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# Evolution of social insurance management in the Polish lands up until the outbreak of World War II

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Social insurance is most often discussed in the relevant literature as a social or political rather than an economic issue. Its managerial aspects are even less frequently addressed. This paper attempts to present synthetically the evolution of social insurance management in three dimensions: social risks, the institutional system and financial issues.

Ideas implemented in the 19th and in the first half of the 20th century in the field of insurance system management were of a centralised nature, concentrating the basic instruments in the hands of public authorities. This phenomenon was to intensify especially after World War I. The focus shifted from setting the rules, principles and forms of operation of bottom-up insurance initiatives to direct control of either the institutional system or the funds. As a result, forms of risk hedging and financing became increasingly less flexible.

**Key words:** insurance funds, insurance institutions, insurance management, social insurance, social policy

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## Introduction

Social insurance is no stranger to the relevant subject literature. However, it is most often discussed from a social or political perspective, with economic issues being less frequently addressed. Even less often is social insurance considered from the perspective of management issues. This paper attempts to present synthetically the evolution of social insurance management until the outbreak of World War II in three dimensions: social risks, the institutional system and financial issues. It brings closer the types of risks related to work that were gradually becoming the elements of social insurance, the adopted solutions for institutional structures and the way of managing the capital collected by these institutions. This issue, by its very nature, exceeds the scope of an academic paper, hence this publication aims to merely highlight the problem. Achievement of the assumed goal requires a wide range of research methods, as applied in the humanities and social sciences. In particular, the comparative method was used. It should be emphasised that to date no such similar academic research has been undertaken, with few exceptions. However, there are numerous publications fragmentary in nature which can provide the basis for a thorough and extensive analysis.

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## Social insurance in the Polish lands. Evolution of the system

The origins of social insurance on Polish lands date back even to the Middle Ages. Various forms of aid funds existed in the mining industry.<sup>1</sup> However, the actual history of social insurance in these areas began in the 19th century. Social insurance was born out of a real-life practice resulting from the new and rapidly changing social and economic conditions. This relates, in particular, to the industrial revolution, which resulted in great changes on a European scale in the system of goods production and forms of social existence. Industrialisation and urbanisation processes were in progress. In the Polish lands, divided by the partitioning powers, these processes had a different intensity and took place in different periods, however, they also had their social and economic consequences.

It is said that social insurance was born out of utopia: out of a human fantasy seeking the best ways to satisfy the needs of large population masses.<sup>2</sup> It seems, however, that the emphasis should be placed rather on the aforementioned real-life practice, on a number of different initiatives, ways of dealing with changing living conditions. The path of development of insurance institutions justifies such a conclusion. It is certainly

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<sup>1</sup> A. Wójcicki, *Instytucje fabryczne i społeczne w przemyśle Królestwa Polskiego*, "Ekonomista" 1914, Vol. 4, p. 33.

<sup>2</sup> K. Krzeczkowski, *Idee przewodnie ubezpieczeń społecznych*, Warszawa 1936, p. 9.

no coincidence that these institutions appeared first of all in economic ventures involving the mining and metallurgical sector, where the risk of damage to an employee's health was always very high. This practice had been known there for a long time. This time it took on a new form, corresponding to the new political and social conditions, new ways of organising human activities, of managing organisations.

For obvious reasons, insurance institutions and various insurance facilities operating in the Polish lands developed within three, or rather four political systems, and at least in as many societies and economic structures (the Kingdom of Poland [Congress Poland], the so-called Western Krai [*ziemie zabrane*, the westernmost parts of the Imperial Russia, excluding the territory of the Kingdom of Poland], the Austrian partition, the Prussian partition). Insurance was developing most dynamically in those areas that were a part of the German state. Initially, in the first decades of the 19th century, these issues were regulated under the principles of general civil law. However, the regulations that began to appear contributed to the construction of the insurance organisation system. In 1838, in Prussia, entrepreneurs were made responsible for accidents. The law was applicable to railway companies. A system for mining was also being constructed. In 1854, compulsory insurance for miners was introduced, and after a little more than ten years the Mining Code was issued. Legal regulations also covered risks related to workers' sickness. The relevant regulation appeared in 1845 (the Industrial Act). The mentioned Mining Code was also important for sickness insurance. The possibility of developing invalidity insurance was added by the Act of 1867. These laws were amended and supplemented on several occasions. In the second half of the 19th century, the basic German social insurance legislation appeared. It consisted mainly of the Act on sickness insurance of 1883, insurance against accidents at work of 1884, invalidity insurance of 1889 and the Act on the insurance of white-collar workers, adopted at the beginning of the 20th century (1911). At that time, the system was coordinated and organised by means of the Reich Insurance Ordinance.<sup>3</sup>

In those lands under the control of the Habsburg dynasty, social insurance was to appear slightly later than in the neighbouring German states. Similarly, in the first decades, these issues were regulated by a general civil law. However, it is worth noting that new legal regulations had appeared systematically for this sphere of life. In 1869, the regulations on accidents of persons travelling by rail also covered railway employees. The Industrial Act published in 1859 and the Mining Act of 1854 were also important in this respect. In addition, there were a number of exceptions that allowed for the establishment of so-called free insurance funds [*kasy wolne*] or mutual-type insurance associations. The basic legislation making it possible to construct a social insurance system was to appear, as in neighbouring Germany, in the second half of the 19th century. It consisted of the Act of 1887 on insurance against accidents at work, the Act on sickness insurance of 1888,

