

The History of the Hungarian Social Security System

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I. Introduction

The need for social security has a long history. In his book, *Politics*¹, Aristotle (384-322 BCE) already discussed the phenomenon of economic defencelessness and its effects on the individual. During the upcoming centuries, the demand for a safety net had been growing, up until theory was put into practice. The first ever attempts to establish such a system cannot be considered even similar to what we know as social security nowadays, but the need for it had already surfaced quite early.

Similarly to the developed Western societies, the need for social security had emerged in Hungary as well, therefore the appearance of some local systems were foreseeable. Bringing such systems to life was the requirement of the simple worker consequently the constructions of the system had started from the lowest levels.

We can see from the history of law that almost every country had gone through such a path. The voluntary organizations gradually reached governmental recognition by the very government which created the legal framework for these insurers and all the institutions which actually offers and provides the insurance activities. Later it was the government that made the insurance obligatory in the systems under its administration. Moreover, it was the government that sized up those circumstances that could have been prevented during the actual work. This created an entirely new, more or less preventive legal framework. At first, it was only a limited number of people who could actually join the governmental social security systems, but soon more and more people had access to them.²

¹ In this work, Aristotle expresses his opinion on the ideal state.

² BUDA, József: *Betegségi biztosítás. Szemelvények a társadalombiztosítás történetéből*. Bor-nus ny, Pécs, 2001, p. 29.

Hungary has a long history of voluntary insurance. Typical of these systems that they did not consider accidents and illnesses as problems to prevent, but a phenomenon of which consequences had to be lessened or dealt with completely.

II. The Mines

The end of the 13th century was an important era in Hungary's history. It did not only mark the end of the reign of the House of Árpád³ or the end of the Hungarian feudalism, but the end of natural farming as well. It was also when the Kingdom of Hungary slowly but surely could integrate into European economy.

The complete integration needed a couple of decades. IV. Béla (1206-1270)⁴ took the first reform steps. Under his reign, the support of the mining industry became a priority since the "treasures of the earth" – according to the law of the era – were the king's due. Since this source of royal income was quite profitable, it was virtually impossible to establish a mining settlement or executing mining activities. Róbert Károly (1308-1342)⁵ implemented some changes amongst which gave one third of the above mentioned income to the owner of the land where the mine was. With this step, the landlord also became interested in the improvement of mining and the establishment of mining communities. Due to Róbert Károly, the second half of the 13th century marked the evolution of the mining industry. By this time with the help of German experts brand new mining communities spawned to which later the privilege was given to become towns.

Mining was a profitable but also a very fund-demanding industry. No wonder that it was this field where foreign expertise, influence and capital had appeared. Probably, due to the fact that work could only commence in those processes where the working conditions and safety of the people were improved.⁶

The relics of the earliest voluntary self-aiding mining organizations of the Hungarian Kingdom can be found in Slovakia, in a former silver mine, Selmecbánya (Banská Štiavnica)⁷. In this place, already in 1245 there was

³ The ruling dynasty of the Principality of Hungary in the 9th and 10th centuries.

⁴ "The Second Founder of the State"; the king of Hungary and Croatia between 1235 and 1270.

⁵ Charles I; the first king of Hungary and Croatia (1308-1342) of the Anjou.

⁶ HONVÁRI, János (ed.): Magyarország gazdaságtörténete a honfoglalástól a XX. század közepéig. Aula Kiadó, Budapest, 1998, p. 30, 49, 54-55, 121-122.

⁷ It is a town today in middle Slovakia famous for its abundant silver ore.

a self-aiding mining organization and in parallel a hospital for the miners in 1271, supported by the Church. Unfortunately this hospital and also the organization were destroyed during the Mongol invasion (1241-1242)⁸ of the area.⁹ The role of the Church in espousing the injured miners is not accidental. Around this time the Church was the institution that was providing ease for the poor and since miners were deeply religious, the Church was willing to help them in time of need. Because we do not have earlier information about self-aiding miner organizations, we can consider 1245 as the beginning of miners' health service and the Hungarian social security system.¹⁰

The next example of insurance in case of accident and death in Hungary can be found in the 15th century which also marks the birth of the world's first social security document. This early example of social security among miners appeared at the same time with the capitalist market economy. Compared to other branches of industry the harsh working condition and the fact that the miners had to rely on each other created unique circumstances.

The surfacing of this phenomenon was urged by the escalating wage disputes of the miners and the aversion for capitalist exploitation. These two elements acted jointly and had a role in strengthening solidarity and the obvious consequence of this was the newly formed self-aiding organizations.¹¹

One of the best examples for such organizations was established in the copper mines of János Thurzó (1437-1508)¹² in Besztercebánya (Banská Bystrica)¹³ in 1496.¹⁴ His organization aimed to help the miners while they carry out their extremely dangerous activities. Thurzó was the first to recognise that these people were worth seeing to.

Although miners' hospitals had been functioning since the 13th century in Selmechánya, they only appeared in miner communities from the 16th century. Similar to self-aiding organizations, a vast difference could

⁸ This was the part of Mongol invasion and conquest of Europe in the 13th century.

⁹ IZSÓ, István; IZSÓ Luca: A bányatársaspénztárak működésének bányajogi alapjai és felügyelete. Argumentum Kiadó, Budapest, 2007, p. 114-163.

¹⁰ BARTAL, Anna Mária: Szociálpolitikáról alapfokon. INTERTECHNO-H Kft, Budapest, 1998, p. 50.

¹¹ LACZKÓ, István: A magyar munkás- és társadalombiztosítás története. Táncsics Könyvkiadó, Budapest, 1968, p. 7-8.

¹² He was famous entrepreneur of the era, who hired and ran mines in central Slovakia. He initiated many pioneering procedures in the mining industry.

¹³ It is a town in central Slovakia which was famous for copper mining.

