modernising 'world'.

This seems to apply for the development of the Hungarian social arrangements too. On one side there is a progressive, modern way of thinking, creating acts

that we can still be proud of, and on the other side there is dense ignorance and poverty. Civilisation could hardly break through the wall between the two societies of Hungary.

4. The paradox of social science. To understand why we had such arrangements like the compulsory sickness insurance as early as 1891 we have to know that the Hungarian social scientists were amongst the best social scientists of their time. The fact when and how those in power gave them money and space to work strongly influenced the outcome (legislation or statistics). The problems of Hungarian statistics I mentioned above did not come from the fact that we did not have enough great statisticians. It came from the fact – as they described it several times – that one year they got money and entitlement for their work and then for several years they did not. There was no continuity of their work.

Whether the voice of such great economists as e.g. Farkas HELLER was listened to in the mid 1920s is a big question. (This is a point I have to pursue further. HELLER was an economist, but about one third of his ‘Treatise on Applied Economics’ is an exploration in social policy, complete with the description of facts and their analysis.) His words sound more than up-to-date today: ‘The task of social policy is to intervene in economic life to bring the human aspect into it, and to help to develop the economy into a morally acceptable community... This is why social policy is the crowning of all economic politics.’ ([5], p. 237.)

To sum up, alongside timely attempts to modernisation there were many ‘developmental deficits’ ranging from the feudal structures to the lack of socially strong organisations or of politically effective discussions. I still have to show all the contradictory or paradoxical elements stemming from these conditions.

## References

- [1] ERDEI, F., Hungarian Society between the Two World Wars. In Kover (ed.): The Social History of Hungary, Bp., 1995.
- [2] FLORA, P. – ALBER, J., Modernization, Democratization and the Development of Welfare States in Western Europe. In Flora-Heidenheimer: The Development of Welfare States in Europe and America. Transaction Publishers, 1982.
- [3] Fifty Years of Hungarian Social Security. 1892-1942. OTI, Budapest, 1942.
- [4] Hungarian Statistical Yearbooks, 1874, 1894, 1899, 1901, 1909, 1910.
- [5] HELLER, F., Economics. II. Book, fourth edition. Budapest, 1947.
- [6] The Manufacturing Industry of the States of the Hungarian Crown. (Contemporary Statistics from 1890, 1898, 1900, 1906, 1910.)