<sup>3</sup> K. Chylak, *Ubezpieczenia społeczne i zaopatrzenia emerytalne w II Rzeczypospolitej*, Warszawa 2017, pp. 23–51; E. Grabowski, *Ubezpieczenia społeczne w państwach współczesnych*, Warszawa 1923, pp. 19–20, 35–37, 122, 189; *Ordynacja Ubezpieczeniowa Rzeszy z dnia 19 lipca 1911 r. i ustawa o ubezpieczeniu pracowników umysłowych z dnia 20 grudnia 1911 r.*, compiled by J. Baumgarten, S. Sasorski, Poznań 1934, *passim*.

the Act of 1889 on arranging the relations of mining brotherhoods [*bractwa górnicze*] and the subsequent Act on the insurance of white-collar workers of 1906.<sup>4</sup>

In those lands belonging to the Russian state, social insurance appeared the latest. Its development followed very similar paths. In the first decades of the 19th century these issues were regulated by general legislation, on the territory of the Kingdom of Poland by the Napoleonic Code [Kodeks Napoleona], and later by the Civil Code of the Kingdom of Poland [Kodeks cywilny Królestwa Polskiego]. The Industrial Act also had its significance. However, in general, insurance issues were not viewed as being of significant importance, especially as the development of industry on the territory of the Russian state was one-off in nature. The first legal regulations concerning insurance appeared in the mining and steel industry, and then in the railway sector.<sup>5</sup> These were accident, sickness and old-age pension insurance. At the same time, employing Western European models, mainly German and French, bottom-up initiatives began to emerge aimed at creating appropriate institutions. They involved a number of organisations based on the principles of association and mutuality. Their development, however, was hampered by the administrative policies of the state.<sup>6</sup> The actual construction of the system started at the beginning of the 20th century. Its prelude was the Act on responsibility of entrepreneurs for accidents at work of 1903. Just before the outbreak of World War I (in 1912), two Acts were published: on insurance against accidents at work and on sickness insurance.<sup>7</sup> Their implementation was not completed until the outbreak of war. It should be noted, however, that a number of insurance institutions were organised in the Kingdom of Poland.

The political changes brought about by World War I, the disintegration of the old and the emergence of a number of new political organisms led to significant changes in the structure of social insurance. In the first few years of the independent Republic of Poland at least three overlapping processes could be observed. The first was the movement for the reconstruction of the institutional insurance infrastructure. This movement was most often of a bottom-up, local and regional nature. Efforts were made mainly by the local employees of these institutions or by decision-making centres as such. This was an attempt to maintain a certain state of social infrastructure and to take control over it from the hands of the partitioning powers. In each of the regions, and generally in each of the institutions, these activities were carried

4 K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 45–64; E. Grabowski, *op. cit.*, p. 24; J. Pasternak, *Organizacja nadzoru i orzecznictwa w dziedzinie ubezpieczeń społecznych w Polsce*, "Przegląd Ubezpieczeń Społecznych" 1926, Issue 2, p. 31; M. Moskwa, *Zarys powstania i rozwój Zakładu U.P.U. we Lwowie*, "Przegląd Ubezpieczeń Społecznych" 1931, Vol. 9, pp. 262–266.

5 N. Gąsiorowska, *Organizacja Kas Brackich górniczych w Królestwie Polskiem (1815–1830)*, "Kwartalnik Historyczny" 1928, Vol. XLXX, Issue 2, pp. 297–301; D. Marzec, *Ubezpieczenie brackie górników na terenie Zagłębia Dąbrowskiego – zarys rozwoju*, "Materiały i Studia z Historii Ubezpieczeń Społecznych w Polsce" 1997, Vol. 5, pp. 13–15; K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 85–87, 90.

6 K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 78–84, 92–93.

7 M. Lewy, *Nowa ustawa o ubezpieczeniu od wypadków przy pracy*, Warszawa 1913, *passim*; B. Wasiutyński, *Ubezpieczenia robotnicze w państwie rosyjskim*, "Ekonomista" 1913, XIII, Vol. 1, pp. 163–164.

out in a different way. While in the territory of the former Austrian partition they were mainly aimed at maintaining the existence or re-launching individual insurance companies and institutions,<sup>8</sup> in Greater Poland and Pomerania political factors were already more important.<sup>9</sup> In the lands of the former Kingdom of Poland, local, often enterprise forms of insurance were being rebuilt, and at the same time activities were being carried out at the level of central authorities, here initiated by the Provisional Council of State [Tymczasowa Rada Stanu] and the Regency Council [Rada Regencyjna].<sup>10</sup> The path paved in Greater Poland was followed to a degree in Upper Silesia, and here taking into account the specific legal status of this territory.<sup>11</sup> In the Western Krai, one could say that practically nothing at all happened in these initial years.

