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Local organization of Social Services and K wave theory

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ABSTRACT

Abstract Wars are followed by periods of peace, crises by longer periods of economic prosperity. Economy has cycles like seasons that alternate in historical time. On the basis of Kondratiev's theory, Schumpeter claims that previous production technologies are replaced in a form of creative destruction. Human capital, which determines the development of the economy, also has a development cycle. Human investments precede the period of creative destruction taking place in the economy, facilitating the change on the one hand and they are a part of the change on the other hand. Local Organization of Social Services (LOSS), including education, have a key role to play in these creative cycles. Historical examples show changes in the human capital cycle are not a function of blind luck. On the contrary, any major change was preceded by a well-thought-out political decision made by politicians who defined the era.

Kulcsszavak

társadalomtörténet,
társadalompolitika, helyi szociális
ellátás, társadalmi változás,
oktatáspolitikai, humántőke,
cikluselméletek

Absztrakt

A háborúkat béke időszakok követik, a válságokat hosszabb konjunktúra időszakok. A gazdaságnak ciklusai vannak, mint az évszakok, amelyek váltják egymást a történelmi időben. Az átmenet korszakokban a kreatív rombolás formájában váltják le a korábbi termelési technológiákat állítja Kondratyev elmélete alapján Schumpeter. A gazdaság fejlődését meghatározó humán tőkének is van fejlődési ciklusa. A humánberuházások többnyire megelőzik a gazdaságban végbe menő kreatív rombolás időszakát, Egyrészt elősegítve a váltást, másrészt részei a változásnak. Ezekben a kreatív ciklusokban kulcsszerepe van a helyi szociális szolgáltatás szervezeteinek, ezen belül az oktatásnak. Történelmi példák mutatják a humán tőke ciklus változásai nem vak szerencse függvényei. Ellenkezőleg, minden nagy váltást jól átgondolt politikai döntés előzött meg, amelyet politikusok hoznak, akik korszakokat jelölnek ki.

The Local Organization of Social Services – LOSS¹

The *Local organization of social services* belongs to the complex system related to the well-being of the society mainly as public goods and public services provided to the clients locally in their own local society and on a local level.

The different public goods and social services can be categorized by the type of providers; central government, regional or province government, county authority, local government, non-government organizations, civil, church institutions and organizations and so on. Three main sectors that can be separated from each other are *public education, health care as well and social support systems*.

The *supply side* of the local social services can be divided by their formal appearance; *formal organizations* function on public money in accordance with the laws, and are led by appointed or elected personnel.

Within a local government (municipality), local social services can be placed into four categories:

1. Top down organizations of the central government (GOs; government organizations)

¹ This subchapter follows the guidelines of the LOSS's international comparative research and documents of the 4th LOSS Conference, Trento, 16-18 February 1995. Dipartimento di Sociologia e ricerca sociale via Verdi TRENTO. LOSS's guidelines written by Prof. Rainer Greca; University of Eichstätt, Prof. Thomas R. Lawson; University of Louisville and Stephen Osborne; Aston University. Hungarian participants: Ferenc Bódi; Institute for Political Sciences, Hungarian Academy of the Sciences, Gergely Fábán, and Péter Giczey; University of Debrecen.

2. Institutions led by local elected authorities, representative body and their public offices within a local government (LGOs)
3. Non-Government Organizations and civil organizations (NGOs)
4. Community-based Organizations (CBOs)

At the same time, several *informal institutions* ensure that invisible and elementary social safety net exists. However, in the case of a crisis their role becomes a significant factor. *The most fundamental informal social institution is the family itself* with its network of relatives. Furthermore, several important *social networks* are responsible for the citizen's social safety such as the *neighborhood, friends, workplace relations, as well as professional relationships*.

The function of the Local Organization of Social Services (LOSS) is determined by the structure of the *demand side*, and forms a special pattern in each local society much like the genome of a living organism. Each local society has a different pattern on the demand side that is dependent on multi-endogenous factors:

- Social structure of the inhabitants,
- Advanced state of the municipalities and abundance in their environment,
- Structure of the local economy,
- Experience of the local culture and tradition,
- The relationship of the local politics, local government, to the central politics, and to the political systems on national level.

The demand side of the LOSS can be approached from *life situations*. Questions arise about the capacity of the population for reproduction; the quality of life; the employment situation of career beginners; the women's role in local society; the conditions of education for children; housing situation; as well as the general health condition; and many more for a given locality (local society).

