Hungary Re-Linking: State Socialism and the Transformation of External Linkages

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Abstract

This paper examines large-scale social change under and eventually away from semiperipheral state socialism by focussing on the transformation of Hungary's external linkages. It points out that the contrast between the first and second economies and the formal-versus-informal-distinction are both useful for discerning various arrangements of external linkages in terms of their direction and intensity. It suggests that, at present, Hungary's formal linkages are being refocussed on (primarily West-Central European) core actors while its informal linkages map out a more even socio-geographical distribution including limited "horizontal" integration with other East-Central European societies.

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This paper examines large-scale social change under and, eventually, away from, semiperipheral state socialism by focussing on the transformation of Hungary's external linkages. It considers changes in the structure of external linkages as fundamental components of creating and maintaining various regimes of external dependency under state socialism. It points out that the contrast between the first and second economies and the formal-versus-informal-distinction are both useful for discerning various arrangements of external linkages in terms of their direction and intensity. Finally, it suggests that, at present, Hungary's formal linkages are being re-focussed on (primarily West-Central European) core actors while its informal linkages map out a more even socio-geographical distribution including limited "horizontal" integration with other East-Central European societies.

Linkages, Formal/Informal Sectors, First/Second Economies

The word "linkage" is used in at least two, remotely related yet distinguishable ways in the discourse of dependency and, in general, of macro-comparative social science. Albert O. Hirschman's (1977) "generalized linkage approach" relies on a fairly restrictive conceptualization focussed on economic growth. For him, "linkage effects" stand for net excess investment generated by the introduction of a particular industry or branch in the economy.[2] A much more widely used, and more relaxed, metaphorical usage considers linkages as relatively stable, institutionalized and patterned bundles of contacts and flows of people, commodities, money and information. It is the cross-border variant of the latter denotation -- i.e., "external linkages" -- that this paper will utilize.[3]

For the argument below, it is useful to map out two further pairs of conceptual opposition. In economic sociology, the contrast of formal versus informal sectors is used to distinguish economic activities according to whether or not, under conditions of regulated capitalism, they are performed under supervision, regulation and taxation by the state. On the other hand, the pair-concepts of the first economy versus the second economy were introduced by Hungarian economic sociologist István R. Gábor and, for the last ten years, they have been utilized widely as instruments to distinguish two important sectors of state

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[2] Precisely, Hirschman's definition reads: "I have defined the linkage effects of a given product line as investment-generating forces that are set in motion, through input-output relations, when productive facilities that supply inputs to that line or utilize its outputs are inadequate or nonexistent". (1977, p. 72)

[3] Space limitations forbid the explicit treatment of the important problem of the role of ideas, ideologies, values, information, preferences, tastes, and morality emerging from the contacts and flows to be addressed here.

socialist economies according to whether a particular income earning activity is performed within or outside the planned and/or state-owned-and-state-controlled -- i.e., "first" -- sector.[4] The relationship of the two pairs of concepts above implies that any transformation of state socialism into state-regulated capitalism marks a large-scale structural transition from the "first-versus-second-economy" contrast to the "formal-versus-informal" contrast. Given the above conceptualization of Kohlism, the abolition of the project of state socialism and the restoration of "straight" semiperipheral dependency presents precisely that transition.[5]

There is nothing inherent in the conceptual pairs of formal-versus-informal sectors and first-versus-second economies that forces their analysis within the confines of territorial states. Some of new American institutional economic sociology has in fact utilized the formal-informal opposition to capture the socio-economic specifics of cross-border contacts and flows. The rest of this paper will experiment with the use of <u>both</u> the "first-

[4] Its significance for political processes and class formation aside, the "first-versus-second-economy" distinction has extremely wide ramifications in terms of the flows of subsidies between various kinds of activities and actors in state socialist economies.