¹⁴ CZÚCZ, Ottó: Szociális jog I. UNIO Kiadó, Budapest, 2000, p. 67.

be seen among hospitals as well. There were towns where only medieval hospitals could be found, but also there were places where real – even for modern standards – hospitals provided recovery for miners. The financial background and the operating conditions for these healthcare institutes were provided by the chamber of miners. Also they were supervised by the physician of the miners who was also the physician of the miner community as well. Typically, the in-patient attendance could only be required if the home treatment of the patients could not have been solved at home. Besides the self-aiding organizations, the exemplary stance of hospitals had also strengthened this spirituality. For instance, it was the Selmecbánya hospital which first managed to realize the in-house boarding.

The main idea of the self-aiding organizations was that the miner, who becomes ill or injured, dies or cannot look after his family, is supported by voluntary grants and donations. Tough in the beginning the occupational accidents were not separated from the insured events, but it can be seen from the above that social security was brought to life by the fear of occupational accidents and illnesses.

In the early times the existence of the self-aiding organizations were greatly dependant on the solidarity of the employer for he made the decision whether to establish such an organization or not; but later on he had also became a contributor. The exact amount of the contribution differed from organization to organization, but generally it was around 2% of the weekly wage and was also due every week. Firstly, the employer only made a contribution once and it was up to his solidarity if he was to share a greater burden in the operation and liquidity of the self-aiding organization or not.¹⁵

Later, setting the legal framework to the self-aiding organizations, the employers had become more and more interested in paying larger sums. In this case the income of the organizations could have covered the expenditures. According to this, the 1854 Austrian mine law made it obligatory for the employers to eke out the shortfall of the organizations in every year. Although this law did not covered the notion of obligatory contribution it made employers concerned about a greater income and a lesser expenditure. This created a dual effect. Firstly the aim was to involve healthy miners into the supporting of the organization, and secondly made miners less needy for the service of the self-aiding organization.

¹⁵ LACZKÓ (1968), p. 7-8.
BOGNÁR, Miklós; ASZTALOS, Gézáné: A magyar társadalombiztosítás története és a magyar társadalombiztosítási jog a magyar jogrendszerben. SZTÁV ny, Budapest, 1991, p. 5.

The contribution of the employer, which was in the beginning a single inpayment, later became compensational in nature, and at the end turned out to be a contribution. The third form of income of the organizations was coming from the carrying of interest. This was a classical bank activity which eventually increased the organizations' income. The general practice was that the main source of income was still the regular inpayment of the employees.¹⁶

But the self-aiding organizations primarily were to help the injured and ill miners and therefore soon exceeded their limits. Intime they could only be operational by the supervision of the miners' chamber. The chambers regularly inspected the validity of the employers' membership in the organizations, and if they fulfilled the payment requirements.

The miners' self-aiding organizations were autonomous right from the beginning. The organizations at János Thurzó's mines were completely run by the miners themselves. The voluntary period of the organizations lasted from the 15th to the 19th century, and they only gained national form in 1854, but still not as the achievement of the Hungarian legislature, but on the grounds of the Austrian mine laws. These laws made it obligatory for employers to establish miner organizations helping their employees. According to this law, the self-aiding organizations had lost their voluntary nature and every miner must have contributed a certain amount of money to the organization operating at his workplace. With this measure the state ensured the social safety of the miners. It is also important to mention that it was still not the state that organized the inpayments and the social provisions attached to the organization, but it made it a sort of responsibility of the employer. Therefore the autonomous nature of the self-aiding organization lingered.¹⁷

III. The Guilds

Similarly to the mines, other branches of industry – such as the craftsmen and the tradesmen – established their own protective organizations, the so called guilds. These guilds effectively represented their own economic and social interests. In Europe, the guilds formed throughout the 14th century;

¹⁶ BOGNÁR, ASZTALOS (1991), p. 6.

¹⁷ NÁDASNÉ RAB, Henriett: A társadalombiztosítás fejlődésének története. in: *Collega*. 1/2003, p. 25-27.
FABÓK, András; PRUGBERGER, Tamás: Társadalombiztosítási jog. Szent István Társulat, az Apostoli Szentszék Könyvkiadója, Budapest, 2005, p. 27.

almost a century later than the miners' self-aiding organizations. Their heydays were between the 15th and the 16th centuries and had been able to satisfy the needs of the then population. But as the population increased, the industrial demand was also increasing. From the 18th century, the system of guilds was not able to serve the social demands; they were deemed outdated therefore their decline was inevitable.¹⁸

The guilds were supervised by employers and masters and the employees and apprentices – similarly the miners' organizations – had to pay contribution. From the gathered dues, the members helped their ill or vagabond fellow-workers, gave subsidy in case of death and looked after their widows and orphans. By the early 1810s the supervision of guilds fell into the hands of the employees and the membership became voluntary. The employers proceeded by their own constitution and had their own assets separate from the guilds'. They had their own decisional authority but, as a reminiscence of the past centuries, a formal authority of masters had survived.

The multiplication of guilds had an ambivalent result. On the one hand, it positively affected the extent of the industry in relation to agriculture and increased the number of people working in this field, but on the other hand, however, it was able to hinder the further development of the industry.¹⁹

After the Hungarian Revolution of 1848-1849, the value of the guilds had decreased when they no longer had to support the war with their products; though it is also indisputable that the guilds had served as a basis for subsequent institutions. Later, this system made space for the 1868 Általános Munkásegylet (General Workers' Association) and the 1870 Általános Munkás Betegsegélyező és Rokkantpénztár (General Worker and Disabled-aiding Office).²⁰

3.1. Political and Economic background

Hungary was hit hard under the Turks (1541-1689)²¹. The Ottoman Empire stationed a huge army in the country and by harshly taxing the people

¹⁸ Céhek Magyarországon. Országos Széchenyi Könyvtár, 2008. http://regi.oszk.hu/cehek/cehek_magyarorszagon.html
KAPOSI, Zoltán: Magyarország gazdaságtörténete 1700-2000. Dialóg Campus Kiadó, Budapest, 2010, p. 123-124.

¹⁹ KAPOSI (2010), p. 50-52, 55, 126-129.

²⁰ HITCHINS, Keith: Önszegélyező egyletek Magyarországon 1830 és 1941 között. Esély Kiadó, Budapest, 1995, p. 90-92.