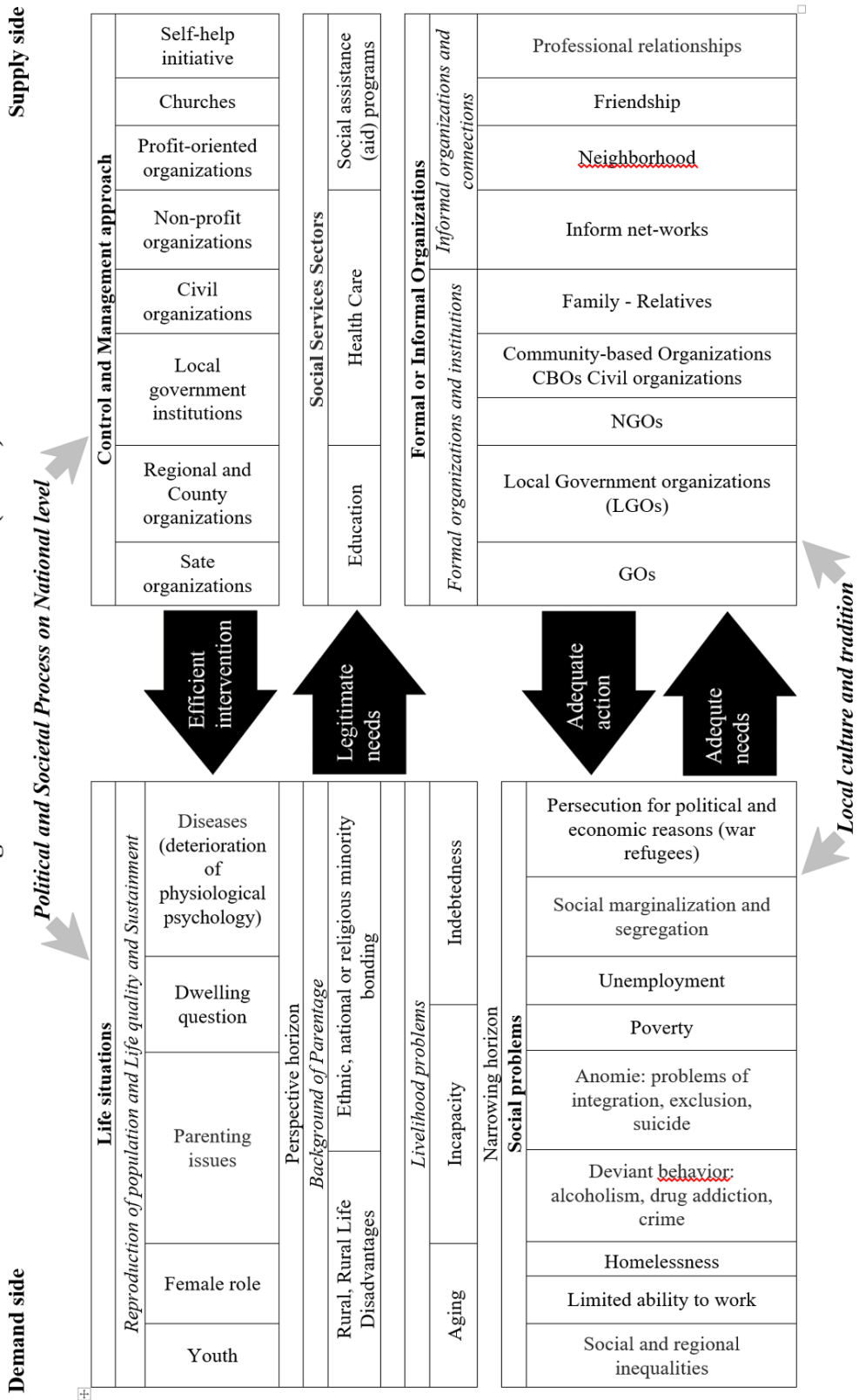
The fact that the LOSS exists locally means that the needs of life situations (clients of the demand side) can find satisfaction in the local community. Consequently, the clients do not have to leave their residence where they live their own daily routine. Basically, the LOSS handles ordinary life situations, although, either the big or local society can have a malfunction when the basic institutions become dysfunctional, and they are unable to resolve social problems and deal with the fast social polarization. (Fábián 2004)

The LOSS does not have the task to treat the causes of social inequality, as the more complex social politics can treat them more effectively in most cases. However, it is an indisputable fact that the effective and adequate intervention of social politics, frequently, can be best organized on the local level and in the local society. The goals of social politics if they do not having enough support locally and if the local social

efforts do not have enough encouragement from the higher levels become incomprehensible and unproductive initiatives, even if they had been born of goodwill.

The precondition for effective social politics is *legitimizing*. A social action can be either a bottom up or a top down initiative, but it will be an effective activity and hopefully successful only if it is accepted locally. For example, if the local initiative can form itself into a united system and gets supporting assistance from the higher politics, it does not become a fragmented isolated action. (Savova 2021)

Figure 1
Local Organization of Social Services (LOSS)



The adequate and effective LOSS can be implemented (in the historical perspective) if the social politics of the given state are *reflexive, cooperative even open to the local politics*. When the higher social politics are not sensitive, cooperative and open to the local level then it will more likely be (even beside the most goodwill) expensive, and it will stimulate, build and maintain an inadequate system that cannot handle properly real life situations (Bódi et Fábíán 2011).

