

Market, Capitalism and Hong Kong's Future: The Relevance of Karl Polanyi and Fernand Braudel¹

Paper presented at the 'Improving the Human Destiny' Conference organized by Institute of Humanities and Social Sciences, Lingnan University, June 11-12, 2009.

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(draft, please do not quote)

Introduction

This paper draws on the insights of Karl Polanyi and Fernand Braudel on “capitalism” and “market” to analyze the experience and discourse of the economic development in Hong Kong, the role-model of “free market capitalism”, with a specific focus on the last two decades -- the so-called “neo-liberal” era. The first part of the paper re-reads Polanyi and Braudel in the midst of the current financial crisis and economic depression, aiming at teasing out a theoretical perspective for a better understanding of our past and current economy. The second part argues that, as evidenced in the persistence of anti-competition practices in many important markets (including the money, land, food and energy markets), the rise (or further expansion) of the self-regulating market has never taken place in Hong Kong during the neo-liberal period, and the equation that connects “capitalism” with “free market” is unsubstantiated. The third part of the paper, by taking a cultural economy approach that considers culture and economy as mutually constituting and constituted processes, discusses how the dominant discourses on “free market” and “capitalism” are perpetuated in spite of the fact that it is not borne out by empirical evidence. The analysis is focused on a case study -- the construction and dissemination of the “index of economic freedom” in Hong Kong in the past two decades. The final

¹ An early version of this paper entitled “The Great Transformation that has never been – Rereading Polanyi through the lens of the Hong Kong Cultural Economy” was presented at the eleventh international Karl Polanyi Conference: “The Relevance of Karl Polanyi for the 21st Century”, Concordia University, Montreal, December 9-11, 2008. The part on Braudel draws on the author’s Ph.D. Thesis entitled “Overseas Chinese Business Networks: East Asian Economic Development in Historical Perspective”, Dept. of Sociology, SUNY-Binghamton, 1995.

part of this paper proposes to go beyond the disciplinary boundaries between political economy and cultural studies, and to find a refreshed way of supplementing the political economy approaches with cultural studies perspectives so as to search for a revitalized understanding of “capitalism” and “market” to bring out its relevance to the future of Hong Kong.

Part I: Polanyi and Braudel on Market and Capitalism

This paper argues that Karl Polanyi’s classic work *The Great Transformation* (GT) should not be read as a historical account of the rise and fall of the self-regulating market (SRM) in Europe (particularly UK) in the long 19th century. If, as Polanyi argues, land, labor and money are “fictitious” commodities that could never be thoroughly transformed into possessions solely for market exchange, then it becomes clear that the rise, and the subsequent fall, of the SRM in 19th century Europe may as well be “fictitious”. And one could even argue that the rise of the SRM had never occurred in the past and will never occur in the future.

As Block (2003) argues, though GT does contain tensions that are apparently self-contradictory, the message of GT is still unambiguous: that the Great Transformation should be understood as the rise (and subsequent demise) of the *idea* of the SRM, or market liberalism. The SRM is only an impossible dream as the economy is always embedded in society, and the three “factors of production” — land, labor and money – are merely “fictitious commodities” that inevitably invoke the self-protection of society.

If, historically speaking, SRM (or “free market”) is merely a fictitious idea, then equating “capitalism” to “free market” is also unsubstantiable. According to Braudel (1979, 1982, 1984), existing "capitalist societies" are divided into three layers -- "material life" or "material civilization," "market economy," and "capitalism." The "bottom" layer is "material life" or "material civilization." It is a layer of the "infra-economy, the informal other half of economic activity, the world of self-sufficiency and

barter of goods and services within a very small radius." It consists of "hardly disguised forms of barter, the direct exchange of services, 'moonlighting' as it is called, plus all the various forms of homeworking and 'odd-jobs.'" Since this layer is filled with "everyday happenings," it is very often neglected by most observers. Yet this does not mean that the activities in this layer are insignificant. In contrast, in some historical conjunctures of world economic recessions, the economic wealth generated in this layer was estimated to account for as high as 30-40% of the "GNP." And yet, this wealth "lies outside all official accounting, even in industrialized countries." (Braudel 1979: 24-25)

The second layer is our familiar "market economy." In this layer, we find competitive exchange based on detailed divisions of labor. Due to keen competition, the profit rates generated in this layer are relatively low compared to the layer of "capitalism." The transactions are openly operated and are subjected to market regulations. As a result, the activities in this layer are relatively transparent, and are more easily recorded. Consequently, information such as statistics and other documentary materials are more complete and available. That is why most of the social studies on the economy have focused on this layer. Because it has attracted the interest and effort of social researchers, the discourse which identifies "market economy" with "capitalist society" has taken up a hegemonic position².