In parallel to the process of reconstructing the social insurance institutional infrastructure, a heated debate on the developmental directions of the existing system began. The decision-making centres in the field of social policy, controlled by circles connected with the Polish Socialist Party [Polska Partia Socjalistyczna], formulated far-reaching proposals of reform. The concept of so-called uniform social insurance [*jednolite ubezpieczenia społeczne*] was promoted. The idea formulated in the form of draft legislation was not subject to legislative procedure.<sup>12</sup> On the one hand, due to the impossibility of introducing such a costly project, and on the other hand, due to changes in the composition of the Ministry of Labour and Social Welfare, the idea of unified insurance was to gain in importance over time. It assumed, first of all, actions aimed at combining the inherited systems and to unify rules. The unification of insurance was to become a kind of minimum programme in the above-mentioned *milieux*. During the first years, voices promoting the decentralisation of the insurance system and the construction of local organisations connected with specific social circles carried less force. These voices were numerous, but due to the poor legal capacity, they focused on defending the *status quo* and on actions aimed at stopping propagators of the idea of uniform or consolidated insurance policies.

Unresolved fundamental issues did not prevent decision-makers from carrying out activities to modernise the existing status. In a way, they were an attempt to implement, outside of the statutory regulations, the ideas of the above mentioned political environment, initially dominant in the Ministry of Labour and Social Welfare. The activities

8 *Sprawozdanie Zakładu Ubezpieczenia Robotników od Wypadków we Lwowie z czynności za rok 1919*, Lwów, p. 4; *Sprawozdanie Zarządu Okręgowego Związku Kas Chorych w Krakowie za rok 1924*, Kraków 1925, pp. 1, 45.

9 K. Barański, *Organizacja i rozwój kas chorych w województwach Poznańskim i Pomorskim*, "Przegląd Ubezpieczeń Społecznych" 1930, Vol. 5, pp. 108–109; *Sprawozdanie Ubezpieczalni Krajowej w Poznaniu z 10-letniej działalności*, Poznań 1929, pp. 4–5.

10 K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 1158–1163.

11 *1. Sprawozdanie Zakładu Ubezpieczeń Społecznych Województwa Śląskiego za rok 1922 i 1923*, Królewska Huta 1925, p. 8.

12 State Archive in Poznań, Social Insurance Institution [Archiwum Państwowe w Poznaniu, Zakład Ubezpieczeń Społecznych], file No. 2, ff. 120–151, *Ustawa o ubezpieczeniu społecznym. Zarys projektu*; T. Sznuk, *Zadanie polskiej polityki państwowej w dziedzinie ubezpieczeń społecznych*, "Biuletyn Ministerstwa Pracy i Opieki Społecznej" 1919, No. 3, pp. 172–177.

undertaken were wide in scope. These included both the necessary organising activities, adjustment of the system to the new political conditions and steps aimed at expanding the system. At that time, a number of regulations were prepared to enable the operation of the existing, reconstructed insurance institutions. System expansion was carried out, among others, through the implementation of the Act on sickness insurance adopted in 1920, the Act on the introduction of solutions derived from Austrian accident insurance to the territories of the former Russian partition (1921).<sup>13</sup>

In 1923, the emphasis in social insurance policy was finally shifted to the regulation of specific issues. Adoption of the Act on unemployment insurance (1924) being the first result of this approach. Although this adoption had a broad political and economic context, it was nevertheless a novelty, a breakthrough in the previous doctrine. This was because a new, separate system was built, and not based, as originally planned, on sickness insurance funds.<sup>14</sup> It was unified, but organised against the idea of uniform insurance. The introduction of white-collar workers' insurance in 1927 was a symbolic departure from the path of uniform insurance. In a way, the idea of unification (of pension systems existing in individual partitions) was implemented, but at the same time the division of society according to the class criterion was consolidated.<sup>15</sup>

The unification idea had not been abandoned. Almost in parallel, preparations were made for the introduction of old-age pension insurance for blue-collar workers and for the reform of the sickness and accident insurance. The experience gained during the implementation of white-collar workers' insurance and the infrastructure built were to play a significant role in this work.<sup>16</sup> The prepared concept, supported by the government and submitted for adoption by the Sejm [the lower house of the Polish parliament], was withdrawn by the new Minister of Labour and Social Welfare, Aleksander Prystor. This was to constitute the actual end of the remnants of the notion of uniform social insurance, the end of the system of sickness insurance funds.<sup>17</sup>

The legislative work on the new Social Insurance Act lasted for almost the next two years. Commonly referred to as the Unification Act [*umowa scaleniowa*], it reflected, to a small extent, the original goals formulated at the beginning of independent Poland. In fact, the insurance law was unified and consolidated throughout the country. Some departures from the system were left, such as in Upper Silesia or for the mining industry, railwaymen and other minor professional groups. Although these differences were

13 *Sprawozdanie z działalności Ministerstwa Pracy i Opieki Społecznej w r. 1921*, "Praca i Opieka Społeczna" 1922, No. 2, pp. 116–123.

14 K. Chylak, *Systemy ubezpieczeń na wypadek bezrobocia w Polsce międzywojennej* [in:] *Metamorfozy społeczne. 7. Państwo i społeczeństwo Drugiej Rzeczypospolitej*, ed. J. Żarnowski, Warszawa 2014, pp. 221–240.

15 J. Pasternak, *Ubezpieczenie pracowników umysłowych*, "Praca i Opieka Społeczna" 1927, No. 1, p. 57.

16 Central Archives of Modern Records, Ministry of the Interior [Archiwum Akt Nowych, Ministerstwo Spraw Wewnętrznych], file No. 522, bp., *Protokół konferencji międzyministerialnej odbytej w Departamencie Ubezpieczeń Społecznych w dn. 21 V 1926 r. w sprawie projektu ustawy o ubezpieczeniu pracowników umysłowych*; K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 270–271.