The result of the not legitimated LOSS is depressing: the supply side of the LOSS will not support effectively the reproduction needs of the society (perspective horizon), but it also struggles against the ever increasing social problems (narrowing horizon). Sometimes, when social politics exclude stakeholders from making decisions; do not perceive the needs of the localities; are inclined to avoid the interests of local societies, they will unintentionally feed the widening poor crowd. Simultaneously, the growing helpless local poverty will intensify the need for centralization and weakens decentralization resulting for example Nazism and Communism.

The *Vicious circle* is completed. Illegitimate social politics can promote the proliferation of the social problems like social and regional inequality, low employment, homelessness, anomie, marginalization, segregation, and so on. Democratic political systems are not exempt from social problems. In any given case of crises, the poverty level can grow but the treatment of social problems cannot be the base of legitimating for political rule (see populist dictatorship, socialist state system, fascism etc.). Social politics of the democratic political systems tend to improve the life situation; life quality and reproduction needs of the society (perspective horizon) in non-crisis periods and the treatment of the social problems received only a secondary role (Bódi et Fábíán et Lawson).

Dissymmetrical Model of the LOSS

The Trento model in 1995 was based on a suspected solid welfare state. However, after the Credit Crisis of 2008, the LOSS model has been made into a dynamic model that is changing and has a reconceived as consisting of dissymmetrical supply and demand sides in its transformation.

The supply and demand side of the LOSS model is symmetrical in when the growing social needs are met by a growing capacity of the supply side (Bódi et Fekete 2012). For example, when the number of children is increasing in a region or in a city, so does the capacity of the day nursery, kindergarten, and primary school optimally in a short time). When the number of the elderly population is growing, the capacity of caring for the elderly would be growing simultaneously. However, a significant dissymmetry can occur when social problems are increasing because of the crisis,

for example, a huge number of people lose their jobs, and the number of unemployed increases drastically. Or the due to credit crisis in a region or in a city, a huge number of people cannot pay their mortgage loans and cannot pay for other expenses of living at the same time.

In an optimal equilibrium status, an adequate response from the supply side of the social supply system, from the institutions should be to increase capacity. For example, more unemployed will be registered and they receive retraining support, various trainings, and education programs (R. Fedor 2021). However, there are some social problems that cannot be managed by simply increasing the social supply capacity because the former institutional structure of the supply side has become obsolete. Namely, there are no institutions that could give an adequate response to the emerging social needs in the case of the mass collapse of mortgages (Bódi, F. et Bódi, M. 2012).

When more and more social needs appear which do not get adequate response from the supply side of the LOSS or the social services are unsatisfactory, the LOSS should be reformed. A political action can start the paradigmatic change at the LOSS supply side mainly after turning points of economics or after a political crisis. One such paradigmatic change was the *Great Depression* followed by a major social transformation, the *New Deal* in the USA, the recession after the *Oil Crises* and the response by *Ronald Reagan's and Margaret Thatcher's politics* and more recently in this century, the *Credit Crisis*, where the response is still at the moment of birth. Reactions to the crisis were not always successful at the moment of the turning points especially considering their sustainability, because the European alternatives at the time of the *New Deal* were too radical in the early 1930s they broke with earlier historical traditions let it be fascist or Nazi and even the communist variety. Only the USA could give an efficient response to the *Great Depression* but Europe could not. The *New Deal 1* and *New Deal 2* programs covered *energy policy, the transport policy, the labour policy, agriculture and rural development* and especially *youth policy* together with *training and education* received more importance.

The USA has become a global power essentially after *R+D sector* had been developed. The *New Deal* model has been copied by *Canada* despite the fact that the two countries were significantly different in terms of political orientation, and later *Australia* led by the labour party leader *Ben Chifley*, and *New Zealand*. So, the overseas Anglo-Saxon countries could manage the crisis by a new multi stage LOSS structure laid on a new social peace, achieved through a wider social consensus.

Europe collapsed after the *Great Depression* and the *WW II*. The definition of the *welfare state* was born in England (Temple 1941). *The Beveridge Report* can be considered as a significant initiative and a political turn in the social system of the

United Kingdom (Beveridge 1942). The Island's new policies which were similar to the approach of the continental *Bismarck* welfare state model was first realized by *Attlee's government* after 1945 with a *National Insurance Act – National Health Services* where employed people paid a flat rate of national insurance.

However, this significant social innovation – the welfare state- neither in Great Britain nor on the continent could have been built if the USA have would protected them by a strong security shield – economic, military – (Hogan 1987). It is a historical paradox that the consolidation of the Bismarck welfare system helped to restore Europe by a state which itself did not apply it. Of course, the United States had an interest in building up solid democratic welfare state systems having enough resistance against the popular left political movements, especially expansive communism after the fall of Nazism and fascism in Europe.