The "top" layer is "capitalism." Braudel's notion of "capitalism" is different from that commonly used, which either assigns "capitalism" to represent everything in "capitalist society" or narrowly defines "capitalism" as the wage-labor "mode of production." For Braudel, "capitalism" is the arena where major industrialists, merchants, and financiers actively search for high profits. The activities in this layer include long distance trade, high finance, large scale manufacturing, real estate development and sales, speculation in the stock market, big banking,...etc. Since the scale of the businesses is usually

² An interesting phenomenon is that although "liberal economists" and "Marxists" appear as opponents, both have identified "market economy" with "capitalist society." Their main difference is that "liberals" believe that "market economy" is beneficial to our society while the "Marxists" believe that it does more harm than good. In other words, their difference, to a large extent, is largely a difference of moral judgment. In fact, that is the reason why Marxist economists, notably the "analytical Marxism school," can share analytical frameworks, such as "general equilibrium models" and "rational choice" with the liberal economists, but at the same time heavily criticize the conclusions drawn by the neo-liberal economists.

very large, this layer is transnational and monopolistic by its nature. The profit generated in this layer is also the highest. Due to the fact that the transactions of the capitalists in this layer are not necessary via open market operations, their activities are highly "opaque" or "shadowy," as well as irregular. In order to survive and develop in this layer, in which the "law of the jungle" applies, power and privilege are much more important than technical efficiency and fair competition.

This "capitalist layer" is not only different from the "market economy," but is the latter's anti-thesis. The layer of capitalism is always anti-division of labor and anti-market. For those who are active in this layer, it is unwise to limit their activities through specializing in certain sectors for a long period because their greatest asset is the mobility of their capital. With this mobility, the capitalists in this layer are able to search for profits wherever the highest profits go -- from the agriculture sector to the manufacturing sector, then to the financial sector, or vice versa. That is why the large transnational corporations in the contemporary world are always diversifying their assets across different businesses. In addition to anti-specialization, large-scale businesses that are equipped with political and economic privileges³ also strive to avoid regulation by the market which will intensify competition (Braudel 1979: 562, 1982: 433; 1984: 608 and 621).

In Braudel's three-layer categorization, "capitalism," "market economy," and "material civilization" are not totally separated. In contrast, the high profits in the "capitalist layer" were and are materialized through exploiting the two lower layers. On the one hand, the lively and many-sided "material life" and the competitive "market economy" are the "seeds of inspiration, improvisation and even innovation." Yet it has been always the "capitalist layer" which appropriates and transforms these innovations into high profit businesses through securing the patents. On the other hand, businessmen in the "capitalist layer" have relied on the smaller firms to "carry out the humble tasks indispensable to any

³ According to Braudel (1984: 622), "the chief privilege of capitalism, today as in the past, remains the ability to choose - a privilege resulting at once from its dominant social position, from the weight of its capital resources, its borrowing capacity, its communications network, and, no less, from the links which are created between the members of a powerful minority - however divided it may be by competition - a series of unwritten rules and personal contacts."

society, but which capitalism does not care to handle.” Large-scale businesses also prefer to “farm out certain tasks to sub-contractors, who deliver finished or semi-finished goods.” Moreover, the self-reproduction of the "material civilization" layer and the competition of the "market economy" have provided the economic businesses of the "capitalism layer" with much lower unit costs (Braudel 1984: 623, 631). So if the privilege of "capitalism" expands limitlessly, it may "over-exploit" the two lower layers and, in turn, destroy the base for the reproduction of "capitalism."

Braudel also clearly points out that this three-layer categorization is not a clear-cut reality. The boundaries between these three layers are in fact ambiguous. For instance, there exists oligopolistic competition in the capitalist layer, and it is also possible on occasion for the "market economy" to generate high profits. Also, it is very difficult to determine whether barter belongs to "market economy" or "material life." Yet, as a "filing system," it is not necessary to seek for precision at the expense of analytical power. Nevertheless, Braudel's simple three-layer framework allows us to go beyond both the "neo-liberal" and the "Marxist" approaches noted above, and develops an alternative perspective to understand historical and existing capitalism, thereby avoiding the confusion of "capitalism" with "market economy."

Part II: The Great Transformation that has never been -- Hong Kong in the late 20th Century

Although Hong Kong has long been depicted as the model of “free market capitalism” (a self-contradictory term in Braudel’s framework), the pre-WWII and early post-WWII Hong Kong economy could hardly be described as *laissez faire* (Ngo 1999, Schiffer 1991). Even at the peak of British liberalism in the 19th century, Hong Kong, as a humble British colony, was already a place in which large British and Chinese businesses (from opium trade⁴ to public transportation⁵) had enjoyed

⁴ See Cheung (1986) and Hui (1999).

⁵ For instance, a few British and Chinese companies that owned the Star Ferry (established in 1872), the Peak Tram (1888), Hong Kong Tramways Limited (1904), the Kowloon Bus and Hong Kong Bus and various shipping companies had long been granted the monopoly privileges.

all sorts of monopolistic privileges. There were also strong evidences illuminating that the intervention of the government in the industrial policy was far from “minimum” (Ngo 1998 and Choi 1998).