17 *Ibid.*, pp. 283–290.

temporary, they *de facto* became permanent and remained until the end of the Second Polish Republic.<sup>18</sup> The aforementioned Act was passed in March 1933, only to be altered in the autumn of 1934. On 1 January 1935, the Social Insurance Institution [Zakład Ubezpieczeń Społecznych, ZUS] was established, which took over the management of sickness, accident, old-age pension and white-collar workers' insurance. This new era in Polish insurance was to last just over four years; to be ended by the outbreak of World War II.

## Social risk management

Social risks, broadly defined, include various social threats, whether natural or resulting from human activities. In slightly narrowing the scope of the analysis, it should be pointed out that in the context of social insurance, social risk was most often interpreted in terms of cost, the lack or reduction of income (source of subsistence), concerning the economic entity, *i.e.*, the family, the household.<sup>19</sup> During the first decades of the 19th century, a catalogue of social risks was developed. This included the risk of sickness, death of the breadwinner, maternity, invalidity, accidents at work, unemployment, old age or sudden unforeseen outgoings.<sup>20</sup> The significance of particular risks changed over the years, depending on many economic, social and political factors. Nevertheless, during this time, the process of distinguishing particular risks took place in each part of the Polish lands.

In the first social insurance institutions, the main risks were associated with the use of specific technologies in the production process, *i.e.*, primarily, the loss of income resulting from an accident at work and, consequently, from the degree of incapacity for work (invalidity). Already then, the risk of sickness and loss of breadwinner was gaining in importance. This phenomenon was visible in insurance in the mining industry or rail transport. The system of benefits in the mining brotherhoods covered assistance to miners in the event of invalidity, death or sickness. There were already other types of benefits at that time, including even aid for the unemployed, but this was not a common phenomenon. Attention should be given to the complexity and diversity of the first

18 M. Wanatowicz, *Ubezpieczenie brackie na Górnym Śląsku w latach 1922–1939*, Warszawa–Kraków 1973, pp. 172–175; M. Mamrotowa, *Reforma ubezpieczenia górnicze w Zagłębiu Dąbrowskiem*, "Praca i Opieka Społeczna" 1935, No. 3, pp. 378–386; M. M[amrotowa], *Likwidacja Kasy Emerytalnej Robotników P.K.P.*, "Przegląd Ubezpieczeń Społecznych" 1939, Vol. 6, p. 347; J. Piotrowski, *Zwiększenie uprawnień ubezpieczonych na Górnym Śląsku*, "Przegląd Ubezpieczeń Społecznych" 1939, Vol. 8, pp. 459–462; State Archive in Lodz [Archiwum Państwowe w Łodzi], Kasa Emerytalno-Pożyczkowa Pracowników Łódzkich Wąskotorowych Kolei Dojazdowych, file No. 6, pp. 20–21, *Memorial w sprawie projektowanej Ustawy o pracowniczych kasach ubezpieczeń i funduszach emerytalnych, 11 III 1939 r.*

19 K. Duch, *Ubezpieczenia społeczne*, Warszawa 1934, p. 11; Z. Daszyńska-Golińska, *Polityka społeczna*, Warszawa 1933, p. 347.

20 T. Szumlicz, *Świadomość ryzyka społecznego jako podstawa wiedzy o systemie ubezpieczeń społecznych*, "Ubezpieczenia Społeczne. Teoria i praktyka" 2017, No. 1, p. 6.

systems of benefits, which would be extremely difficult to clearly qualify for the above mentioned catalogue of social risks.<sup>21</sup>

Along with the development of industry and the employment of women on a mass scale in factories, apart from the risk of accidents at work, death and invalidity, the risk of loss of income due to sickness and, above all, the maternity risk was to become more important. Laws that were originally issued to organise the operations of industrial plants did not meet the growing needs. Over time, so-called factory sickness insurance funds [*fabryczne kasy chorych*] appeared, which were later replaced by or incorporated into specific systems of insurance against these risks, *i.e.*, sickness insurance systems. Later, the risk of loss of income due to age gained in importance. This threat has already been noted earlier, for example, in the so-called brotherhood insurance [*ubezpieczenie brackie*], but it was usually combined with a form of incapacity for work. In the context of obtaining a benefit, it was of little importance whether this incapacity for work resulted from an accident, a sickness, or was a consequence of the employed person's age. Only the source of benefit financing was changing, and very different solutions were applied. The increased importance of the risk of loss of income due to age was obviously connected with changes in health care and changes in the family as a form of social existence.

The last of the risks to become a part of social insurance was the risk of losing one's job. In fact, this was done only in the interwar period. From the very beginning, this issue was characterised by its distinctiveness, hence the specificity of this risk was maintained, which was a consequence of phenomena of a different type existing in manufacturing.

During the 19th century various forms of insurance risk management were developed in the Polish lands. This was obviously a consequence of the division of Poland between three different economic and political structures. At that time the process of evolution of forms of insurance risk management was also noticeable in terms of those entities managing the risk itself.

Originally, social risks were managed at community, local, industry and enterprise level. It was the participants of the undertaking (employers and employees), or possibly specific professional groups, who took actions to reduce the probability of a potential event or – what seemed more important at the time – to limit the financial effects of that event.