The European welfare state system should not be considered a result of an organic evolution, at least not in the sense that Europe would not have built a new regime of welfare by its own economic sources. Overseas the solution to the crisis was built by a thought-out economic philosophy that was created by representative actors of the society, economics, and politics through a multi stage bargaining procedure. However, the new European welfare system was created after a social catastrophe and inspired by the brutal shock of the WW II. The overseas model mixes the American traditions: *pioneer individualism*, a *strong regulative system of the local societies*, embraced by a *strong state and federal consciousness* (Lawson et Soelter 2011, Solter et Lawson 2012). WW II and former political shocks caused a modern welfare system. The welfare social model variations written by Esping-Andersen (1991) (1999) has been characterized more and less by strong state care and state responsibility where the individual responsibility and the protective role of the society - especially the one of the local society - has faded for half a century.

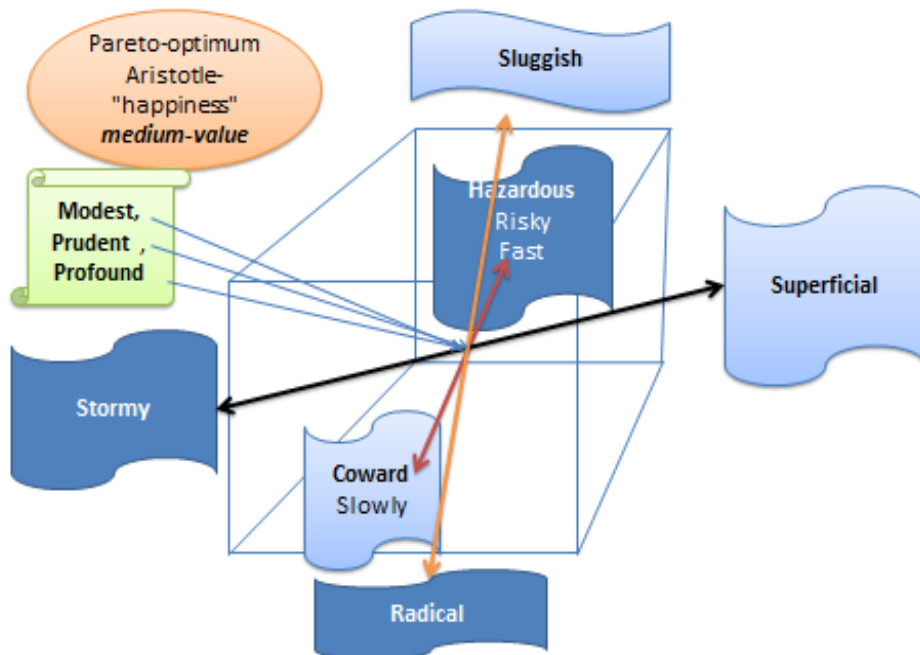
The crises should not have only negative impact on the history of the societies. Namely, the crises can induce "creative destruction" (Schumpeter 1939) where the politics discovered some shabby institutions and their weak capacity they pursue a solution for the former hidden problems. Paradigmatic change does not come automatically.

The causes of the system's malfunction cannot be deduced in all cases from the function of the normal system itself (Simon 1982). The supply system reacts upon the functioning of the society, especially upon its reproductive function, respectively upon its own performance, for example upon education and health care (Schultz 1971).

It is very important to see how deeply each solution to the crisis, affect the supply side of the LOSS. The transformation can be *stormy or superficial* it can be also

radical or sluggish, and it can be fast or slow, and in some case *coward or hazardous*. In the optimal case, the transformation can be a *stormy or superficial change* instead of a *profound change* that can reform durably and effectively *the basic political institutions* (election system, funding of parties, etc.). Seen from another aspect, in the optimal situation, the transformation can be *radical or hazardous change* instead of *prudent change* that can rebuild expediently the *economic frameworks* (tax policy, pension system, base of social security system, energy policy, etc.). Last but not least in Pareto-optimum case *the modest transformation can prevail in the process of the legislation* without a *radical or sluggish routine* (drill) demolishing the inherited traditions (culture of the providing self-identity and elementary norm system) or retaining the obsolete barriers. If a transformation affects only the surface (in extreme case, only the name of the institution has been changed or the leader of the institution has been replaced by a new leader without any new conceptions) there cannot be any structural change ergo there is no chance to increase the effectiveness of the institutions (Figure 2)

Figure 2: Pareto optimum – Aristotle medium value



Source: edited by author

However, if the changes are thoroughly prepared, so the modification has been preceded by impact studies, and if there is intention to estimate the future balance of

the supply and demand, there will be a greater chance that the changes will be more successful and sustainable. There would be little chance for a successful change if it is too radical, especially when too narrow exclusive political interests have led the change, and is too fast and the decision makers exclude the stakeholders. However, the chance of success would increase if the transformation of the supply side of the LOSS has been happened step by step with feedback because in this case the social acceptance would be higher if the transformation comes with social sacrifices (Harsanyi et Selten 1988).²