[5] The implications of the problem of the transition from the first-second to the formal-informal conceptual opposition is, clearly, the most crucial issue of East-Central Europe's economic transition from state socialism. It cannot be explored here. The focus of this paper is on some of the basic implications of this change for external linkages.

second" and "formal-informal" oppositions as conceptual tools in an analysis of institutionalized cross-border processes, i.e., external linkages. For this argument, formal external linkages refer to those stable cross-border contacts and flows that are recorded, regulated and taxed (that is, in this case, levied) by the state. Informal external linkages stand for contacts and flows across the borders of the capitalist states outside the realm of state supervision, regulation and duties. First-economy external linkages are those that occur within the confines of the "planned" (state-owned) sector of the state socialist economy, while second-economy external linkages are those that take place outside that realm under state socialism.

HUNGARY'S EXTERNAL LINKAGES

Stalinist Linkages

The essence of the Stalinist system of imperial power was state-ization of the means of production, implying the elimination of the formal-informal contrast as such through the obliteration of direct-personal property ownership, coupled with isolationism, that is, the subjection of all external linkages to the state's direct-totalistic control. (Isolationism is thus the extension of state-ization to the realm of external linkages.) Manipulation of external linkages was a central tenet, and a logical condition of the working of, the Stalinist version of state socialism.[6]

The state-ization of all cross-border contacts and flows indicated an imperial effort to re-orient the East-Central European states' linkage structure in a double sense: (a) to cut previous ties with the non-socialist part of the world economy and (b) to cut "horizontal" connections of the region's societies with each other by replacing them with imperial mediation. As a result, East-Central Europe was forcibly removed from its historical focus of dependency, i.e., West-Central Europe, especially Germany and Austria. Meanwhile, organically developed, symbiotic relationships within the region -- already shaken by two world wars and the Great Depression -- were also broken up as the region's economies came to be subjected to the Stalinist project. The essence of the effort was to focus the external linkage structure of the region's individual state socialist societies on a single imperial center.[7] The Stalinist period's extreme isolationism implied the denouncement of all "second-economy" types of external linkages as illegal by default. Stalinism represented a gigantic effort whereby all cross-border contacts and flows were either state-ized or banned.

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[6] This point has been elaborated in Böröcz (1989b).

[7] The obvious failure, and rapid abandonment, of this project had much to do with the relative technological and economic underdevelopment of the imperial center in contrast to its political semi-colonies.

Linkages under Kádárism

The second, less brutal period of state socialism -- the Kádár-era -- was marked by the large-scale transformation of Hungary's external linkage structure. The relaxation of the previous regime's rigid restrictions on cross-border contacts and flows came to be a fundamental component of the period's soft, "winking dictatorship". The Kádárist compromise, however, did not mean in any way an all-out give-away of linkage-restrictions as such. The new system of external linkages was worked out through conflict and gradual, often very hesitant and lopsided, "reforms" introduced over the entire period of Kádárism.

The transition from the Stalinist linkage system to Kádárism can be summarized, schematically, as a combination of following three main elements:

(1) the partial re-orientation of the state's own external linkages,

(2) a careful opening-up of the first economy towards the European core of the world market and for horizontal linkages with other East-Central European state socialist states, and

(3) a slow and gradual process of extending tacit political-economic concessions -- as developed in the domestic second economy -- to external linkages as well.

First, the _state_'s own linkages were rearranged. Day-to-day imperial controls over running the local state were replaced by a more efficient, "strategic" regime of control. The occupational military force took a low-key approach and foreign political advisors retreated to broad policy issues and personnel policy. Meanwhile, the state re-established bi-lateral contacts and flows with the neighboring small subject states of the region. Finally, and very importantly, the early 1970's general atmosphere of _Realpolitik_ and _détente_ provided access for the Kádárist state to large sums of state credits mostly from private lenders: between 1970 and 1979, the Hungarian state's gross debt doubled at the speed of every three years, and reached the level of USD 17.7 billion by 1987 (Világgazdaság, 1989 quoting the National Bank of Hungary). In essence, core capital came to valorize Hungarian labor by lending to the socialist state during the Kádárist period.