Despite the triumph of the neo-liberal hegemony in Hong Kong in the last two decades, there is no clear evidence indicating that the markets, particularly those of the three major “factors of production” – land, labor and money⁶ – were freer than the markets in its earlier periods. In fact, as we shall shortly see, although Hong Kong has been ranked number one on the “World Economic Freedom” list produced by the Heritage Foundation, an influential American neo-liberal advocacy tank, the operations of the markets in contemporary Hong Kong, at least those for land, money, food and fuel, are more accurately described as incomplete competition, if not oligopolistic and monopolistic.

Let us first take a look at the money markets. Although the Hong Kong government has adopted a series of financial “de-regulation” policies since the late 1970s and early 1980s, including the abolishment of the interest tax on foreign currencies in 1982 (originally 15%) and on Hong Kong dollar in 1983 (originally 10%), the foreign exchange markets and the domestic capital markets could hardly be described as “free”. It is true that the stringent control on foreign exchanges from 1935 to the early 1970s was relaxed in the mid-1970s, yet after un-pegging with the sterling in 1972, Hong Kong Dollar has then been linked with the US dollar. These pegged or linked exchange rate systems suggest that the Hong Kong foreign exchange markets are not purely governed by self-regulating supply and demand. More importantly, the Hong Kong Association of Banks Ordinance had allowed the Hong Kong Association of Banks (HKAB) to set the maximum interest rates according to the Interest Rate Agreement (IRA)⁷, in order to discipline its members so that they do not hoist the costs of capital beyond the interest rate caps, thus reducing the possibility of “cut-throat” competition. According to the Hong Kong Consumer Council, a public institution set up and financed by the government, the Hong

⁶ The only exception is perhaps the labor market, particularly those for the low-income workers (including domestic helpers from Southeast Asia). Yet as Schiffer (1991) argues, even the labor market was not particularly “free” as the costs of reproducing the laborers have been heavily subsidized by the mainland government through administrated prices of food stuffs in the post-WWII period. Moreover, the public housing scheme also produced the effect of socializing the costs of

Kong banking industry “clearly bears out the existence of a monopsonistic market...[which] is created by (1) the existing legal and regulatory framework, and (2) the lack of substitutes for the same products.” (Consumer Council 1994: 3)

In terms of legal restriction, the Consumer Council argues that the Banking Ordinance has imposed

legal barriers to entry by allowing Restricted Licensed Banks (RLBs) and Deposit-Taking Companies (DTCs) to take only deposits with values higher than HK\$500,000 and HK\$100,000 respectively. Also, DTCs shall not, without the written approval of the Monetary Authority, repay any deposit within a period of less than 3 months. RLBs and DTCs are therefore prevented by the Ordinance to take ‘small deposits’ and deposits of shorter maturity...[And] when close substitutes did emerge, HKAB would impose regulations to restrict them... The existing legal provisions, creating a cartel and imposing an effective barrier to entry... has discriminating effect on the [less interest-sensitive and] small depositors. (1994: 4)

The lack of substitutes can be seen from the increasing concentration of the banking sector⁸ and the fact that a few large banks have controlled the lion’s share of deposits. In addition, the HKAB also prohibits other non-banking institutions (RLBs and DTCs) to introduce quasi-banking operations, such as allowing depositors to transfer money from savings account to current account freely, in order to circumvent competition. As a result, competitors are restricted to enter the market and the options for consumers are also limited. Small depositors’ choices have further been cut down by the problems of the banks’ non-transparent operation and compulsory purchase⁹.

production for the business sector.

⁷ Interest Rate Agreement was introduced in July 1, 1964 and had lasted until 2001, with several amendments in between.

⁸ The number of banks in Hong Kong had decreased from 143 in 1948 (right after the implementation of the first Bank Ordinance) to 94 in 1954 and further reduced to 74 in 1972. At the same time the number of branches of the commercial banks had increased from 3 in 1954 to 404 in 1972. This was a result of translating the remarks made in the H.T. Tomkins Report on the Hong Kong banking system -- that there were “too many” banks in Hong Kong and competition was therefore too severe -- into the new Bank Ordinance in 1964 that replaced the old Ordinance of 1948. After the 1965 banking crisis, the colonial government decided to stop issuing new bank licenses until 1978. At the same time, the Hong Kong and Shanghai Bank purchased the Hang Seng Bank and further expanded its already significant market share (Fung 2002: 78, 89, 91-94).

⁹ As the Consumer Council (1994: 11, 3-4) points out, “[b]anks in Hong Kong reveal less information to the general public than banks in the US, UK and Japan. Inner reserves, breakdown of revenues and expenses, loan loss reserves and non-performing loans, maturity mismatching, detailed breakdown of loan portfolios, off-balance sheet items and foreseeable changes in financial conditions of banks are items that have been disclosed in other countries but not in Hong Kong.” Also,

Another way of looking at the anti-competitive nature of the money markets in Hong Kong is to compare the profit rates of the Hong Kong banks with banks in other places. Due to the fact that the interest rates for depositors are tightly controlled by the HKAB, small depositors have received relatively low interests as compared to their counterparts in other comparable regions¹⁰. According to the Consumer Council (1994: 5-7), the difference of interest rates between saving and lending in Hong Kong is higher than other developed regions by 1.65% in the 1980s and 1990s. As a result, commercial banks in Hong Kong had received a huge amount of monopsonistic rents¹¹.