The first forms of insurance involved less formalised actions, limiting mainly the effects of the risk of a loss of income. The costs were distributed either among the employer and the employees – which was the standard in the brotherhood, fraternal or like-minded insurance funds – or among the participants of a given organisation – in mutual funds. Mention should be made of the importance of the so-called subjective risk category [*kategoria ryzyka subiektywnego*] for the description of this process – *i.e.*, uncertainty based on personal experience, which is undoubtedly linked to the social characteristics of an individual. Taking into account the differences in education, professional structure and other social and demographic characteristics of the Polish population in the individual areas of partition, the variety of forms of risk management as well as the speed of their evolution seem understandable.

<sup>21</sup> N. Gašiorowska, *op. cit.*, p. 295; B. Wasiutyński, *op. cit.*, pp. 155–157.

From the territorial point of view, as mentioned, the ways of social risk management developed in different ways in each part of the Polish lands. In the lands of the Prussian partition and in Upper Silesia, the process of the institutionalisation of existing enterprise forms and those based on mutuality began quite quickly. Step by step, the state assumed the role of the system organiser. The freedom left in the initial period was gradually limited over time. These trends found their expression in the organisation of institutional forms for insurance covering mining, railways, industrial enterprises, companies employing white-collar workers, farmers, *etc.* As has been pointed out, the personal scope of the system was wide, and as a result the state managed almost entirely the risks resulting from accidents at work, sickness, maternity, age, invalidity insurance and the death of the breadwinner.<sup>22</sup>

The process of the taking over by the state of the role of system organiser also took place in the lands previously under Habsburg control. In this case, the process was somewhat slower, and more space was left for those directly concerned (employers and employees) to take their own initiatives. The state had become the organiser of the mining, railway and industrial system (not for all risks), employing white-collar workers. The resulting risk management system was not uniform. Some risks, such as an accident at work or sickness, were managed by the state to a large extent, while others, such as pensions, only to a residual extent.<sup>23</sup>

Throughout the 19th century, various attempts were made within the area of Russian partition to organise an institutional system of social risk management. Some steps were taken in the mining and steel industry. The state had become the organiser of the system, which, however, did not prove to be sustainable. Importantly, the lack of interest in these problems on the part of the central authorities also did not open the field for those concerned. Indeed, in the second half of the 19th century, a number of mutual-type insurance organisations were set up, and there were also enterprise forms of sickness insurance funds [*kasy chorych*] and brotherhood funds [*kasy brackie*], but there were no legal solutions implemented for their development. It was only at the beginning of the 20th century that the state authorities started to take over the role of system organiser. Just before the outbreak of World War I, regulations of insurance against accidents at work and sickness were published. However, these solutions were quite limited in their personal scope.<sup>24</sup>

After Poland regained its independence, the speed of insurance system organisation increased, and the state became the manager of the system. This trend was clear throughout the entire period of the Second Polish Republic with each year seeing the system covering subsequent professional groups. This process resulted in the elimination of other forms of social risk management. In the course of many legislative initiatives, the state became the organiser of the system covering the risk of sickness, maternity, accidents at work, invalidity, age and unemployment. Entities organised by employers and employees or based on mutuality actually lost their possibility to act.

<sup>22</sup> K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 23–43.

<sup>23</sup> *Ibid*, pp. 44–64.

<sup>24</sup> *Ibid*, pp. 65–94.

## Management of insurance institutions

Already in the first decades of the 19th century, and somewhat earlier in Silesia, insurance institutions started to be integrated into systems. At first small ones, covering specific industries or professional groups, though over time they started to form a nationwide structure of insurance institutions. This constituted a universal course of action by particular authorities from amongst the partitioning powers, and later also the authorities of the Second Polish Republic.

The first step towards system organisation was to create specific forms of insurance institutions. It is difficult to suppose that these activities were part of a long-term plan, of a specific idea that was to lead to the creation of a specific institutional system. These were rather actions aimed to organise a system as such, bottom-up initiatives that were already appearing and actions aimed to meet the demands of specific professional groups. By organising the existing reality, providing it with specific bureaucratic forms, public institutions acquired control competences and the right to at least co-decide on their functioning.

As early as in the 17th century, had the Prussian authorities introduced legal solutions leading to the transformation of the insurance funds existing in Silesia and Klodzko County into compact institutions of a public-private nature. These were merged into the Central Institute of the Brotherhood Funds [Główny Instytut Kas Brackich]; and were administered through the Higher Mining Authority in Wrocław [Wyższy Urząd Górniczy we Wrocławiu]. In 1854 the Act on mining brotherhoods was published, the provisions of which were used to distinguish three insurance institutions (Oberschlesischer Knappschaftsverein, Niederschlesischer Knappschaftsverein, Plessischer Knappschaftsverein). To some extent, the management of the insurance system was decentralised, as the Higher Mining Authority had entrusted the statutory bodies of the brotherhoods with the right to govern themselves by means of their own statutes. The state authorities were left with supervisory and control powers and formulated general political rules and guidelines concerning the risks to be covered, types of benefits and the scope of those persons to be insured. The brotherhoods were entrusted with the creation of detailed solutions, while the main direction of institutional development was shaped by the Authority.<sup>25</sup> These solutions turned out to be most sustainable despite the introduction of many changes in social insurance at a later stage.<sup>26</sup>

A similar policy was pursued by the authorities in the two remaining areas of partition. Here it seems that the experience of the Prussian state was taken into account. In the Kingdom of Poland, as a consequence of the Decree on the Mining Corps, a general

25 K. Jońca, *Polityka socjalna Niemiec w przemyśle ciężkim Górnego Śląska 1871–1914*, Katowice 1966, p. 191; B. Danowska-Prokop, *Sytuacja gospodarcza i społeczna na Górnym Śląsku w okresie międzywojennym i jej wpływ na ubezpieczenia brackie*, Katowice 2012, pp. 131–136.