The intercourse of the Hungarian _first economy_ with formal sectors in the core produced a growing trade in investment goods as well as consumption items. Traditionally strong Hungarian products were re-introduced in West European markets and some actors of the Hungarian first economy were able to modernize themselves from such revenues. The Hungarian economy re-oriented itself towards trade with the non-state-socialist part of the world. The share of hard currency deals in Hungary's total foreign trade increased from its lowest point of 30% in imports and 29% in exports in 1960 to 38% and 39% in 1970, 50% and 57% in 1980 and 57% and 58% in 1988, respectively. (Computed from KSH 1965; 1970; 1975; 1980; 1989a) In 1990, the share of hard-currency transactions in Hungarian commerce climbed to 70% in both exports and imports, (Heti világgazdaság 1991a) and reached the level of 100% on January 1, 1991, when non-convertible currency trade was officially abolished.

Cross-border labor migration also emerged, especially from Hungary to the German Democratic Republic and from Poland, Vietnam and Cuba to Hungary, under careful control and close supervision by the state and party organs of the participating countries. Hungarian workers were sent to East Germany with the aim of alleviating some of the structural tensions of the Hungarian industrial labor market and training Hungarian labor in the more advanced East German industry. The bilateral state agreement concerning this initiative was signed in May, 1967.[8] These flows were based on two-year contracts and peaked in 1972 and 1973 with a total of 12 thousand Hungarians working abroad,

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[8] Unless noted otherwise, information on state-contracted and -regulated labor flows was collected via interviews, conducted by Ágnes Hárs (Hungarian Labor Research Institute), with officials of the Hungarian Ministry of Labor (earlier, State Office for Wages and Labor).

(KSH 1975b; 1989) most of them in the German Democratic Republic (Hölczl and Szakács 1989). These numbers dropped to 4 thousand by 1981 (KSH 1989). State-contracted flows of Hungarian labor to East Germany stopped by the end of 1983. The total number of Hungarians having worked in the German Democratic Republic under the umbrella of this agreement is estimated at cca. 40,000.

The placement of Polish labor -- especially miners and construction workers -- in Hungary was agreed upon in foreign trade accords whereby Poland's mounting debt to Hungary would be decreased by the direct exportation of skilled labor from Poland to Hungarian companies. (Even the building of the Hungarian Ministry for Construction and Urban Development was renovated by Polish workers.) In 1985, the number of Polish guestworkers in Hungary reached the mark of 8000. By today, that figure has dropped to about 3000.

The Cuban and Vietnamese arrangements had been of similar character to the Hungarian-East German bilateral state agreement, combined with provisions for training and technology transfer. Between early 1985 and the end of 1987, altogether 3200 Cuban workers arrived in Hungary to work for four years, primarily in the textile industry. Vietnamese workers were also employed mainly in the textile industry.

Polish guestworkers were often better-paid than their Hungarian colleagues -- in some cases, four times higher hourly wages were paid to Poles than to their Hungarian counterparts for performing the same tasks with the same intensity (Hölczl and Szakács 1989) -- so that a series of shop-floor wage conflicts was bound to emerge, exacerbated by various cross-border trade union conflicts. The presence of the Polish trade union, Solidarity, complicated matters even further. Hölczl and Szakács (1989) present data from three companies that, in contrast to Poles, Cuban and Vietnamese trainees and labor were paid on par with, or less than, their Hungarian colleagues. Their working and living conditions have also been worse.

Labor flows from Hungary to core labor markets, unmediated by the state, were relatively insignificant due to the "short stay versus no return" character of Kádárist travel arrangements: in order to be able to spend an extended period of time abroad, Hungarian labor had to "defect", i.e., leave Hungary with a regular tourist exit visa and claim political asylum in the destination core country.[9] The only notable exception from this rule was a Hungarian-West German intergovernmental agreement signed in the early 1980s. Under this provision, a maximum of 2500 Hungarian workers were allowed to work in West Germany. (This quota was raised to 5 thousand in 1990 and 10 thousand in

[9] Diplomatic service, trade representatives and employees of a handful of Hungarian companies undertaking investment projects abroad, are exceptions from this rule.

1991.) Essentially, this agreement has only allowed for work performed through subcontracting arrangements between a German and a Hungarian company: the worker remained employed and paid by the Hungarian firm. Direct employment in West Germany without the participation of a Hungarian company was excluded from this agreement and had been, until early 1990, technically illegal according to Hungarian law.