Similarly, the land trade in Hong Kong is also far from the ideal of “free market”. As the sole provider of new land, the Hong Kong government has monopolized and firmly controlled all new land supply. The extremely high market concentration of newly constructed properties has also significantly reduced the bargaining power of buyers. For instance, in the period 1991-1994, the top 7 developers owned 70% of the newly constructed properties. In fact, since 1981, there has been no new real estate developer entering into the property market. The high development cost and the government’s regulation that prohibits the public housing market to directly compete with the private housing market have kept the number of private real estate developers from expanding (Consumer Council 1996: 3-5).

As a result, although there is no legal barrier that restricts newcomers to enter the property market, the relatively high new land costs, high financial costs, weak bargaining power and limited and variable access to land resources, as compared to the well-established developers, have significantly weakened the competitive power of the newcomers. In other words, as the Hong Kong Consumer Council (1996: 4-6) concludes, “there was little competitive pressure from potential new entrants, there was also little competitive pressure from other sectors of the primary housing market.”

“some banks have engaged in tie-in sales by requesting customers to purchase fire insurance from designated companies as a pre-condition for applying for mortgage loans”.

¹⁰ For instance, Hong Kong small depositors received 2.2-2.6% lower interest than if they put their money in the banks in the USA. Consumer Council (1994)

¹¹ Monopsonistic rents are the net interest rate spread between HK and other countries times the total deposits in HK. This extraordinary profit amounted to 5.2 billion Hong Kong dollars in 1991, equivalent to 0.8% of the Hong Kong GDP (Consumer Council 1994).

The extraordinarily high profit margin of the real estate developers is another piece of evidence that confirms the not-so-free nature of the property markets.¹² The monopolistic power of the large real estate developers is also revealed in their sale strategies. According to the Consumer Council, from 1990 to 1996, real estate developers have released their newly constructed flats in batches in a given period of time, and the timing of the sales in competing sites did not overlap with each other, thus generating an effect of regulated supply. This can be regarded as a form of price discrimination and has reduced the choices of the potential buyers¹³. In addition, when the market demand is shrinking, the developers are able to withhold their properties and to wait for another boom. As a result, the vacancy rates of the flats owned by the top developers had been significantly higher than the average market vacancy rate, and there were also evidences of downward price rigidity, which is surely not a sign of highly competitive markets. As concluded by the Consumer Council, the fact that real estate developers in Hong Kong are able to exercise market power on the consumers has to do with the abovementioned market structure, which is highly concentrated and segregated. (Consumer Council 1996: 6-7)

Similar to the capital and land markets, the supermarkets in Hong Kong is also extremely concentrated¹⁴. Consequently, when negotiating with the large supermarkets, small food suppliers do not have a strong bargaining power, hence can only accept unfavorable terms of trade, including low

¹² From the 1970s onwards, except for a few years (i.e., 1974-75, 1982-83, 1994-95, 1998-2003), the profit rates of Hong Kong's property market have been extremely handsome. For instance, from 1976 to 1980, the after-tax profit of the top five real estate developers in Hong Kong had increased 2 to 10 times, much higher than the profit rates in other economic sectors (So 1982: 16-17). Other studies suggested that the profit margins of the top five real estate developers ranged from 10% to 30% (Chen: 124-125), and the return rates for investing into Hong Kong's properties (around 10% in mid-1980s) doubled the rates of investing in other rich cities (Yu 1987). A more recent study suggested that the profit rate of selling properties in Hong Kong is around 30% in the mid-1990s (Mingpao 20-8-1997, B3).

¹³ Recently, the real estate developers are also allowed to sell their newly developed apartments through "internal purchase" (i.e., not selling them in the open market). The government, in the name of the "free-market", was reluctant to stop the speculative drive by implementing asset tax or property value tax. As a result, many buyers in 1997 were in fact speculators (Mingpao, 12-3-1997)

¹⁴ According to the Consumer Council (1994), the two biggest supermarkets, the Parkn Shop and Wellcome, had accounted for 70% of the total sale (in value), and 62% of number of retail outlets in 1993. According to the AMI Consultancy, in 1997, the Big Two accounted for 80% of the total sale of all supermarkets. In fact, the concentration of supermarket has already been visible since the 1980s. From 1985 to 1993, the number of shops of these two giant supermarkets had increased by 5.4% and 7.5% per annum while the number of other smaller supermarkets had decreased at a rate of 4.3% per year (Consumer Council 1994). From 1994 to 1997, the Big Two supermarket chains further expanded at a rate of 3.2% per year whereas the smaller supermarkets had shrunk by 5% per year (AMI report). As a result, the number of shops of the

wholesale prices, prohibition to deal with other retailers, and payment to the supermarket of a high fee for putting their goods on shelves¹⁵. The monopolistic power of the big supermarkets is revealed in the fact that the profit margins of these supermarkets in Hong Kong are significantly higher than their counterparts elsewhere¹⁶. To consumers, the concentration and monopolizing practices of the supermarkets have reduced their choices, both in terms of variety and price. In fact, according to the consumer council survey in 1993-1994, the varieties of goods found in the two largest supermarkets (hereafter the Big Two) are not more than the small supermarkets. And the prices of the Big Two are in general higher than small retailing shops.