1. If the dimensions such as *the radical and modest, the superficial and stormy, the coward or hazardous* would be illustrated in a common system it could be easily recognizable. The transformation would be more sustainable if equilibrium points of the three dimensions could meet in a joint equilibrium point. However, the three different equilibrium points should stand close to each another (Pareto-optimum).
2. It can be observed that the power ranking among the different regions could be changed significantly following the crisis. Former tail-ender or medium-capacity regions could become flagship – former strong regions could become medium-power or tail-ender regions (Pennsylvania, California). Kondratiev cycles: saturation point and - new goods - and new technologies appear in the production - global economic paradigmatic change.
3. Those regions could turn out well from the crisis, which could break down quickly the former economic structure, and they could create or accept new technologies or new economic structure. Following Schulz's theses, it can

² The scientist of several epochs had been seeking the perfect equilibrium point, for example, the ancient Greek geometry created the Golden Ratio. Aristotle wrote about the main *virtue* which is not be found in the extremist character but it can be found in the *middle term*. “*Thus every knower of the excess and the deficiency avoids them, but seeks out the middle term and chooses this-yet not a middle belonging to the thing in question but rather the one relative to us. Indeed, every science in this way brings its work to a good conclusion, by looking to the middle term and guiding the works toward this. Hence people are accustomed to saying that there is nothing to take away from or add to works that are in a good state, on the grounds that the good state is destroyed by excess and deficiency but the mean preserves it; and the good craftsmen, as we say, perform their work by looking to this. Virtue is more precise and better than every art, as is nature as well. If all this is so, then virtue would be skillful in aiming at the middle term.*” (Aristotle’s *Nicomachean Ethics*. The University of Chicago Press Ltd., London, 2011, Translated Robert C. Bartlett and Susan D. Collins. p. 34. See middle term: *coward – courage – recklessness; miser – moderate – wasteful; sycophantic – kindly – quarrelsome*). In the modern age the economics pursued to set up equilibrium models and theories. This *modern conception of general equilibrium* is provided by a model developed jointly by *Kenneth Arrow, Gérard Debreu and Lionel W. McKenzie*. *The first fundamental welfare theorem* established market equilibrium as *Pareto efficiency*. In the postmodern age, the game theory has been discovered: the *Nash equilibrium* (see Prisoner’s dilemma, Tit for tat, Stag hunt, Tragedy of the commons, Matching pennies, and so on).

be established that the chance of the success would be more likely where there is strong human capital would be more in a region. There will be advantage there is strong education performing and high health culture as well as strong social norms.

According to the experience of the last century, it can be concluded that those countries or regions that have achieved a better position in the world economic competition are those that had been investing, in *human capital* (education, health culture, socio norm, etc.) for several generations. Those countries or regions, which could not have had another way or had narrow-minded politics and did not make effort enough in the area of the *human resources*, those ones have a heavy disadvantage. Matthew's rule is felt: "*For to every person who has something, even more will be given, and he will have more than enough; but the person who has nothing, even the little that he has will be taken away from him.*" (M25.29)

Matthew's rule is not necessary because the crisis itself can increase the likelihood of "*path creating*" especially in countries, which are consciously trying to terminate the causes of the crisis. These countries do not waste their time on superficial treatment. Some countries can be found in Europe that could have courage and could go against historical necessity; essentially, they could find a policy, which could undertake "*path creation*". So was Finland becoming independent, the modest socialist (social democratic epoch) Sweden, and the Hungarian breakout attempt for a short time – during the consolidation period. The *Treaty of Trianon* caused a deep crisis that was treated by politics connected mainly to *Kuno Klebelsberg* after WW I. These breakout attempts (although their political ideology did not have a common denominator) had a common specific nature, all them tried to build a relevant social services system which could help to abolish the ruin of the former historical period (illiteracy, poverty, widespread diseases; tuberculosis, high mortality rate, high infant mortality rate, one child only, high suicide rate etc.).

Changing forces – The learning organization

Equilibrium exists in the LOSS as an essential attribute of the Social System, furthermore, the equilibrium is effected during the transmission period when the LOSS changes between two historical epochs, for example during the New Deal programs. Equilibrium can prevail only in optimal circumstances and can be expected in a democratic political system and market economy conditions. If one reviews the remarkable education reforms of the last century according to the power transfer, there are different sorts of cycles and two dominate poles: *lay participation* and *control of professional organizations* (lasting three decades from the 1960s till the 1990s) considering the practices of the Anglo-Saxon countries (McGinn 2002: 19).

The development of the educational administration has been characterized by special recursive cycles in the epoch of the welfare state (McGinn2002). The development was seeking the condition of a supply-demand equilibrium (Greca 1995) (Bódi 2008) where there was a strong endeavour to rationalize more and more complex systems, trying to create educational systems to meet the individual needs, but at the same time not giving up the principle of the equitable access (Waslander et Pater et Weide 2010). These reform politics were often based on the faith that several problems could be handled at the same time by raising the efficiency of local management and by trying to increase the teacher's professionalization. Additional objects of the change was to resolve the needs of the families and to harmonize the connection between the administration of education and the private and public schools, essentially, to reduce the difficulties in management caused by the increasing complexity of the educational system.