The combination of a limited freedom of leisure travel with the state's ban on entering into legal employment abroad precluded return to Hungary until a new citizenship had been obtained. That price was high enough to dissuade much of potential spontaneous labor emigration so that relatively few Hungarians have resorted to this solution, notwithstanding the availability of that option since the gradual easing of exit visa restrictions around the mid-1960s until about five years ago.

By the early 1980s, Hungary had become the state socialist country with the world's highest per capita foreign tourist presence, measured both in terms of arrivals and tourist nights. Hungary's tourism saturation surpassed the mean of non-state-socialist Europe.[10] In 1988, the total number of foreign arrivals in Hungary reached 17.9 million or, about 1.7 arrivals per capita (KSH 1990).

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[10] Böröcz (1990) reaches this conclusion on the basis of computations with data from Senior (1983).

The presence of a growing number of foreign visitors, especially those with hard currency -- note that convertible currency revenues made up about two-thirds of all recorded tourism incomes in 1988 (KSH 1990) --, gave an important boost to the Hungarian second economy, particularly in the accommodation, food, medical and other related service sectors. Those Hungarian dentists, beauticians and hairdressers, for instance, who specialized in providing services to Austrian, West German or U.S. visitors invented a creative way to integrate the informal consumer sector of a core country with the state socialist second economy of semiperipheral Hungary. By the mid-seventies, well over half of the country's tourist accommodation capacity had been made up of private "rooms-to-let" located in housing units ordinarily used as noncommercial residences, often rented from the state at very subsidized rates. In 1989, the share of the non-state-owned, -planned or -run part of the tourist sector was estimated very conservatively at 68.5% of the total room capacity, with 48.9% of the total never registered, regulated or taxed. (Népszabadság 1991) About two-thirds of the country's tourism-related incomes are estimated to have been realized outside the state sector, never entering into the financial channels of the first economy (Népszabadság 1991). State-owned, large hotel and other tourism-related service companies -- often joint ventures with multinationals or located at the end of such subcontracting chains -- have had a near-monopoly position in the relatively small four- and five-star segment of the tourism market. Meanwhile, the lower segment of tourism services -- enjoying incomparably greater solvent demand on part of West-Central European, East-Central European as well as Hungarian tourists -- almost completely exited from the realm of the state's structures of ownership, planning, and control.[11]

On the reverse, the Hungarians' massive "shopping sprees" for consumer electronics and home appliances in Vienna, a result of relatively relaxed travel and customs regulations by the Hungarian authorities, channeled incomes in hard currency from the Hungarian second economy back into the formal and informal sectors of the Austrian economy. Without taking into account Hungary's second-economy types of external linkages related to incoming tourism, it would be impossible to explain the Hungarian travellers' purchasing power that found its outlet in the Viennese retail sector. This process accelerated and took near-unmanageable dimensions between early 1988 and late 1989.[12]

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[11] The only sizeable slice of the lower segment of tourism services that remained under the state-redistributive, "planned" arrangement was state-subsidized holiday resorts run, and often owned, by the trade unions under heavy control by the state.

[12] Hungarian buses and cars repeatedly clogged up traffic for hours on the roads between the Hungarian border and Vienna. On November 7, 1989 -- a state holiday at the time in Hungary, commemorating the anniversary of the Russian Revolution --, the number of Hungarian Christmas shoppers in Vienna was estimated to exceed 1 million (or, 10% of the entire population of Hungary and over 50% of the population of Vienna). As a result, the Vienna City Council had to introduce special measures to handle the flows of Hungarian shoppers in and around the various shopping areas.