The history of the expansion of the Big Two is also the history of suppressing small retailers, street hawkers included. As early as 1936, Mr. R.R. Todd, the chairman of the then newly established Urban Council, had blamed street hawkers for blocking the street, damaging public health, seducing policemen to engage in corruption, and competing “unfairly” with the shops. This biased view has then been translated into government policies that aim at reducing the number of hawkers in the long run. For instance, the 1963 Urban Council’s Hawker Report argued that “the unrestricted issue of hawker licenses is not in the best interests of the public; able-bodied persons ought not to be encouraged to hawk when they might be better employed in industry for the economic benefit of the community”. (Smart 1989: 36). The 1983 Hawker Report by Housing Authority spelt out this anti-competition logic even more explicitly: “to avoid the existence of mobile hawkers on the estate for the purpose both for eliminating competition between the hawkers and the commercial tenants and of providing an acceptable living environment to the tenants”. (Smart 1989: 38). In other words, the restriction put on

smaller supermarkets has decreased by 40% in 1996-2001 while the number of shops of the Big Two has increased by 30%. (Consumer Council 2003)

¹⁵ According to the Consumer Council (1994), the big supermarkets on average have 600-700 suppliers and most of them are small in size.

¹⁶ Comparing to other places where the profit margins of the supermarket range from 2-3%, the profit margins for Hong Kong supermarkets was 5-6% and Wellcome’s was 6.6% by the end of the 1990s. (*Hong Kong Economic Times*, 19-08-1999:22)

the street hawkers is primarily to reduce their competition with shops, including supermarkets, that paid rent to the shopping malls. Could these policies be described as free market practices?

The fuel markets also resemble similar anti-competitive structures and practices. In a survey on the auto-fuel market, the Consumer Council (2000: 3) pointed out that

the oil products industry is highly concentrated... and largely vertically integrated..., with three oil companies holding over 70% of the piped and wholesale cylinder LPG market, 90% of the motor gasoline market, and 80% of the diesel market... It is characterized by relatively small total demand, limited growth opportunities..., and barriers to entry such as the need to achieve economies of scale in storage and retail and the high cost of land... As such, the three product markets can be characterized as oligopolies.

Likewise, a Consultancy report (*The Study of the Auto-Fuel Retail Market*, 2005, <http://www.compag.gov.hk/reference/fuel.pdf>) commissioned by the HK Economic Development and Labour Bureau reports that in 2004 the three largest auto-fuel companies accounted for 95% of the auto-fuel sale. The market structure could be described as high seller concentration, high entry barriers, limited product differentiation, low buyer concentration with frequent sales, high degree of vertical integration and therefore “there are enough factors present in the Hong Kong auto-fuel market to suggest that there is a risk of collusion.” (p.6) The Consultancy report also reports that relative to overseas markets, the changes of the retailing prices of fuel in Hong Kong are less frequent and less various in terms of different geographical locations. Moreover, these two reports also noted that both the retail price¹⁷ and gross retail margins after land cost for petrol in Hong Kong are significantly higher than other comparable metropolitan cities. Hence both reports recommend the government to establish a fair competition law and an effective regulatory regime for the auto-fuel market.

In sum, in this so-called “freest” economy in the world, workers, small traders and hawkers do humbly search for the freedom of doing business, yet they are always restricted by the legal framework and the high land price and capital cost. On the contrary, large businesses in general prefer forming cartels or engaging in monopolistic/oligopolistic practices. As a result, the neo-liberal era had

¹⁷ The high petro tax of course accounts for some of this but the market structure surely is the main reason for that.

witnessed not the rise of an SRM (or “free market”) but rather the consolidation and expansion of the monopolistic or oligopolistic capitalist layer. Hong Kong is no doubt a “capitalist paradise” (in Braudel’s sense), but surely not a model of “free market” economy (or SRM in Polanyi’s sense).

Part III: The dissemination of the fictitious SRM in the contemporary Hong Kong context

A question that immediately follows is: how is the unsubstantiated neo-liberal doctrines that equate “capitalism” to “free market” and advocate the natural evolution of the SRM so widely and effectively disseminated in contemporary Hong Kong? To understand this we may need to supplement the political economy approach with the newly developed cultural economy approach¹⁸. By integrating political economy and cultural studies, the cultural economy approach refuses to treat economy and culture as two distinctive and separated entities, and challenges the economy-is-hard-and-culture-is-soft bias. It also suggests that economy and culture are mutually constituted and constituting processes, and their relations have to be understood in concrete social and historical contexts.