²¹ Hungary was under Turkish regime for almost 150 years during the 16th and 17th centuries.

they had hindered the development of economy and social politics for almost a hundred and fifty years.²² The Habsburg Empire and its allies were able to defeat the Turks just under Vienna in 1683 and expelled them from the territory of Hungary. But this had also an unfortunate consequence; the Habsburg Empire annexed the Hungarian Kingdom for quite a long time.

Hungary's industry also suffered from the Turkish occupation; its productivity had steeply decreased by the 17th century. The country's economy was also impaired by the decline of the intracontinental trade and the revival of agriculture. The only positive effect was the rise of the guilds, but unfortunately – as described before – they could not take up the gauntlet against the greatly industrialized Austria and Bohemia.

Around this time, the majority of the society was working in the home industry. Despite the fact that this activity was not noteworthy by itself, this kind of work still altogether made up the majority of the industry. But the development of the economy could not be set back for long. Among the great supporters of the Hungarian industry was Lajos Kossuth (1802–1894)²³. He believed that Hungary must not give up on the development of its industry and in spite of the Austrian influence it has to build up its own industry. To prove this, he himself organized corporations and helped others to be established. Such corporation was the Ganz és Társa Vasöntő és Gépgyár Rt. (Ganz and Co. Ironworks and Machine Factory Corp.)²⁴

By the 1840s, we can witness an ever growing economy and the broadening of internal and external markets. New demands had brought new casemaps. But the legislature had an eye on agriculture as well.

The so called 1848 April laws, which were passed by the diet created a new situation for the Kingdom of Hungary within the Habsburg Empire and once and for all paved its way to parliamentary democracy. The greatest goal of these laws was completely repealing feudalism and hence the structure of the economy, giving way to the capitalist development. On the one hand, the general and proportionate sharing in taxation and the taxation of every layer of society produced extra income, on the other hand, by changing the laws of landed property made farming available for more people, hence increasing the productivity of the country.

Since guilds did their bit in the war expenditure, they were not yet abolished, but were already limited. As a result of the Hungarian Revolu-

²² HONVÁRI (1998), p. 144–146.

²³ He was the Regent-president of the Kingdom of Hungary during the 1948–1949 revolution.

²⁴ KAPOSÍ (2010), p. 153–155.

tion of 1948-1949²⁵ Hungary could form its own economy which led to equality before the law.

Even by 1850, peasantry could not get over the last couple of decades of absolutism. Changing the legal situation of the peasantry could not lessen the burden of indebtedness therefore peasantry remained on the level of family farming. Mechanization, which could have changed the situation of agriculture, was still around the corner; therefore agriculture remained the main branch of economy of the dualism.²⁶

3.2. Self-aiding organizations

After defeating the rebels of the 1848-1849 Revolution, the Habsburg Empire transformed many feudal institutes into capitalists, but only as many institutes as it served the Habsburg's purposes. The 1867 Austro-Hungarian Compromise²⁷ brought an economic boom in the credit-system, the infrastructure building, the growth of capitalism, and also in the fields of agriculture and industry. The advancement of the industry had unfortunate consequences for the existing social system; the proletarian self-conscious had become stronger which led to workers' movements.

At the end of the 18th century and beginning of the 19th century, the home trade had become stronger and the number of hired workers had increased. They preferred the safer factory work in towns rather than the dangerous mining. Obviously, the factory work had brought new potential accidental possibilities with it for the workers, which could end up in the loss of ability to work and consequently not being able to take care of the family or themselves. For these kinds of perils, workers' associations were voluntarily seeking solutions. The outcome of such movements resulted in the establishment of the 1868 Budai-Pesti Munkásegylet (Buda-Pest Workers' Association) and the 1870 Általános Munkás Betegsegélyező és Rokkantszolgálat (General Worker and Disabled-aiding Office). At the beginning, these associations did not support the workers' socialist ambi-

²⁵ The Hungarian Revolution of 1848-1849 was one of those revolutions that broke out in Europe around the same time. This particular revolution was against the Habsburg rule and resulted in defeat for the Hungarian revolts.

²⁶ KAPOSÍ (2010), p. 163-166.

²⁷ The Compromise re-established the sovereignty of the Kingdom of Hungary within the Habsburg Empire.

tions; rather they were supporting the peaceful understanding between the employer and the employee.²⁸

These associations only had minor differences in their constitutions; they were operating according to similar, democratic rules. The main income of these associations was derived from the membership fees, but they also received employer contributions, donations, and of course, investments. Despite all of these sources, most of the associations were standing on thin ice. Hungary's first and long-lasting self-aiding organization was the one established by the printers in Pest in 1837 and members could only be the printers of the University Press. The organization tried to find a cure for the social troubles of its members.²⁹

Similar to the printers' association, several other self-aiding organizations spawned during the era. Notable associations were the tradesmen's and the factory workers'. These organizations only propagated free medical treatment and free access to medicines. Supporting this, in 1840 a law was passed, which declared that in case a worker got sick, the employer must have contributed to the expenditure of the medical treatment. This measure though did not mean complete safety for the employee yet. The law only covered sickness in connection with work, but did not deal with the prevention and the given social disturbances. This defect of the 1840 law urged workers to establish their own voluntary, autonomous self-aiding organizations. Unfortunately, revolution was at the doorstep, so there was no time for putting theory into practice; many modern and advanced self-aiding organizations broke up in the 1848 revolution.

Those eighteen years between the defeat after the revolution and the Consolidation did not favour the advancement of the social security system. The serious organizations had either broken up or gone bankrupt. The era was characterized by small, isolated self-aiding organizations which were operating differently by profession and by region too. The only possible direction for advancement was the Austrian way. These laws were valid in the territory of Hungary therefore an 1854 law, which made employers compensate the deficit of the miners' self-aiding organizations, was easily passed.³⁰

The importance of the laws after the Consolidation was that they created rational institutes with large number of members and clarified

²⁸ KAPOSÍ (2010), p. 163-166.

LACZKÓ (1968), p. 37-38.

²⁹ BUDA (2001), p. 22.

HITCHINS (1995), p. 94-97.