Results of a survey taken among the Hungarian visitors of Vienna during the peak of such flows indicate that nearly half of them did not stay overnight in Austria (this is an indirect sign of a focus on short shopping trips) and more than 50% marked "shopping" as the first purpose of their trip. (Boosted sales statistics in Vienna and elsewhere around Austria's Hungarian border substantiate this conclusion further.) Over half of the Hungarian respondents had visited Austria at least four times by the time of the survey. This is all the more remarkable as the mean gross income of Vienna's frequent Hungarian visitors from the Hungarian first economy was less than USD 160.00 monthly -- approximately the equivalent of one-third of the Austrian minimum wage at the time. These data suggest the existence of a very sizeable group of Hungarians with an acute interest in the small-scale importation of consumer items from Austria through at least partly informal channels and access at least partly to hard-currency incomes from the Hungarian second economy. (After Böröcz 1989a) Much of Austro-Hungarian tourism between the late 1970s and the late 1980s had been based on close "vertical" external linkages between the Hungarian second economy and Austria.[13]

[13] It is an added irony of the situation that one of the most popular items imported this way from Vienna by Hungarians was a freezer box made in Yugoslavia and shipped to Vienna through Hungary. Notwithstanding the fact that the same product was also sold in Hungary -- and that the Hungarian industry had also been manufacturing a freezer of similar or better quality --, it was calculated to be more advantageous to purchase the Yugoslavian-made one in Vienna and to haul it to Hungary on top of small, packed family cars through endless queues at the border customs checkpoints.

In a parallel development, the "horizontal" ties of Hungary's first and second economies to the first and second economies of the neighboring state socialist countries have also increased during the Kádárist period. Aside from bi-lateral trade between companies of the first economy, it was during this period that stable institutional arrangements of what has been sarcastically called in Hungary the "COMECON-markets", have emerged. Mainly Polish, Czechoslovakian and Hungarian citizens invented this trade institution -- the petty smuggling of licit and, very rarely, illicit, commodities. This trade was based on three conditions: (1) the complementary character of some aspects of the region's economies, (2) country-by-country differences in the structure of subsidies on various groups of commodities resulting in substantial price inequalities, and (3) the rigid, inflexible nature of "official" CMEA-trade that was unable to account for market pressures resulting from the first two conditions.

By the end of the period, mainly Polish travellers -- many of them guestworkers in Hungary and, thus, intimately familiar with arrangements in the domestic second economy as well as dynamics of market demand -- established themselves as a firm segment of discount consumer supplies in Hungary's second economy in commodities ranging from children's shoes to small machine tools, from linenware to automobile parts, and from hard liquors to hard currency. On the reverse, Yugoslav citizens of Voivodina, Northern Croatia and Eastern Slovenia -- along with Austrians from Burgenland -- (that is, residents of the regions next to the Hungarian border) specialized in large-scale "private" food imports from Hungary. A similar form of regional cross-border integration emerged -- under the umbrella of bilateral provisions called "small-border-traffic" -- around the Hungarian-Slovakian and Hungarian-Romanian borders. By the late 1980s, the practitioners of these small-scale informal trade linkages were joined by residents of the Western Ukraine shopping for all moveable consumer items in Eastern Hungary. In a similar vein, the Lake Balaton area had become, by the mid-1970s, a relatively quiet meeting point for German families split by the "inner-German" border. Catering for such "family-reunification" holidays emerged as a distinct, stable and institutionalized branch of the second economy of the tourism services sector in Hungary.

Early during this period, the Hungarian Forint obtained the status of an overvalued, "quasi-hard" currency in the second economy of COMECON consumer trade, notwithstanding the Hungarian state's restrictions on the exportation of cash. As a result, it became the only state socialist currency to be quoted at the exchange counters of all major Viennese banks. This author's fieldwork interviews suggest that the Viennese banks' supplies of Hungarian cash had been brought in mainly by Polish travellers, and demand was based mainly on the Viennese lower-middle and working class seeking cheaper holiday opportunities in Hungary --

over and beyond the comparative advantages arising from the two societies' income differential that was at five-to-ten times based on the official Hungarian exchange rates. This particular phenomenon indicates the emergence of a fairly complex system of integration between (1) the Austrian formal sector -- in this example, the banks and the tourists --, (2) the Hungarian first and second economies -- tourist and other service providers in Hungary --, and (3) East-Central European cross-border trade of the second economy type -- mediated mainly by Polish travellers.