26 A. Jarosz-Nojszewska, *Ubezpieczenia społeczne na Górnym Śląsku w latach 1922–1939* [in:] *Od kwestii robotniczej do nowoczesnej kwestii socjalnej. Studia z polskiej polityki społecznej XX i XXI wieku*, ed. P. Grata, Rzeszów 2016, pp. 34–46.

framework for the functioning of the individual brotherhood funds was established. Unlike in Prussia, however, no larger organisms were built and the system was based on funds created for and at each mining and steel supervisory authority. While formulating general rules for the functioning of funds (contributions, benefits, insurance coverage, reporting rules), no insurance system was separated. The so-called main brotherhood fund [*główna kasa braterska*], established at the Central Mining Directorate [Główna Dyrekcja Górnicza], was to play a linking role of sorts.<sup>27</sup> In view of the impending political changes, these actions were not to prove permanent.

In Galicia, the solution in force was given a specific form in 1854. At that time, every entrepreneur from the mining industry was obliged to create their own brotherhood fund or in conjunction with other employers. A single central supervisory institution was established – the Mining Brotherhood in Cracow [Bractwo Górnicze w Krakowie]. The funds were independent, both organisationally and financially.<sup>28</sup> Later (1889), a uniform organisational structure was imposed on these brotherhood institutions.

The solutions introduced for the mining and steel industries proved for years to be sustainable and maintained their autonomy with respect to subsequent activities by the authorities in the field of social insurance. Over time, further insurance systems were created for other professional or social groups: railwaymen, selected groups of white-collar workers, *etc.* With time, the institutional structure of social insurance was also to become more complicated, and an array of sickness funds emerged with a diverse scope of activities. For obvious reasons, the speed of this process was uneven across Poland as a whole. Apart from political factors, the main reason was the condition of the lands, the development of industry and the creation of urban structures, as well as the organisational culture of the enterprises themselves.

The German authorities were instrumental in a major qualitative change that took place at the beginning of the 1870s, in their undertaking to start to build a nationwide social insurance structure. These activities were no longer of a mere organisational nature but, above all, were implicit in creating a new reality. A uniform insurance law was introduced in turn to cover accidents at work, sickness and invalidity. At that time, a fundamental system was formed, based on regional, local and functional insurance institutions (insurance funds, insurance companies), created under the pre-established rules regarding territorial affiliation, material scope (the type of risk to be covered), personal scope (the social or professional group or class to be covered). They were functionally linked and subject to a uniform supervisory and control structure (insurance authorities). They retained management autonomy and financial independence. Uniform standards for products (benefits), rules of access to the system and specific benefits, as well as specified and uniform procedures were created.

The German solutions and the experience of implementation quickly became a resource upon which the authorities of neighbouring countries drew. The era of building

<sup>27</sup> N. Gąsiorowska, *op. cit.*, pp. 297–301.

<sup>28</sup> See J.M. Bocheński, *Krakowskie prawo górnicze*, Kraków 1898.

country-wide insurance systems had begun. In the Habsburg-ruled monarchy, the influence of central government remained to a greater extent. This was particularly true for long-term insurance. The institutional sickness insurance system generally followed the German model.

In Russia, it took longer to develop a uniform system. For years, the insurance institutions functioned independently and were bottom-up in nature. Their organisation and management were the responsibility of those who had initiated their establishment. It appears that these issues were outside the scope of interest of the tsarist authorities. The situation was to change at the beginning of the 20th century with the slow transformation of state management. Legal instruments were launched and a uniform structure of accident and sickness insurance was designed. As already mentioned, the outbreak of World War I prevented the law to be implemented. Nevertheless, it was apparent that the German model was being employed and as above-mentioned was based on local, regional and functional insurance institutions.

In the 19th century, the rules for insurance systems management were transformed. There was a transition from complete freedom in the organisation and management of insurance institutions to the takeover and regulation by public authorities (directly or indirectly) of legal and administrative, organisational, supervisory and control instruments.

The period of the Second Polish Republic can be defined as the time when the existing forms of insurance system management underwent development. There was a slow process of increasing the participation of public institutions in insurance management. In the first years of the Second Polish Republic, through greater use of legal and administrative instruments, both detailed regulation of access to the system and the number of insurance products occurred. Subsequent insurance Acts extended the range of insured persons and types of benefits. The state also undertook an organisational undertaking designed, on the one hand, to a process of liquidation, while, on the other, to building a new structure of sickness insurance funds and insurance companies. The development of the supervision system was suspended, with the remnants of those structures inherited from the partitioning powers employed for many years to come.<sup>29</sup>

Noted should be the clear fragmentation of actions taken by the state authorities in managing the system. This applies in particular to the first few years of independent Poland. Construction and adjustment activities were carried out in parallel, often being contrary to general assumptions. The lack of a political *consensus* on social insurance was here characteristic.