³⁰ LACZKÓ (1968), p. 38-40.

their operational framework. With this step the system became fairer and helped establishing institutes which granted equality among workers. One such institute was the 1870 Általános Munkás Betegségélyező és Rokkantspénztár. The aim of the Pénztár was to create social safety for the worker regardless of his profession or the solidarity of his employer. The Pénztár was still self-organized and its structure resembled a private organization. Membership was voluntary and the establishment was not a governmental aim, but the realization of the workers' self-aiding goals. This organization was financed by the members' entry fees and regular membership fees and assets coming from investments. The Pénztár offered in kind support, such as the free medical provision and the member could also expect financial support in case of being unable to work. The organization paid compensation to a third party as well – the family – if the worker happened to die while carrying out his duties.³¹

The Pénztár gathered all those workers on a national level who desired social safety though the Pénztár's aims were much more grandiose. The idea was not only to congregate workers from Hungary, but from Austria as well. On an 1873 congress assembled by Hungarian and Austrian self-aiding organizations, a decision was made to set up an international organization for the employees of the two countries. But by contemporary terms such an organization would have been so huge and would have had considerable means well provided with capital that it had threatened both countries governments in a form of socialist movements. Consequently, the Hungarian government forbid the Pénztár to merge with foreign organizations.³²

IV. Organizations by governmental recommendation on voluntary grounds

At the end of the 19th century social security was – though not in an effective way – dealing with accidents and illnesses, but still did not help to prevent them. Moreover, up until the 1880s, insuring institutes in Hungary were voluntary; laws did not make their organization obligatory. But the proportion of workers had increased in society over the past couple of decades and therefore the government could not delay to consider social safety for all anymore. For living problems had risen among labourers,

³¹ LACZKÓ (1968), p. 38-40.

³² LACZKÓ (1968), p. 41-42.

no wonder that the very first laws regarding social provisions appeared among laws regulating the industry. The first example for such law was the 1884/XVII. article³³, the *Industry Act*. Practically this institute had already been operational; therefore the result of this law was not to establish the institution, but rather acknowledge it.

In conclusion we can state that before the obligatory governmental insurance, there were two laws regulating the social situation of the workers: the 1854 miners' law which made self-aiding organizations compulsory for miners, and the 1884/XVII. article, which recommends their set up. Owing to these regulations, by the 1890s, more than 70% of all workers were insured at a given voluntary self-aiding organization.³⁴

V. Governmental organization and compulsory insurance

By the second half of the 19th century it became obvious that for maintaining a steady social security system more people ought to be involved. This could have only been reached from top to bottom, so more and more the government started to take part in the establishment of the system. Although the system was already operable in the 13th century, it was only in the 19th century when a general need had risen for a widespread, government-operated national system. Owing to the flourishing capitalism, the number of poor workers, whose only asset was their capacity to work, was growing. By itself it proved to be a feat of arms; without their affirmative contribution, the economy and consequently the society would not have been able to advance. The workforce became a tool for utilizing political pressure. But capitalism was not only about exploitation; the abundance of goods provided stable background for financing a social security system.³⁵

The government had two options realizing such a system. Firstly, it could support the already existing organizations, or secondly, it could endow existing institutes with social security duties. Also, the government had two functions: it had to protect employees and had to support the reproduction of this social layer.³⁶

³³ Ipartörvény. www.1000ev.hu

³⁴ VÁNKOSNÉ Timár, Éva: A társadalombiztosítás hazai jogtörténete. in: Magyar Közigazgatás, Budapest 1993, p. 168-171.

HAJDÚ, József; LŐRINCSEKÉ Lajkó, Dóra: Társadalombiztosítási jog. Dialóg Campus Kiadó, Budapest-Pécs, 2005, p. 14.

³⁵ CZÚCZ, Ottó: Társadalombiztosítás a változó világban. Közigazgatási és Jogi Kiadó, Budapest, 1989, p. 52-55.

³⁶ CZÚCZ (1989), p. 52-55.

From the 1870s, on the Eastern part of the Austro-Hungarian Monarchy, in the Kingdom of Hungary, the course of industrialization had begun. By the 1880s and 1890s it was inevitable to set the frameworks of trade and industry in Hungary which included the regulation of the relationship between the employer and the employee. Hence, by the 1890s an industrial policy was born which was meant to set the minimal living conditions of the workers working in factories. This Hungarian regulation was – after Austria and Germany – the third in Europe. The aim of the governmental intervention was to enhance the country's industrial and economical capacity after the 1867 Austro-Hungarian consolidation.³⁷

The 1891/XIV. article³⁸, *Aiding industrial and factory workers in case of illness*, is considered to be Hungary's first real, general law in social politics. The law chose the Bismarck³⁹ way. Operative from 1883, this law was aimed to organize the social security system from a governmental level. It wanted to draw together all the smaller organizations and only those organizations could receive permission to operate which were acknowledged by the government. The system aimed to take out the chance of decision-making from the hands of its citizens. The idea of a general system that was available for everyone did not arise since it was only the workers of the industry who were welcomed. By this law, the government wanted to see the solidification of the social situation. Being true to the Bismarck way, the Hungarian government wanted to weaken the labourers' political strength; the government did not want its future social security system to be the financial base to a possible workers' movement. Since the Általános Munkás Betegsegélyező Pénztár (General Labourer-aiding Counter) and the Social democrats were close to each other, in 1892 the government established its competitor, the Budapesti Kerületi Betegsegélyező Pénztár (Budapest District Labourer-aiding Counter). In the following decade the Általános Pénztár lost and the Kerületi Betegsegélyező Pénztár gained members, consequently the intention to weaken the working class was successful.⁴⁰

The 1891/XIV. article – even regarding other 'developing' European countries – created a high-standard, advanced overall legislation. The intention of the legislation was to create a minimal level of social security for the poorest workers of the Kingdom of Hungary regardless of their sex,

³⁷ SZIKRA, Dorottya: Az 1891. évi betegbiztosítási törvény végrehajtása. Aetas, Budapest, 2004, p. 31-33.

³⁸ Az ipari és gyári alkalmazottaknak betegség esetén való segélyezéséről. www.1000ev.hu

³⁹ SZIKRA (2004), p. 33-36.