The basic analytical framework of the cultural economy approach, as introduced by Paul du Gay et al. (1997) through their study of the SONY Walkman, is the “circuit of culture”, in which different and interlinked aspects and moments – production, consumption, regulation, representation and identity – of the cultural economy of a particular artifact are scrutinized. The “circuit of culture” model is basically an expansion of Marx’s method of political economy spelt out in the 1859 “Preface of *A Contribution to the Critique of Political Economy*”, by adding the “cultural” dimensions – “representation” and “identity” – to the well established political economy concepts – “production”, “consumption” and “regulation”.

According to du Gay (1997), culture is economic because meanings can only be created and circulated through the processes of material production and consumption, whereas the economy is

¹⁸ See du Gay et al. 1997; du Gay 1997; Paul du Gay and Michael Pryke 2002; Don Slater 2002, Frank Mort 2000. The cultural economy approach came on to the scene in the late 1990s and was part of the trend of the “cultural turn” of social sciences in general, and of economics/political economy in particular. The cultural turn of economics/political economy is most visible in the studies of economics and business by focusing on their rhetorical (D. McCloskey 1985), religious (B.

cultural because the material processes of production and consumption have to heavily rely on the mediation of meanings through various signs and symbols (think about advertisements and product designs). More fundamentally, before we could talk about the economy, we have to first *identify* and *represent* a whole set of socio-cultural and instituted processes and relations as “the economy” or “economic” through employing various strategies of naming. In other words, du Gay et al. have supplemented the Marx’s political economy framework and Polanyian “social embeddedness” thesis by highlighting the centrality of “culture” in the understanding and operation of the economy – as production, consumption and regulation of goods and services in the Marxist tradition, and as an instituted process in the Polanyian tradition.

The cultural economy approach allows us to analyze how the fictitious notion of SRM was created and disseminated in a context in which the markets (including the market of ideas) were highly concentrated and tightly regulated by a few powerful businesses. This paper argues that the effective dissemination of the fictitious notion of the “free market” in contemporary Hong Kong is basically made possible through the production and circulation of a few interrelated “empty signifiers”¹⁹, such as “invisible hand”, “active non-intervention” and “economic freedom”, in a context in which anti-intellectualism and populism²⁰ prevail. In what follows, I will focus on one “empty signifiers” – “economic freedom” – and discuss how it is employed to facilitate the production and circulation of the fictitious idea of SRM in Hong Kong.

Watermaneds 1994 and Nelson 2001), and performative (N. Thrift 1997, 1998, 2001) dimensions.

¹⁹ According to Laclau (2005), empty signifier is a name that is adopted to bring together the impossible unity of heterogeneous social demands.

²⁰ As I have summarized elsewhere, Laclau (2005) “argues that populism should not be defined by its historical forms and functions but should be understood as a political logic. This logic consists of three interconnected steps: (1) the creation of opposite political forces that clearly divide ‘people’ from the ‘power’; (2) the integration of the differentiated social demands of diverse groups into a common demand, usually represented by an empty signifier; and (3) the consolidation of this popular demand through establishing a stable system of signification. As the “people” refers to different social groups with extremely diverse social demands, it is dreadfully difficult, if not impossible, to find a common denominator for them. Therefore, empty signifiers with ‘vague’ or ‘imprecise’ meanings, such as ‘big market, small government,’ ‘invisible hand,’ and ‘neo-liberalism,’ are often chosen to signify a forged ‘unified’ popular demand of the ‘people.’” (Hui 2007)

The Economic Freedom Index

Since 1994, the Heritage Foundation (HF) has published the Index of Economic Freedom (hereafter EF Index) every year.²¹ Hong Kong has been depicted as the “freest economy” in the world for the last 14 years. According to the EF Index, Hong Kong scored 90.6 and 90.3 in 2007 and 2008 respectively (100 = total freedom and 0 = no freedom at all). How were these scores calculated?

According to the methodology chapter of the HF Report, the EF Index is calculated by adding up ten items of “economic freedom”²², with every item equally weighting 10%. The last item, Labor Freedom, was added in 2007. The HF explains that adding this item is a response to the “labor riots in France and the wide disparity in unemployment rates across countries” in recent years. It is certainly interesting to note that labor had not been included in the EF Index in the past years, and it is even more interesting to note the way Labor Freedom is measured. The measurement of Labor Freedom focuses on four items: Are there minimum wages? If yes, 25 % deducted. How about maximum working hours? If yes, another 25% deducted. Is laying off employees difficult? If yes, another 25%. And finally, the higher the costs to dismiss labor, the more the scores are taken away. It should now be very clear whose freedom the “Labor Freedom” index stands for.