At the end of the 1920s, using legal and administrative as well as procedural instruments, the final process of insurance system centralisation was initiated. The introduction of the Social Insurance Act of 1933 and its complementing Regulation of 1934 constituted a kind of culmination for these activities. The new structure meant that public authorities gained direct influence over the organisation and management of the entire system at each organisational level. The governing bodies both at the level of central

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<sup>29</sup> J. Pasternak, *Organizacja...*, *op. cit.*, pp. 29–31.

institution as well as at regional insurance company level had become subjected to state authority. The structure of insurance products and the system access criteria had been unified. Work on the construction of a system of insurance supervision and control was also commenced.<sup>30</sup>

## Insurance capital management

The activities of social insurance institutions led, by their very nature, to the accumulation of significant capital. This phenomenon did not concern all types of insurance, while in the first years of the existence of insurance this aspect of operations was very clear etched. The first insurance funds operated under systems similar to the principles of pay-as-you-go. The capital was managed on an ongoing basis. In the brotherhood funds, in Prussia, the capital collected from premiums and other contributions was taken care of by a mining official and the so-called elders [*starsi*]. The capital was kept in a safe place, *i.e.*, in a church, town hall or mining office. It was spent as required. There was no specific investment policy as such.<sup>31</sup> Similar rules applied in the lands under Austrian and Russian partition.

With the emergence of regulations organising social insurance's institutional mosaic, the basic financing systems, *i.e.*, the pay-as-you-go system and funded system (based on capitalisation), began to develop. They were fundamentally different from each other and required different management methods.

As a rule, insurance institutions in financing their activities based on pay-as-you-go solutions did not accumulate larger sums of capital. The assembled capital was simultaneously spent on benefits and administration. Such an inflexible system, one which in practice prevented deeper-rooted future changes in insurance financing, was connected with a relatively small burden on the payers over the course of the first years of operation. Hence its popularity. It was generally used in sickness insurance. In this case, the disposal of funds' assets was the responsibility of the funds management boards. Detailed issues were regulated at the statute level of the given institution. As already mentioned, the organisational rules, the general principles for the allocation of competence between various funds' bodies were laid down by national legislation, with funds' activities being subjected to supervision by the relevant public supervisory bodies.<sup>32</sup>

The basic principles of the financial system were also maintained in the Second Polish Republic. Income was immediately spent on benefits and administration. In the first decade, the fund management boards had a greater influence on the management of funds' capital. In 1929, the process of taking control of the sickness insurance funds by

30 E. Sisslé, *Rozstrzyganie sporów w zakresie ubezpieczeń społecznych*, Warszawa 1934, pp. 1–20.

31 N. Gąsiorowska, *op. cit.*, p. 295.

32 Zob. *Ordynacja ubezpieczeniowa Rzeszy...*, *op. cit.*, pp. 23–40, 135–137.

the government (through the institution of a commissioner) began.<sup>33</sup> Given the amount of income and expenditure, there was little room for changes in the administration of the capital held.

The system of sickness insurance funds based on the 1920 Act provided for the so-called reserve fund [*fundusz zapasowy*]. Each year, the sickness insurance funds were obliged to save 10% of contributions paid. Although this item appeared in the financial statements of sickness insurance funds, in fact no monies as such were located there. This was due to the rate at which contributions were actually collected. The amount of contributions paid in clearly was at odds with the real income derived, while outgoings often exceeded incomes.<sup>34</sup> This resulted in a lack of specific action with regard to capital that existed in truth only on paper in financial reports.

Although the pay-as-you-go system was less widespread in other types of insurance it was used to finance the Prussian accident and invalidity insurance systems. As results diverged from expectations, significant adjustments were made to the invalidity insurance system in later years, by introducing elements of capitalisation.<sup>35</sup> It was the funded system that provided the institutions with significant capital. In this way, so-called long-term insurance [*ubezpieczenia długoterminowe*] was usually organised: old-age, invalidity and accident pensions. The mentioned systems held huge amounts of capital, especially in the first years of existence of a given insurance. Management of these funds, and in particular the preservation of their value, was a serious matter.

State authorities quickly became aware of the opportunities arising from the introduction of long-term social insurance systems. This was one of the key issues in the process of making decisions on the introduction of social insurance, in particular as regards invalidity or old-age pensions. At the statutory level, the authorities set down the principles of social insurance capital management. In the Second Polish Republic, there was a slow reorientation of the rules for insurance fund management. In the initial years, individual insurance companies were given relative freedom to decide on the management of their assets. In fact, this related to surplus funds left over from the sums spent on administration and benefits. There were, however, some limitations resulting from the statutes of individual institutions and successive regulations introduced from 1924 onwards, regarding the means of capital investment. In 1924 it was made known that short-term funds should be deposited with listed banks (Bank Gospodarstwa Krajowego, Państwowy Bank Rolny, Bank Polski, Polski Bank Komunalny and Pocztowa Kasa Oszczędności). Long-term capital could be invested in real estate, mortgaged loans, state securities or state-guaranteed securities, as well as in bank depositaries.<sup>36</sup>

33 W. Tarski, *Rozporządzenie ministra pracy i opieki społecznej w sprawie reorganizacji kas chorych z dnia 28.IX.1931*, "Wiadomości Kas Chorych" 1931, No. 21, pp. 2423–2431.