⁴⁰ SZIKRA (2004), p. 33-36.

age, and citizenship. Moreover, the existence of the insurance in this case was not up to the solidarity of the employer. The advanced conception of the law coupled with weak execution but it can also be said that that the Hungarian system was more generous than the Austrian or even the German one. After the law came into effect the number of insured people had significantly grown. Unfortunately, the organizations soon became bankrupt therefore the provision of the people again became uncertain which also resulted in mass discontent which made the revision of the 1891 law necessary. The proposition was the passing of a new law in 1907.⁴¹

The insurance in agriculture differed from the general legislation of the time since the agricultural lobby was much weaker than the industrial or the trade therefore the labourers of the former could only get into the system much later. Their first laws regarding social security were the 1900/XVI. article⁴² and the 1912/VIII. article.⁴³

VI. Centralized insurance

At the turn of the century, the industrial bourgeoisie strengthened and the Austrian-based factory building had continued. The growing number of factories needed more workers. More workers represented more political power, and therefore workers' movements became more frequent. The government tried to do everything to hinder such organizations which result was varying. Referring to social security, more and more was deducted from the wages, so the wage disputes also became more common and the workers started to ask for general insurance. The government could not delay the solving of the problem. The result was the 1907/XIX. article.⁴⁴

⁴¹ HAJDÚ, LŐRINCSIKNÉ (2005), p. 15.
PRÓNAI (2011), p. 31-32.

⁴² A gazdasági munkás- és cselédségélypénztárról. www.1000ec.hu

⁴³ Az Országos Gazdasági Munkás- és Cselédségélypénztárról szóló 1900: XVI. tc. és 1902: XIV. tc. kiegészítéséről. www.1000ev.hu
PRÓNAI (2011), p. 31-32.

⁴⁴ Az ipari és kereskedelmi alkalmazottaknak betegség és baleset esetére való biztosításáról. www.1000ev.hu
LACZKÓ (1968), p. 44-45.

VII. Social Security during the First World War

The First World War had a devastating effect on Hungary and its social security as well but it can also be said that it gave a great push for the social security ambitions of the workers and accelerated the positive changes of the past two decades. Before and during the years of the war the economy of the country decentralised. The arms race preferred the industry and especially the ordnance manufacturing. This shift in production needed governmental help. The strategically important plants were under military control which led to the widespread limitation of the workers' rights. War was rewarding from an economic aspect; factories became huge mammoth companies employing great numbers of employees. But what the industry had gained, agriculture had lost. Drafting and the permanent lack of workforce in factories lessened the productivity of agriculture, while inflation was growing which hit the workers the hardest. Close to the end of the war it became evident that the Monarchy could no longer fulfil its pre-war political and economic position.⁴⁵

By 1915, the Országos Pénztár was forced to initiate wartime measures. Although the insurance of the soldiers was under governmental control, the current level of service could not be maintained any longer; there were instances for closing down entire institutions as well but the Országos Pénztár proved to be a lasting and strong institution.⁴⁶

VIII. Social Security between the two world wars

The Austro-Hungarian Monarchy was one of the greatest European countries until the end of the First World War, but after 1918 it fell to pieces and could no longer keep the pace with other great European powers. After the 1920 Treaty of Trianon⁴⁷, economically the Kingdom of Hungary became the weakest among the neighbouring countries; it lost 38,6% of its agricultural lands, 65% of its coal mining, 15% of its iron ore mining, and 53% of its salt and precious metal mining.

Though splitting from Austria lessened the regional differences, it sapped Hungary. The First World War resulted in defeat and national

⁴⁵ KAPOSÍ (2010), p. 262-265.

⁴⁶ LACZKÓ (1968), p. 93-95.

⁴⁷ After the Treaty, Hungary possessed only 28% of its pre-war territory.

bankruptcy. The democratic processes right after 1918 had little time to solve the problems of this magnitude not to mention codifying them.⁴⁸

8.1 The Republic of Councils

During the First World War the Social Democrats became stronger and by the end of the war they were able to move great masses in the industry, the purveyance, and the transportation. In 1921, the Social Democrats joined the *Kommunisták Magyarországi Pártja* (Hungarian Party of Communists) and together they formed the Hungarian Republic of Councils. Despite the system was only operable for four months (!) and despite the continuous political battles, it managed to effectuate laws for the sake of the working class. One of the main aims of the Republic was to pacify the situation in the field of workers' insurance.

The war disarranged the more or less operable social security system. With the reorganization that the Republic had an idea of a social security system that takes care of the workers without insurance administration or organization. During those four months, the Republic was able to successfully realize many of its ideas, which coincided with the pursuits of the working class before and during the war. Since the political milieu was not adequate for a detailed problem-solving, the Republic limited itself to settling the most urgent matters. It also desired to resolve the problems of agricultural workers with swift and simple measures. Hence the quality of insurance of the agricultural workers reached the level of the industrial workers by the first third of the 20th century. Although several points had been left untouched, the insurance of the agricultural workers became the most advanced throughout Europe. One of the key factors in the 1919 downfall of the Republic was that it interfered with the relationship of the government, the employer, and the employee and shifted the power-relations which generated the increase of potency of the working class. The Republic also had a word in the management of the companies urging trade unions to take over the leadership.

After the Soviet model Republic of Councils in Hungary, the policy-makers faced many hardships during the 1920s. Their 'new' aim was to

⁴⁸ A két világháború közötti Magyarország gazdasági története. SZTE Klebelsberg Könyvtár. <http://www.bibl.u-szeged.hu/ha/gazd/gazdasag/index.html>

restore the good old pre-war order and believed that the only viable way was to return the anachronistic social security laws.⁴⁹

8.2 The Temporary Solutions of the 1920s

The catastrophic outcome of the First World War forced the post-war nations to develop nationalist economic-policies. After the Treaty of Trianon, Hungary turned into a moderately industrialised, first of all agricultural country exposed to the Western powers. Owing to the fact that Hungary had lost much of its industry and service industry, its economy was able to develop apace. Hungary could not choose but to step onto the stage of international trade where it faced the truth that it was only capable to produce mediocre quality products.⁵⁰

In the late 1910s and the early 1920s, the development of the social security system virtually stopped for the counter-revolutionary terror wanted to abolish everything what the Republic of Councils had reached. The hostile attitude of the government towards the workers and the huge inflation only culminated the effects of the war, of which victims were yet again the working class.