Hungary's External Linkages in the Aftermath of State Socialism

The transformation of Hungary's external linkage structure was an important component of the political transition away from Kádárism. The ongoing metamorphosis of the country's linkage structure implies the following preliminary observations concerning the main components of that change:

(1) the "180-degrees" re-orientation of the state's own linkages by radically decreasing the weight of the Soviet component, by substantially reducing and, at the same time, qualitatively re-defining state-to-state relations with the region's other former subject countries and, most importantly, by insisting on the construction of strong ties with West European

core states with an eventual full membership in the European Community as a pronounced objective;

(2) the self-removal of the Hungarian state from linkages between the Hungarian economy and foreign (core) capital; and

(3) the gradual replacement of the first-economy-versus-second-economy opposition with the contrast of formal-versus-informal sectors in external linkages, much to the pattern of other semiperipheries, made possible by the complete abandonment of restrictions on the movement of individuals by most states of the region.

The turn-around of the Hungarian state's own linkages has been occurring under conditions of an external double bind. The removal of the Soviet component of state-to-state linkages has taken place under control by the Soviet component. The decision to perform, and the particulars of, the withdrawal of the foreign troops took place entirely on the foreign occupier's terms. Visa obligation has been abolished for citizens of most European and North American core countries while the introduction of a visa system for Soviet and perhaps other East-Central European citizens is being seriously considered in Hungary.[14] The

[14] Czecho-Slovakia has recently joined the EC-countries, Austria and Poland in placing restrictions on the entry of Romanians. This left Hungary as the only country of the region where Romanian citizens could travel without an entry visa and/or proof of financial support. Not for long. In early October, 1991,

contraction of the Soviet-centered world empire has occurred under extremely peaceful, closely watched conditions in East-Central Europe's Soviet-occupied states so that the eventual formal termination of the Warsaw Pact took place, during the summer of 1991, almost without notice by the region's media. On the other hand, the post-state-socialist political transition has involved severe political violence in both countries of the area (Romania and Yugoslavia) which had had no imperial military presence on their soil at the beginning of the collapse of their party-state-based political institutional system. Of those two, the country that had been the more independent from Soviet controls -- Yugoslavia -- is experiencing the bloodier and less controllable transition from state socialism. It appears that the Soviet Army has played an important stabilizing role in the period of the post-state-socialist transition in East-Central Europe.

The behavior of the newly-sovereign Hungarian state, for its part, continues to be profoundly influenced by the state's external debt burden,[15] manifested in strict IMF controls over

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the Hungarian government also introduced measures to curb informal, undocumented labor inflows. During the first ten days, over forty-thousand foreigners, overwhelmingly Romanian citizens, were refused entry for being unable to present evidence of sufficient funding for their intended stay in Hungary.

[15] Currently, the country's gross debt is estimated at USD 20,258 million or, the equivalent of about 100% of the annual GDP (Werner 1991). Three-fourths of it is owed to private banks which precludes any political re-scheduling arrangement as seen recently in the case of Poland. This represents the highest per

the state budget as well as major economic policy issues and the fact that the Soviet Union, previously by far the largest export market of Hungarian goods, is practically insolvent while it continues to be the main supplier of such vital energy sources as oil and natural gas to Hungary. It is a sign of the intricate difficulty wherein the Hungarian government finds itself that the maintenance of Hungarian-Soviet trade and the preservation of the USSR as Hungary's stable, strong export market has come to be a main issue of negotiations between <u>Hungary and West European and North American core actors</u>. The energy situation is exacerbated by the fact that Hungary's only non-Soviet oil-import pipeline runs through war-torn Croatia.

As a result of Hungary's domestic capital shortage, legislation providing preferential tax conditions for foreign investors over domestic enterprise, and the Hungarian state's heavy debt burden, there has been a modest increase in foreign direct investment in Hungary's <u>formal</u> sector. Opinions on interpreting the size of that investment diverge: it can be claimed that foreign direct investment -- an increase from USD 400 million to USD 1,143.3 million (a change from 1.99% to 5.73% of the country's total external debt and 6.7% to 17.35% of the country's total international reserves) between July 1990 and

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capita debt in Europe and the debt service ratio is over 50% of the country's revenues in hard currency (Werner 1991).