Fiscal Freedom measures the proportion of tax in relation to the Gross Domestic Product (GDP). As a result, only companies and individuals falling within the tax net are considered in the Index. In other words, Fiscal Freedom is totally unrelated to small peddlers and individuals who are not qualified to pay tax. Similarly, there are three aspects in Business Freedom: the procedures, time needed and cost incurred in starting a business, obtaining a business license and closing a business. The Foundation obtains the data from World Bank’s *Doing Business*, a guidebook for businessmen to prepare their

²¹ See <http://www.heritage.org/index>. The 2008 EF Index could be downloaded from <http://www.heritage.org/research/features/index/downloads/Index2008.pdf>. There are other indexes that measure economic freedom, including the index constructed by the Economic Freedom Network (members include the Hong Kong Centre for Economic Research, Cato Institute in the USA and the Fraser Institute in Canada). This paper focuses on the Index constructed by the Heritage Foundation because its influence in Hong Kong is most visible.

²² The ten items are Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property Rights, Freedom from Corruption, and Labor Freedom.

trans-national investments. Obviously, the guidebook is not made to include the regulations that are relevant to street hawkers.

The ways to calculate the scores for Investment Freedom, Financial Freedom, Freedom from Corruption, and Property Right are also problematic. The report often articulates absolute scores with vague descriptions²³, and employs imprecise concepts such as “professional, effective bureaucracy” (Investment Freedom) or based on subjective perception of businessman (e.g., whether or not the government is very corrupt). But how can “professional” and “effective” bureaucracy be calculated accurately? And how is the subjective feeling of businessmen translated into numerical marks?

The calculation of Trade Freedom consists of two parts, tariff and non-tariff barriers (NTB). It is strange that tariff barriers account for 80% of the scores for Trade Freedom. Heritage Foundation does not explain why tariff barriers are assigned a much heavier weight in measuring Trade Freedom, when NTBs are increasingly regarded as the predominant modes of obstacle to free trade in the contemporary global context²⁴. If NTB only accounts for 20% of Trade Freedom, then it is possible that a country heavily subsidizing all its exports could still be ranked high on the Trade Freedom list. Even more problematic is the way the statistical data are handled, especially when the final measurements are in terms of absolute numerical figures for strict international comparison and ranking²⁵.

The arbitrariness of the Heritage Foundation’s methodology is also found in the measurements of Freedom from Government, and Monetary Freedom. The former is “based on government

²³ For example, 90% means “Minimal government influence”, 40% means “strong government influence”, 10% is “near repressive (financial policy)” or 80% means “private property is guaranteed by the government” and so on. The question is: why “Minimal government influence” does not equal to 95% or 85%, but 90%?

²⁴ For example, agricultural subsidy is one of the most important areas of dispute between EU and the USA in the recent WTO negotiations.

²⁵ According to the methodology chapter of the EF Index Report, “[w]hen the weighted average applied tariff rate is not available, the authors use the country’s average applied tariff rate; and when the country’s average applied tariff rate is not available, the authors use the weighted average or the simple average of most favored nation (MFN) tariff rates. The data for customs revenues and total imports may not be consolidated in just one source. In addition, in the very few cases in which data on duties and customs revenues are not available, the authors use data on international trade taxes instead. In all cases, the authors clarify the type of data used and the different sources for those data in the corresponding write-up for the trade policy factor. Sometimes, when none of this information is available, the authors simply analyze the overall tariff structure and estimate an effective tariff rate” (2008: 44).

expenditures as a percentage of GDP”. This means, when keeping the GDP constant, the higher the government expenditure, the less is the economic freedom. However, what if the government expenditure is used to facilitate a “freer” economy, such as setting up anti-Trust laws and constructing better infrastructure to promote free competition? Likewise, in the EF Index, the higher the inflation rate, the lesser the scores are assigned to Monetary Freedom. But why does higher inflation mean lesser economic freedom?

From the above discussion, it is not difficult to see that the construction of the EF Index is rather arbitrary. Clearly, the popularity of this EF Index in Hong Kong is not based on its conceptual coherence. In fact, neither the mass media nor the readers have interest in the intellectual rigor of how the EF Index is calculated. Instead, the effects that the EF Index generates in sustaining the fictitious ideas of “free market capitalism” are largely reliant on the attribute-performative operations (cf. Laclau 2005) of the neo-liberal advocacy tank²⁶ – the Heritage Foundation – in collaboration with the populist maneuver of the local mass media.