By 1924, the situation and the attitude had eased; the government was willing to pass some protective measures. The working class most of all saw the problem of lacking autonomy and the extensive bureaucracy. The social security of the 1920s was characterised by negligence, overrating of interests of employers, disregarding workers' rights and bureaucracy. The governments of the era had to deal with the consequences of the war in the first place, and indeed it was a hard task to carry out. This tried not just the financial resources of the country, but a new basis had to be found for its legal system. Unfortunately, the 1907/XIX. article did not live up to the expectations.⁵¹

The new legal framework had to be clarified. Unfortunately, progressive ideas did not come up and even their realization was virtually impossible due to the circumstances; yet again it became a period of compromises. The governments could not and did not want to effectively alter the social security system; therefore they were seeking to maintain the pre-war system with some minor modifications. After a while the patching of the

⁴⁹ CZÚCZ (2000), p. 74.

⁵⁰ KAPOSÍ (2010), p. 276-277, 287.

⁵¹ LACZKÓ (1968), p. 116-117.

system resulted in many measures seeking to alter it. The comprehensive transformation and modernization of the system was inevitable which came about in 1927.⁵²

8.3 Centralization and Autonomy of the 1920s

It was not only the social security system which was characterized by centralization; it was typical for all governmental systems therefore it triggered much discontent. By the 1920s, centralization had reached its summit. The Országos Munkásbiztosító Intézet (National Workers' Insurer Institute) became the head of all other organizations. Its task was to monitor if the bureaus met the requirements set out by law. The Intézet could only spend its income on relief and the establishment of institutes dealing with such matters. In addition to this the Intézet issued measures that aimed to control healthcare and accident prevention.⁵³

8.4 The Era of the Economic Crisis

The crisis reached Hungary in 1931, which shattered agriculture the most. Many people became unable to pay and so they lost their lands. Obviously, the crisis neither left industry intact; it reached the bottom in 1932 when it could only produce 74% of the year before the crisis, 1928.

The national economy had weakened yet again which was followed by a further inflation undermining the value of the financial provisions. A couple of years after the big-time modification of the social security system, it was again unable to fulfil its designation. The government must have had to reorganize the system for it did not accomplish the minimal requirements. The situation favoured the fund-holders but affected the working class disadvantageously. Also, widespread bureaucracy, the treating of patients, and the quality of provisions was repulsive to the Országos Munkásbiztosító Intézet. The employers were constantly protesting against the increased burdens created by the workers' social security; some

⁵² LACZKÓ (1968), p. 122-128.

BOGNÁR, ASZTALOS (1991), p. 14.

BOTOS, József Dr. A magyar társadalombiztosítás kialakulása és fejlődése. Osiris Kft, Budapest, 1998.

⁵³ BUDA (2001), p. 133.

BOTOS (1998)

of them even wanted to see the system completely abolished. Finally, for the sake of the fund-holders, the government was willing to implement some changes: they raised the extent of the contributions, but at the same time they lessened the provisions.⁵⁴

The greatest setback of the system was that due to this fact many employees went bankrupt, they were not able to pay contributions; their debt was accumulating, so the chance that they could ever settle up was practically equal to nil. The national budget could neither pay the contributions after their employees. Consequently, the insurance system was left completely without adequate liquid funds. The long-continued crisis had very vast consequences throughout the country until 1938.

The second half of the 1930s was the time of reorganization. The first couple of decades of the 20th century were very inelastic and the solutions were expected from the industry; from those companies which helped the recovery after the First World War. When in 1938 and 1939 the management of the social security system could have settled, the wartime expenditures took a greater share from industrial production. The national debts were still increasing. The Hungarian government was certain that another war was coming on the way and Hungary could not avoid it.⁵⁵

The government implemented the *Győri Program*⁵⁶ (Programme of Győr⁵⁷) which was due to vitalize the economy. Thanks to the Programme the country could finance the national armament programme, the development of the infrastructure, the agriculture, and the mining. The initial plan was to complete the Programme by 1943, but it was so successful that the target was already met in 1940; just a year after the Second World War broke out. In the short run the Programme vivified the economy and created workplaces but also resulted in inflation. It had boosted industry and agriculture as well, in spite of its drawbacks the public yielded great consent to it.⁵⁸

In the 1930s, social security could show two important achievements. First of all, the Országos Mezőgazdasági Biztosító Intézet (National Agricultural Insurer Institution) was established, which could provide pension and provisions in case of widowhood for agricultural workers.

⁵⁴ KAPOSÍ (2010), p. 295-300.

LACZKÓ (1968), p. 143-148.

⁵⁵ KAPOSÍ (2010), p. 301-303, 305.

⁵⁶ It was an armament programme which helped Hungary to prepare for the Second World War.

⁵⁷ It is the most important city in northwest Hungary by the Danube between Budapest and Vienna.

⁵⁸ KAPOSÍ (2010), p. 317-320.

Of course, this did not mean that agricultural workers would have been completely involved into the social security system, but it still created an institutionalized background for these workers. Second of all, the burdens of the families were reduced.

Even before taking part in the Second World War, Hungary had spent great a sum of money on strategic purposes. Joining the Axis also meant spending and indebtedness. In this situation the functioning and further advancement of the Hungarian social security system was again impossible.⁵⁹

IX. The Hungarian Social Security after the Second World War

The 1945 Yalta conference ended the war for Hungary. As the First World War, this also had a devastating effect on the country. The 1944 Soviet liberation soon became an occupation. The loans, the arms race, the provision of the Soviet Army, and the paying of the indemnities had used up the country's reserves. During the war, 40% of Hungary's national property was destroyed; the agricultural machinery was completely demolished, the machines in the factories and the gold reserves of the Magyar Nemzeti Bank (Hungarian National Bank) were stolen.