July 1991 -- (Heti világgazdaság 1991b) is in fact much lower than expected-feared by many.

The main discernible tendencies of this transition are the following: (1) interest in real estate development predominates over industrial production; (2) investment with the purpose of penetrating the Hungarian and/or East-Central European market predominates over production for core markets; and (3) evidence of the re-emergence of some pre-war linkage patterns can also be detected: some of the companies and private investors that appear with serious intentions of investing in the Hungarian economy are ones that had had significant historical presence in the Hungarian economy. Sometimes what is purchased is the very same company that had belonged to today's "new" direct investor earlier, confiscated by the Stalinist state after World War II. What is common in processes of foreign direct investment in Hungary during the Kohlist period is that foreign capital valorizes Hungarian labor without having to be funneled through the Hungarian state. This leaves for the Hungarian state the task of securing legislative conditions for such enterprise, especially in guaranteeing repatriation of profits, labor peace and infrastructural background conditions.

Although there is nothing in Hungarian business legislation that explicitly forbids direct investment by enterprises from the region's other former bloc-economies -- i.e., the emergence of horizontal linkages in this field --, the entire region's endemic capital shortage certainly works to prevent such new forms of regional integration from taking shape. (Political nationalism exacerbates this problem further.) In addition, under economic policy-pressures from foreign creditors, the National Bank of Hungary has recently terminated its practice of guaranteeing the direct exchange of the region's currencies in Hungary -- with the Czecho-Slovak Crown being the last one to "fall". This forces East-Central European regional integration to take place with the mediation of one of the three most important hard currencies in this region, namely the Deutsche Mark, the Austrian Schilling or the U.S. Dollar, leaving informality as the only direct source of foreign exchange for travelling final consumers within the region. East-Central Europe's move to "hard-currency-based-external-accounting" has greatly contributed to the collapse of regional trade in the formal sector, given the serious shortage of hard currency all over East-Central Europe. Talks on alternative regional frameworks of economic union -- to replace the defunct CMEA -- are in an extremely preliminary phase. Political currents and endemic instability are making regional economic integration less than desirable for the political elites of the states that could potentially participate in it.

The emerging structure of <u>informal</u> external linkages seems to be taking a form that is somewhat different from formal processes. Informal linkages appear to involve not only vertical (core-to-semiperiphery) but horizontal (intra-regional) directions as well.

Undocumented labor migration concerns present-day Hungary in two ways: there has been an upsurge in the presence of undocumented Hungarian labor in Eastern Austria and, to a lesser degree, in the Central European countries of the European Community. At the same time, undocumented foreign labor, especially from Romania and the Western Ukraine, has appeared in Hungary's informal labor market. Several open-air marketplaces and public transportation hubs in Budapest have evolved into informal labor recruiting centers of sorts, and the use of undocumented labor is spreading in the urban construction business, in seasonal tourism services and in small-scale agriculture.

The process began in 1987 (Sík, Tarjányi and Závecz 1989; Sík 1991) with the unexpected inflows of Romanian citizens -- mostly but not exclusively ethnic Magyars, with estimates of the total number of arrivals between 25 and 40 thousand or, the equivalent of .25% to .4% of Hungary's total population. Members of Romania's Magyar community claimed political asylum in Hungary on grounds of being prosecuted in their own country for their Magyar ethnicity. Most of them received some form of permit to stay. They were rather smoothly absorbed into the Hungarian society which provided them with a textbook example of an "advantaged" context of reception (Portes and Böröcz 1989, p. 620-5), similar to the immigration of East European Germans to the Federal Republic and that of Jews to Israel. Due to the limited convertibility of the Hungarian Forint and endemic shortages of consumer supplies in Romania, their cash remittances are of less importance: it is in direct commodity flows -- regular gift packages of shortage items -- that family- and kin-based transfers of subsidies have been taking place from Hungary to Romania (Sík et al. 1989, p. 25). The conceptual importance of the inflow of these immigrants -- somewhat misleadingly called "refugees" in Hungary -- was tremendous: it represented the first social linkage established by external "penetration" during declining Kádárism, that was based at least partly on the formal-informal contrast (over and beyond the "old" first-versus-second-economy distinction).