The decentralization cycle starting in 1960s was, essentially, a response to the criticism about the efficiency of education at the time. In *Change Forces* written by Michael Fullan (1993: 12): "...pouring scads of money into large-scale national curriculum efforts, open plan schools, individualization instruction; and the like. ...Something was bound to come of it...we have never really recovered from the profound disappointment experienced when our expectations turned out to be so far removed from the realities of implementation." *Change Forces* is an excellent derivative work that is based on the Anglo-Saxon experience; according to Fullan, the system of education is a *learning organization*. The learning organization as a depository for the future can prepare the society going into the unknown world to stand up to the changes as well as to fortify the ability of the society to fight for changes. However, education is also a part of the society which is always changing and which is itself forced to change (Bischoff 2009).

Before the Millennium, a number of UNESCO's research studies pointed out that *decentralization and centralization* alone do not provide an answer for the negative performance of the education (decrease of the performance, cost management, marketable knowledge, etc.) Several experiments could show that decentralization reform led to corruption and loss of quality (McGinn 2002: 12), although these bad practices were most frequently experienced in states with a weak democratic social environment (Henderson et Vercseg 2010)

There were states that had a strong democratic social environment, a tradition of local educational autonomy where an educational reform started which was based on a national curriculum, and a top-down restructuring has been started which emphasized decentralization (UK 1988, USA 1985). In contrast, the centrists attempted to give more responsibility to the central government than to the local

governments (Radó 2010). However, these political intentions supported the involvement and representation of local lay persons and the different interest groups (essentially the more important stakeholders) into management of the schools, furthermore, this trend demanded a stronger top control and accountability (Coleman 1989).

The above example can confirm the hypothesis that the change cannot be examined without the next three elementary conditions: it is necessary to know *who has the main role in the process* (how educated, experienced, what human relations etc.), for example in an education reform the role of the teacher is very important (see more McKinsey's global education report 2007). Every organization, which can be developed, is in essence a special learning organization. This is an organic part of the whole society *embedded into a democratic environment*. Furthermore, according to Fullan's theses, *every change must prevail in the culture* over the formal dimensions of the organizations. In the case when the boundary condition cannot be overcome then the change would become a counterproductive effect and the committed actors of the change would burn out, because the lack of the changes in the culture would lead to empty formalism and a proliferation of the bureaucracy (Fullan 1993: 111) (Sarason 1990: 129).

Cycle impact on social mood and vice versa – Hungarian case study

The relevance of the change's force appears in the crisis period. *Innovation theory* posits these waves arise from the bunching of basic innovations that launch technological revolutions that in turn create leading industrial or commercial sectors. *Joseph Schumpeter took up Kondratiev's ideas* in the 1930s (Buyst 2006). The theory hypothesized the existence of very long run macroeconomic and price cycles, originally estimated to last 50–54 years.³

³ Kondratiev identified three phases in a cycle: *Expansion, Stagnation, Recession*. More common today is the division into four periods: The phases of Kondratiev's waves also carry with them *social shifts and changes in the public mood*. The *first stage* of expansion and growth, the *Spring stage*, encompasses a social shift in which the wealth, *capital accumulation, and innovation* that are present in this first period of the cycle create upheavals and displacements in society. The economic changes result in redefining work and the role of participants in society. In the next phase, the *Summer stage*, (rising inflation, rising unemployment...) there is a mood of affluence from the previous growth stage which changes the attitude towards work in society, creating inefficiencies. The *Fall stage*, this stage comes from the season of *deflationary growth, (budget austerity) or the plateau period*. The public mood changes during this period as well. Finally, the *Winter stage*, that of severe depression, includes the integration of previous social shifts and changes in the social fabric (stratification) of society, supported by the shifts in innovation and technology. Gordon, Robert J. (2000). "Interpreting the One Big Wave in U.S. Long-Term Productivity Growth".

<http://faculty-web.at.northwestern.edu/economics/gordon/338.pdf>

According to *Niklas Luhmann* three social subsystems have three different innovation oscillations that can represent three different long waves (Luhmann 1985). The nature of the *development of the legal system* is different from the *nature of the decisions in politics* and the *nature of the economic interests*. However, these systems are dependent on each other despite of the fact that they are able to function and exist based on different paradigmatic principles. The political social subsystem can be able to function at high frequency. The *payback period* of the political social subsystem is the shortest among all three. The innovation cycle of the political system is approximately four to five years between elections.

The payback period of the economic social subsystem is longer than the turnover of the political system. Therefore, the economic payback period is able to represent a medium wave. The economic investment cycle (according to Juglar's fixed investment theory) lasts seven to eleven years; it depends on the market expectation. The legal system is the most conservative one because this social subsystem is the most inflexible one and it can preserve the previously achieved human rights. The law can limit political activity and political will that can be too excessive and violent but it may also be in the way of development and it might be getting in the way of progression. For sure, the payback period of the legal system is the longest of them all.