Already in the first years of occupation, the relationship between Hungary and the Soviet Union was characterised by dependence; Hungary owed the Soviet Union two third of the indemnities. The German influence, which was typical of the 1940s, had been taken over by the Soviets from 1945. In 1949 the Comecon (Council for Mutual Economic Assistance) was established which was aimed at vivifying the economy of its member states.⁶⁰

According to the plans of Imre Nagy (1896-1958)⁶¹, the agrarian reform had commenced. The small lands were not suitable for solving great social disturbances anymore therefore in 1948 they were integrated into TSZs (farmers' so-operatives). Hence, by the early 1950s agriculture pro-

⁵⁹ CZÚCZ (2000), p. 79.

PRÓNAI (2011), p. 84-85.

⁶⁰ KAPOSÍ (2010), p. 322-329.

Magyar Elektronikus Könyvtár. Külkereskedelem. A II. világháború után. <http://mek.oszk.hu/02100/02185/html/362.html#365>

⁶¹ He was a Hungarian politician, the Chairman of the Council of Ministers of the People's Republic.

vided the workforce for the industry; people were moving from the countryside into towns in search of employment.

Because it could not be settled before the Second World War, in 1948 the time was right for insuring women working in the field of agriculture. Their increasing numbers made it necessary, so with a few modifications, the 1938/XII. article⁶² about old age provisions was applied to them as well. By 1949 half of Hungary's population lived from agriculture, but owing to the agricultural reform, the only option for farmers was finding employment in the industry. Consequently, the working class again gained power.⁶³

Social Security was hit harder by the Second World War than the First World War. The nation-wide devastation did not spare the social security system either; buildings were damaged, hospitals were robbed, the expensive medical equipments were lost, the lack of doctors and medicine was acute. The financial reserves had also run out and from 1945, the Országos Társadalombiztosító Intézet (OTI, National Institute for Social Security) activity was suspended.

In the second half of the 1940s, the Hungarian social security system had to be reorganized. The OTI became an even larger institute, of which the legal basis was the 1927/XXI. article⁶⁴. For the sake of accelerating the reorganization, only alterations were made to this article keeping it up-to-date. All the private insurance organizations were abolished, and their duties were carried forth by the OTI. Even the OTI could not escape reorganization; the previous unipersonal system now turned into an institution run by a council. The fundamental principle of the OTI was again autonomy.⁶⁵

9.1 The Social Security Centre of the Trade Unions

The communist rule of the 1940s consolidated the fate of the social security system. The insurance system was run by trade unions. In 1950, the management of the insurance system fell into the hands of the labourers

⁶² A gazdasági munkavállalók kötelező öregségi biztosításáról. www.1000ev.hu

⁶³ Országos Széchenyi Könyvtár. A magyar társadalom. www.rev.hu/sulinet45/tanulm_tars/tars.htm PRÓNAI, Borbála Dr. Társadalombiztosítás Magyarországon 1891–2005. JATE Press, Szeged, 2011, p. 119.

KAPOSI (2010), p. 329–334.

⁶⁴ A betegségi és baleseti kötelező biztosításról. www.1000ev.hu

⁶⁵ CZÚCZ (2000), p. 80

PRÓNAI (2011), p. 57–58.

and by gathering into trade unions they were able to manage these systems. The OTI was supervised by the National Council of Trade Unions (SZOT, Szakszervezetek Országos Tanácsa). The SZOT's branch the National Social Security Council (OTT, Országos Társadalombiztosítási Tanács) dealt with matters regarding social security. Its members were the governmental organizations and the business federations. After 1950, the OTI was renamed Szakszervezetek Országos Tanácsa (SZTK, Social Security Centre of the Trade Unions).

The SZTK remained a strongly centralized system, but the tasks had multiplied. As the number of insured had grown, so did the scope and quality of provisions and the burden of administration. While the proportion of insured employees only reached 40% right after the Second World War, by the 1960s it was well over 95%. In 1953 much of the agricultural labourers gained access to the system.

The important law of the era was the 1967/II. article⁶⁶. Its aim was to control the work-order of the socialist Hungarian society; the rights and duties and the life and work circumstances. It covered all labour relations but the members of the TSZs were managed by a completely different law.⁶⁷

9.2 The Scope of the Insured and the Advancement of the Provisions

From 1945 the scope of insured labourers and the advancement and quality of the provisions had developed swiftly. In 1945, the agricultural workers received access to the social security system, from 1947 they could receive financial provisions, and in the same year their insurance was made obligatory. From 1949 the craftsmen, from 1950 the students, and from 1957 the tradesmen became insured. From 1958 to 1962, the workers of every TSZ became a subject of insurance. By 1975, every Hungarian citizen was socially insured.

One of the important laws was the 1972/II. article⁶⁸, *Of Healthcare*. This law wanted to gather the whole society and provide them with adequate provisions. Its tasks, among others, were the development of public

⁶⁶ A Munka Törvénykönyvéről. www.1000ev.hu

⁶⁷ BOTOS (1998)
PRÓNAI (2011), p. 63-65.
HAJDÚ, LŐRINCSIKNÉ (2005), p. 17.

⁶⁸ Az egészségügyről. www.1000ev.hu

health, implementing preventive measures, and to educate. It also dealt with the environment and its effect on the individual, worked out the rules of the work process and technology, and put emphasis on work circumstances and the advancement of health requirements. The law included the protection of women and children as well as the pension system and the provisions given to the family in case of death. The post-war years proved that there was no need for a system of multiple insurance organizations, but the many laws and their amendments virtually created an impenetrable maze of regulations. From 1951, the situation of the pensioners had also evolved.⁶⁹

Since social security is a politically sensitive area, from the 1950s until 1975, the system worked with minimal changes. But the lack of improvement of the economy made a comprehensive reform necessary. This was a 1975 law which codified the whole legislation after the Second World War. The 1975/II. article⁷⁰, *Of Social Security*, completely reorganized the previous system of social security. Social security became free by right of citizenship. At the beginning of the 1970s the proportion of insured people reached 97%, but owing to the 1975/II. article it reached the unbelievable 100%. Therefore the Hungarian social security system was completely managed and controlled by the state.