Very importantly, undocumented labor immigration to Hungary has continued after the fall of the Romanian dictator. This involves even more clearly informal-sector arrangements for additional Magyar arrivals from Romania, those non-Magyar citizens of Romania who had not yet received political asylum in a core country, new Magyar and other inflows from the Carpathian-Ukraine and elsewhere in East-Central Europe -- including a few members of the Soviet military who refused to return home with the troop withdrawal --, and a handful of non-Europeans living in Hungary in various precarious immigration statuses ranging from overstayers of student visas to recent arrivals with unsettled claims for political asylum. Given the little recent history of immigration to Hungary, state immigration legislation and policies are indecisive in this regard, especially as far as criteria for granting refugee status to ethnic non-Magyars and legal procedures for obtaining labor permits are concerned. As a result, the new Hungarian political parties' discursive behavior oscillates between all-embracing and all-restrictive rhetoric positions.[16] The situation is bound to become tenser with the intensification of labor conflicts in the Hungarian economy and with the impending liberalization of Soviet exit visa policies. An additional development is the replacement of Polish guestworkers with Ukrainians through new bi-lateral agreements and recent inflows of war refugees from Croatia.

Informal petty trade across state borders continues at full force. Ethnicity plays an important part in organizing the specifics of these cross-border linkages: Poles, Ukrainians, Gypsies, Serbs, Croats, Slovaks and Magyars with various passports specialize in different commodities and use different network structures in maintaining cross-border linkages. One possible explanation for the surprising stability of the Hungarian Forint vis-à-vis hard currencies today -- with street

[16] At the height of the flux of the political transition in 1989, there emerged the idea of establishing a small Chinatown in Budapest by allowing settlement for Hong Kong businessmen and their families who would be expected to settle some of the Hungarian state's debt in exchange.

rates no more than 5% above official bank exchange rates -- is the excess supply of hard currency brought in by Yugoslav and Polish travellers based on those countries' "free-market liberal" economic stabilization projects, coupled with additional supplies from the management of the new joint ventures in Budapest who are paid in hard currency, and the depletion of Hungarian demand for hard currency due to decreases in mobilizeable incomes in Forints.

SUMMARY

Isolationism -- the totalistic state-ization of external linkages -- was a defining characteristic of Stalinism situated in the context of the capitalist world economy. Any opening-up of external linkages represents a move away from that model, and particular configurations of external linkages are crucial, defining aspects of any existing arrangement of state socialism. In Hungary, the opening-up of external linkages began early during the Kádár-era. It became a focal point of conflict and an important component of the successive waves of lopsided, "winking" political compromises struck during the ensuing period. The Kádárist linkage structure was characterized by the re-establishment of linkages with the core states under the Kádárist state's control -- i.e., the gradual self-removal of the imperial state from the Hungarian state's relations with the West-European core, especially core capital -- and the tacit acceptance of a limited system of external linkages outside the planned sector as long as it did not involve direct utilization of labor by core capital through direct investment or labor emigration. Indirect utilization of labor was made possible through mediation by the Hungarian state which successfully inserted itself between core capital and Hungarian labor. The recent move away from state socialism involves the emergence of institutional arrangements aimed to restore direct ties between core capital and Hungarian labor through direct investment and labor migration unmediated by the state, coupled with an attempted 180-degree turnaround of _formal_ linkages. Meanwhile, _informal_ linkages operate on a more even geographical spread than their formal counterparts, involving intra-regional horizontal integration as well as vertical bonds.

The Hungarian case of the transition from state socialism indicates that localized strategies of resistance against the macro-structural process of more direct, unambiguous dependency on core capital, and search for horizontal alternatives, appear largely confined to the mercurial world of informality. A main question of Hungary's post-state-socialist future is whether the powerful informal sector that is emerging there will be of the "flexible specialization" kind -- following the famous "positive case" scenario of the Italian region of Emilia Romagna -- or the much gloomier "survival" type known from most of the rest of the world.

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