If there are economic waves, and there are political waves, and there are law innovation waves, could there also be waves for human innovation that can follow or can overtake the other social subsystems. This idea about human innovation waves is one that needs more confirmation and it is necessary to find support in empirical data and with further observation.

If the economic system and other innovation and elementary functions of the social subsystem are based on the different waves (cycles) which are in complex interaction with each other then it can be suggested that the LOSS can be formed and evolve along those waves. Good examples might be found in Hungarian history: In the early 18th century, the population of Hungary together with Croatia and Transylvania was not more than two million. The Hungarian Kingdom's population increased to approximately ten million (including soldiers) by the last decade of 18th century. This demographic boom could not have occurred unless population growth had been followed by an economic development that had been preceded by the construction wave of churches and schools. It can be observed that this century at the same time had to try to make up for the lack of the past also and to build the future. This experiment was very successful, because the people knew that they could not rebuild a demolished country if they did not rebuild their own education system.

Hungary was rebuilt stone by stone and repopulated step by step, a truly this work Sisyphean effort. If you visit a Hungarian village, you can experience the church or churches that were built during this period. It is not exceptional, that two or more churches stand (Lutheran, Catholic and Calvinist) on the main square of these villages. Often these same churches established their own school, too. They competed with each other and recruited more and more students to their schools that achieved better and better results. Because the religious peace did not forbid the teacher's freedom (there were some different cases) but in the end an eclectic and excessively high-quality education system was created without general basic education and a university system. There was not a privileged social class in the church schools. For example in the *Piarist* order school in Pest 158 out of 406 students were of noble origin and 248 students were of non-noble origin in 1780 (Kosáry 1983:108).

The students did not have to belong to the church. It was more important that the candidate should be a gifted student. The principle of choosing pupils was based on meritocratic approach. For example, *Lajos Kossuth* - who later became head of the *Revolution and Independent War* - could go to a Piarist school in *Sátoraljauhely (Zemplén County)* although he was a Lutheran. Of course, several parents sought a church school for their children in accordance with their own religion. A strong education system was very important for whole country.

The depopulated country did not have a large enough supply of food consequently the country did not have an adequate military force to fight against the Turkish Empire in the early 18th century. The Habsburg Dynasty and the Hungarian political elite tried to strengthen the border of the state and to protect and maintain the European power status quo by keeping the Turkish in the Balkans. The Royal House was Catholic, however, it had to tolerate the Calvinist and Lutheran and other religious movements and churches in Hungary as well as the eclectic and pluralist education system. This situation was favorable for reconstruction of the country especially for the agriculture and the supply of food and later for food exports. Beyond the rational arguments, the effect of the religious toleration, which was born in the middle of the 16th century in *Torda Diet* (Parliament), was very important. This century was the age of rebuilding temples and the age of building schools that was an original investment into the *human capital*.

Accumulation of Human Resources (causes and results)

There was an essential human resource accumulation phase in the cycle between two crises in Hungary during the 18th century, from 1708 to 1815. This investment in human resources was an *expansion* that culminated at the end of that century. The *stagnation* of the reconstruction phase was at the beginning of the 19th century. This *saturation point* coincided with the world economic saturation point that coincided with the end of the Napoleonic War. Hungary was able to catch up with the periphery of Europe and in this way, the Hungarians were able to “climb aboard the last coach”. However, their economic system was not modern and did not have the ability to change because the feudal political regime did not allow radical changes in the social system as well as in the bases of economy and last but not least to reforms in the feudal state itself.

The prosperity of the Napoleonic War could preserve a temporary feeling of some kind of welfare among rural landlords. The *wheat prosperity* hid several economic and social problems. Productivity was too low in agriculture and there were no roads and canals for the transportation of goods. The land was covered by water when the rivers flooded in the Great Plains, and 25% of the country was under water.

The ancient system of law was getting in the way of progression. After the Napoleonic War food exports (cattle and wheat as well as wine, etc.) were reduced, thus the income of the landlords decreased, too. The crisis expanded through the whole country. However, by then, a new generation had grown up which could not see and did not want to see the world like their father did. This new generation that had appeared in the country could travel overseas and could bring back to Hungary new experiences about the whole world.⁴ This generation entered into politics and its members started out on their military careers, too. Finally yet importantly, young officers appeared in public administration, especially at local and county levels. They were Catholics, Lutherans, Calvinists, and Unitarians respectively; they came from ancient families or ordinary citizen families as well as from merchant families. They had one thing in common: they all were well educated.

⁴ *Sándor Bölöni Farkas* was born in 1795 in *Bölön* in *Transylvania*. He was a writer who is perhaps best known for his work (*Journey in North America*) he made while traveling in the United States in 1831. He described the United States as a wonderland, and praised American democracy very high. The book was banned by the Catholic Church in 1834. His diary contained already the *New Hampshire Constitution, the Declaration of Independence* before other source would publish in Hungary. According to some Hungarian historians this book opened the *Reform Age* in Hungary. This diary was a detonator, because this book published statistical description (exact data about the Census of the U.S. in 1830), it published an exact state description about the U.S., highlighted the idea of independence, equality and freedom.