The overall nature of the 1975 law made it long-lasting and well-applicable; until the late 1990s. While in force it survived many alterations that touched upon its extent of funding and expenditure.⁷¹

X. The Change of Regime

The change of regime in Hungary happened in 1989. The country broke with the formal socialist order and stood among the democratic, capitalist countries, a move also resulted in significant social and economic changes. But it was not a sudden choice; the approach of Hungary and the European Union had been noticeable years before the change. The first step towards the new order was joining the European Economic Community in 1988. Ten years later the negotiations for joining the European Union

⁶⁹ PRÓNAI (2011), p. 60-62.

PRÓNAI (2011), p. 127-134.

⁷⁰ A társadalombiztosításról. www.1000ev.hu

⁷¹ CZÚCZ (2000), p. 92, 94.

FABÓK, PRUGBERGER (2005), p. 30

BOTOS (1998)

had commenced; the condition of accession was the harmonization of the legal systems. The negotiations finished in 2003 and from 2004 Hungary has been a member of the European Union.⁷²

Already in the 1980s the need arose for a common social space parallel with the European Economic Community. Hungary joined this conception in 1989, when it accepted the 1987 Single European Act and the 1989 Charter of Fundamental Social Rights of Workers. The Act aimed to create a field for social dialogue and contained directives on health protection. The Charter dealt with the advancement of life and work conditions, social protection, equal rights between women and men, the protection of children and young workers and the protection of people with needs.

Two years later, in 1991 part of the Treaty of Maastricht three agreements came to light which deal with European social rights: the Treaty on European Union, the Social Policy Protocol, and the Agreement on Social Policy. They together brought changes in social-policy and aimed to strengthen the social protection and increase the equality between women and men in terms of labour.⁷³

The change of regime also meant a change of social security. The budget of the social security system was detached from the state finance hence it became an autonomous part of the budget. Before the 1990s every Hungarian citizen was fully covered by the social security system. It was out-of-date by then and could not serve the needs anymore. It was paralyzed by financial burdens and the hospital-centred approach, but it was accessible. The basis of accessibility was set down by the laws passed between 1972 and 1975. This was the accomplishment of the needs past 1945.⁷⁴

After the change of regime the goal was to lessen the influence of the government. The free-of-charge social security implemented in 1975 discontinued in 1992. Characteristic features of the current system are that the insurance is in the hands of one organization and that every citizen obligatorily has to take part in the funding. The system – except for dental care – gives complete coverage. The funding of the system is provided

⁷² A magyar EU-tagság története. Európa-politikai kormányzati honlap. www.eu.kormany.hu

⁷³ JAKAB, Nóra: Az Európai Unió szociálpolitikai alapjai az elsődleges és másodlagos jogforrásokban, avagy az Európai Unió szociálpolitikájának fejlődése. *Sectio Juridica et Politica*, Miskolc, 2007, p. 345-349.

⁷⁴ SZEPESI, György, ZOMBORI, Gyula, JENEY, Sarolta (ed.): Jelentés a társadalombiztosításról. *Fraternité Tanácsadó Rt*, Budapest, 1991.

jointly by the employer and the employee in the figure of 70% and the government is responsible for the rest.⁷⁵

XI. Social Security within the European Union

As it was mentioned before, the legal harmonization had commenced before the 2004 accession to the European Union, therefore by the time of 2004, Hungary had a complete legal system that fit into the European Union's legal system. The push for the change in social-policy was given by the 2000 meeting of the Council of Europe in Lisbon and Nice which helped in modernizing Hungary's social model. The aim of the meetings was the investment in people and the development of an active welfare state where socially-derived problems are not present. The strengthening of the role of social protection was a priority.

Social protection has to be present at all times in the policies of every country of the European Union. The EU only monitors the fulfilment of the basic laws, but the development of the legal systems is the sole responsibility of the member states. The task of the EU is to protect the people from risk factors that every member state is struggling with; the aging society, the dependencies based on age groups, defectiveness, sickness, motherhood, children with needs, unemployment and taking care of old, handicapped or sick relatives.⁷⁶

By 2004 healthcare turned into a multi-participant system. The owners are the state and the municipalities, the Állami Népegészségügyi Szolgálat (ÁNTSZ, National Public Health Service) as the licensor and supervisor organization, and the Országos Egészségbiztosítási Pénztár (OEP, National Health Insurance Fund Administration) as the granter of funds. This financing is called dual-channel financing system for the greater part of funds comes from the state.⁷⁷

⁷⁵ SINKÓ, Eszter Dr. A magyar egészségbiztosítási rendszer átalakítási kísérlete – tanulság egészségpolitikusok számára. Kritika Online, 2008. www.kritikaonline.hu/kritika_08nov-sinko.html

⁷⁶ FRIGYESI, Veronika; KAPOLYI, László: Szociálpolitika az Európai Unióban. Közgazdasági Szemle, LII. évf. Magyar Tudományos Akadémia (Budapest). Közgazdaságtudományi; Bizottság, Budapest, p. 289-291.

⁷⁷ KINCSES, Gyula Dr. (ed.): Magyarország egészségügye és szociális rendszere. 2004. http://www.eski.hu/new3/adatok/zip_doc/eg-szoc-rendsz.pdf

XII. Conclusion

As we can see, the Hungarian social security has a very long and troublesome history. From the 13th century, it took hundreds of years until it reached its current status and could provide protection for many people.

The initial need for such a system fed itself from defencelessness; the employee relied very heavily on the goodwill of the employer. Therefore the labourers, firstly the miners and then the workers of the guilds formed their own insurance companies, the self-aiding organizations. These institutions were operable in a couple of decades, but the social, political, and economic circumstances of the given period always changed the rules.

The capitalist factory owners and employers did not want to see the strengthening of the working class since it threatened the existing order. Labourers and their work had always been assets and their work was only necessary to supply the ruling classes. But times had changed and so did the political stance, hence it was inevitable to see the rise of the working classes, which were quickly ruled out.

The permanent change happened when it became obvious that society, politics, and economy were based on the work of labourers and only by their effective contribution can a society be maintained. This change of perspective soon provided the foundation for many laws and orders that had changed the century-long negligence of the working class. Today, labourers are equal participants of the society who equally contribute to its prosperity and therefore are equally protected by the social security system. Hungary by now is an equal part of the European Union and treats workers according to its laws which aim to create circumstances which they are entitled to because of their work in advancing the member states.