34 A.U., *Gospodarka finansowa kas chorych w 1931 r.*, Warszawa 1932, pp. 3–23; K. Chylak, *Ubezpieczenia...*, *op. cit.*, pp. 322–323, 413–414.

35 E. Grabowski, *op. cit.*, pp. 46–47.

36 L. Landau, *Działalność lokacyjna ubezpieczeń społecznych i jej rola w życiu gospodarczym Polski w latach 1924–1933*, Warszawa 1934, p. 5.

These state regulations initiated the process of transferring competence for the management of insurance funds from the management boards of respective institutions to the state authorities themselves. This solution was not new. Under the rules introduced by the partitioning powers (in principle, this applied to the German and Austro-Hungarian states), insurance institutions were obliged to invest their capital in state or state-guaranteed securities. However, there were also other options for investing social insurance capital, *e.g.*, it was a source of credit for entrepreneurs. It is a fact that during World War I, the partitioning powers clearly intensified their policies aimed at using the capital accumulated by social insurance institutions.<sup>37</sup> Insurance funds were quite an easy prey given the situation at the time.

In the Second Polish Republic such a policy was initiated by the government of Władysław Grabski and over time was to find favour with successive ruling blocs. With the launch of investment projects and a clear lack of free capital, insurance funds were a convenient source for investment funds. It is not surprising, therefore, that further measures were taken to limit the freedom in the managing of assets held by social insurance institutions and to transfer the management competences in this respect to the level of a central institution directly dependent on the authorities of the social welfare ministry.<sup>38</sup> This policy resulted in a specific structure of investments for social insurance funds, with more than half of the deposits in 1938 being in state securities (51.2%), while real estate accounted for 24.6%, mortgage loans – 12.8%, and fixed-term deposits – 11.4%.<sup>39</sup> This seemingly safe way of investing insurance funds was have negative consequences as it increased public debt.

## Summary

Social insurance in the Polish lands in the 19th and first half of the 20th century underwent a metamorphosis from local, bottom-up initiatives to large national institutional structures. Despite many differences resulting from the existence of several political systems derived from different states, the direction taken by insurance initiatives may be considered relatively uniform. To put it simply: German ideas were implemented. These were politically attractive and in a way reflected at least the basic postulates of the socialist movement fashionable at that time.

Ideas of centralisation were implemented in the field of insurance system management, involving the concentration of basic instruments in the hands of public authorities. This phenomenon intensified especially after World War I. The focus shifted from setting the rules, principles and forms of operation of bottom-up insurance initiatives to direct

37 K. Chylak, *Główne kierunki polityki państwa wobec funduszy ubezpieczeń społecznych w II Rzeczypospolitej*, "UR Journal of Humanities and Social Sciences" 2017, No. 3 (4), pp. 25–27.

38 *Ibid.*, pp. 33–36.

39 *Ubezpieczenia społeczne w Polsce w latach 1934–1938*, Warszawa 1940, p. 22.

control of either the institutional system or the funds themselves. Forms of cover and the financing of risks were becoming less and less flexible.

These actions were motivated primarily by financial considerations. The political or socio-occupational issues have been emphasised to date in the subject literature. Nevertheless, in the analysis of the process of taking over the management of insurance institutions and funds by the state authorities, issues related to insurance funds come to the fore. The possibilities of drawing on the investment resources noted in long-term social insurance systems correlated with the increasing popularity of an active role being played by the state in the economy.

It is worth noting that the problems faced by social insurance institutions are still valid. The constant evolution of types of jobs and risks related to work and the need to adapt the institutional system and capital management to the new conditions is natural. Past experience shows that it is not possible to develop an ideal system of social insurance, which, by its very nature, has built-in defects. Therefore, the system and the legitimacy of its existence should be measured by the degree of utility for its participants.

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## Ewolucja zarządzania ubezpieczeniami społecznymi na ziemiach polskich do wybuchu II wojny światowej

Ubezpieczenia społeczne w literaturze występują najczęściej jako zagadnienie społeczne czy polityczne, rzadziej podejmuje się wątki o charakterze gospodarczym, a tym bardziej rozpatruje je przez pryzmat kwestii zarządzania. Celem niniejszego artykułu jest próba syntetycznego przedstawienia ewolucji zarządzania ubezpieczeniami społecznymi w trzech wymiarach: ryzyk społecznych, systemu instytucjonalnego i kwestii finansowych.

W XIX i pierwszej połowie XX w. w zakresie zarządzania systemem ubezpieczeń realizowano pomysły centralizujące, skupiające podstawowe instrumenty w ręku władz publicznych. Zjawisko to zyskało na sile zwłaszcza po I wojnie światowej. Przemierzono drogę od wyznaczania reguł, zasad i form funkcjonowania oddolnych inicjatyw ubezpieczeniowych do bezpośredniego sterowania czy to systemem instytucjonalnym, czy funduszami. W konsekwencji wytwarzano coraz mniej elastyczne formy zabezpieczania i finansowania ryzyk.

**Słowa kluczowe:** fundusze ubezpieczeń, instytucje ubezpieczeń, zarządzanie ubezpieczeniami, ubezpieczenia społeczne, polityka społeczna