The Reform Age prepared Hungary for the Modern Age even though the revolution was crushed by the aid of the Army of the Russian Empire in 1849. This reform period had transformed the whole country successfully. The revolution had failed but after a short period, the Austro - Hungarian compromise was concluded in 1867. The Compromise re-established the sovereignty of the Kingdom of Hungary, separate from and no longer subject to the Austrian Empire. The general compulsory public education and the new modern administration could be established. Last but not least, modern industrial factories: iron works, railroad system, food industry, etc. appeared in Hungary.

The last third of the 19th century was the Holy Peace epoch. However, there are some theories criticizing this Compromise period (*Ausgleich*). According to *Oszkár Jászi* who wrote *The Dissolution of the Habsburg Monarchy* (The University of Chicago, 1929) the old-new state formation was a time bomb because of minority issues. But according to another author, *Gyula Szegfű* (*Three Generations; the first publishing was in Vienna, 1920*) the causes of the failure of WW I could be found in the decline of the achievements and the morals of the third generation which had lost the ethos of the Reform Generation (1831-1848). According to a less pessimistic scholar, *John Komlos* (*The Habsburg Monarchy as a Customs Union, Princeton University Press, 1983*) this formation of state was an entirely successful economic enterprise in Europe.

Hungary collapsed in 1918, after two destructive revolutions, but it was able to rebuild itself. This was the *Consolidation Era*, which started a giant project of investment into *human capital*. A new school building project started in the 1920s as a Klebelsberg's project called the "Hungarian New Deal". After the WW I, the ravages of the civil war, and the Treaty of Trianon, Klebelsberg played a leading role in the rebuilding and reorganization of the country. He served as Minister of Cultural ((between 1922 and 1931, see: Drabancz – Fónai 2005). He introduced many educational reforms throughout Hungary. Klebelsberg helped create elementary schools in the countryside, began the modernization of numerous universities, for example the University of Debrecen, the University of Pécs and the University of Szeged. He created a new basis for teacher training in Hungary. The Hungarian education system did have difficulties, for example, the teacher shortage was especially common in the rural areas.

A hundred years ago, almost a third of the population over the age of seven could not read and write. According to the principal of Klebelsberg, every pupil should be able to get to school on foot within a maximum of one hour. Therefore, he had five thousand classrooms built in a period of three years in Hungary, especially in the countryside (see Act VII of 1926 on establishment and maintenance of public schools

for the agricultural population). It was the biggest public investment in education of all time in Hungary. He was a hard and straight political man. He was often accused of wasting public money. However, he was a prudent statesman. Once, there was a strong opposite opinion from an MP in the house of commons of the Hungarian Parliament about a budget discussion. He answered: “*A lot of countries were collapsed by the excessive cost of the armament but none of them were destroyed by too much expense on public education.*”

Looking back in the history of the modern public education in Hungary, primary education has always struggled with a shortage of buildings and teachers. A balance of supply and demand could not characterize the situation of Hungarian public education.

Based on the *concept of Kuno von Klebelsberg*, the school network was developed in the country, which has essentially determined the education system up to the present day. This conservative modernization intended to modernize the internal structure of the Hungarian society through a very cautious and gradual transformation performing *knowledge investment*, was a reaction directly to WW I and the subsequent shock of Trianon (Klebelsberg 1926). Of course, when the Klebelsberg model was formed, both the historical situation and the social demand was different than nowadays, but essentially, the Klebelsberg's educational model could help Hungary to survive the WW II and later the communist era, too. Since Hungary lost 20 percent of its own population (war casualties and POWs, deported and persecuted population) and a significant labor shortage appeared in the country immediately after WW II the contemporary new young generation had to become adult rather fast after the war because they had enough knowledge for complex trades and professions thanks their actual educational system.

The above two Hungarian examples point out that the evolution of the LOSS (including education) is not a permanent process but sometimes it is an interrupted flow which follows a special wave, it is interacting with the evolution flows of other social subsystems (the economic, political subsystems and the legal system). The LOSS had a very important role in the depression periods (*Winter Stage*), especially in the resolution of the crisis. These are not direct processes but the actual decision makers are responsible for the path out of any impending crisis, because they can influence the evolution of the LOSS wittingly or unwittingly, their decisions can determine several ways to address the problems in the depression periods. Therefore, the education system is never built for the actual supply and demand.

In the 18th century in Hungary, more and more rival school institutions created a competitive education system in a special *bottom up process* even before the depression period (after *wheat boom*). For this reason, a highly educated elite could

form, and then assume primary roles in the successful *Reform Age* in the early 19th century. One hundred years later, when the social demand changed radically, the public education became as important as higher education. The Klebelsberg's era created a complex education system from public primary education up to the university level following the crisis (WW I and Treaty of Trianon), in a special *top down process*, which helped the majority of the population to survive the suffering of the WW II and what came after.

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