The Heritage Foundation was founded in the early 1970s. Since the 1980s, due to its close relation with Ronald Reagan, the Foundation has developed rapidly and has become one of the most influential advocacy tanks for neo-liberalism in the USA. When the Foundation was first founded, it had a 200 thousand US dollar budget and employed 130 employees in its earlier days. In the last part of the 1990s and early 21st century, the budget increased to 30 million US dollars per year, and around 200 staff members (including visiting researcher fellows) were employed²⁷. Unlike the policy think

²⁶ The popularization of neo-liberalism started in the mid-1970s in UK and the US. Since then, new think-tanks that advocate neo-liberalist doctrines have been founded. Among them is the Washington-based advocacy tank Heritage Foundation. These advocatory tanks seek to shape public opinion and agenda through conducting seminars, public speeches, media programs and so on. Members of these tanks have also actively participated in Congress hearings in order to lobby for government policies. Their members publish numerous newspaper and journal articles, books, research reports and newsletters, as well as produce their own journals, websites and audio/visual materials. They are also willing to be interviewed by the mass media. Besides working on the public level, these advocacy tanks also work on the private level through serving as government officials or members of public committees, or persuading and inviting government officials or former officers to join the tanks to build up political networks, or writing policy papers and addresses for government officials and Congressmen. (Diane Stone 2001; Abelson 2002)

²⁷ The Heritage Foundation receives donations from private corporations and individuals in the USA and elsewhere.

tanks in the early post-WWII period, the main task of Heritage Foundation is not to conduct policy research for the government, but instead to disseminate neo-liberal doctrines through the mass media and public relation networks. In fact, around one third of its budget, approximately 8-10 million, has been spent on mass media and public relation related work.

Apart from publishing its own magazine (*Policy Review*, later acquired by the Hoover Institution), the Foundation publishes more than 150 articles in important newspapers and magazines in the USA every year. They constantly repeat the neo-liberal doctrines in the mass media and other channels because they believe that it is ineffective to “just put out a study and hope that it can get into the right people’s hand”.

The policy areas covered by the Heritage Foundation include agriculture, labor, family, marriage, education, culture, religions, crime, foreign affairs, and so on. To promote their ideas, the Foundation has put up a user-friendly list of “experts” (or more precisely “fast-thinkers” for media interviews) with contact numbers and e-mail addresses. (Abelson 2002: 39-41; Diane Stone 2001)

In the past years, whenever the annual EF Index was released, the chairperson of Heritage Foundation would visit Hong Kong and present the Report, as a gift, to the HKSAR chief executive. Local mass media very often report the news on their covering pages and highlight the Hong-Kong-as-no.1-again message. The effectiveness of the Heritage Foundation’s populist strategies could be seen from the media coverage and the subsequent discourses on economic freedom and related issues in the Hong Kong mass media. Through searching the keyword “economic freedom” and “Heritage Foundation” in the past 10 years at the Wisenews system, one can notice that the number of media coverage after the Heritage Foundation released the EF Index Report in Hong Kong has increased from 15 in 1998 to 47 in 2008. In terms of the keyword “economic freedom”, its appearance in the local

Donors include large corporations such as Ford, GM, Mobil, Chase Manhattan. The Foundation successfully raised 30 millions US dollars in 2005. One reason for the Heritage Foundation to be able to attract such huge donations is its clear conservative political stand. The mission of the Foundation is “to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong

newspapers has also increased from 58 in 1998 to 235 in 2006 and back to 163 in 2008. The frequency of the Heritage Foundation being named in local newspapers also increased from 30 in 1998 to 97 in 2008 (table 1).

Table 1:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EF & HF	15	15	36	20	32	1	28	24	46	34	47
EF or HF	73	104	241	218	248	177	242	251	305	226	230
EF	58	75	199	147	182	112	145	180	235	150	163
HF	30	44	78	91	98	66	125	95	116	110	97

HF= Heritage Foundation
 EF= Economic Freedom

Local newspapers have simply reported the EF Index as if it stands for an objective fact. The unintended consequence is to repeat the Heritage Foundation’s fictitious notion of “economic freedom” and its associated political agendas (such as against the minimum wage legislation) and hegemonic articulations (such as economic freedom is equal to prosperity).

Concluding Remarks

Let me summarize what I have discussed so far: The idea that Hong Kong has been transformed into the “freest economy” in the world and become the ideal model of “free market capitalism” in the last two decades is fundamentally fictitious. This fictitious narration of the rise of the SRM is largely a result of the effective dissemination strategies employed by the advocacy tanks and the mass media, mediated by empty signifiers such as “economic freedom” and “economic man” (as well as “free market”, “laissez faire”, “invisible hand”, and “welfarism”). The emptiness of these terms can be seen

national defense". (<http://www.heritage.org/> ; http://en.wikipedia.org/wiki/Heritage_Foundation)

from the fact that different and even contradictory demands²⁸ are apparently “unified” in these empty signifiers, which are employed by the Hong Kong government and neo-liberal advocates²⁹ to support the radical redistributive project that aims at restoring the power of the upper classes.

The effectiveness of the dissemination of the fictitious notion of SRM is brought about by the changing contemporary context of Hong Kong in which populism prevails. Hong Kong in the last two decades has witnessed an escalation of income inequality, and wealth has been increasingly redistributed from the middle and low income groups to a handful of wealthy businessmen³⁰, transforming Hong Kong into the most polarized city in Asia (*UN Habitat Report 2008*). As a result of the rapid polarisation of society, hope and social demands of the Hong Kong population are increasingly denied. At the same time, the half-hearted democratisation process initiated by the British colonial government since the mid 1980s has produced an escalating expectation of the Hong Kong people for a more democratic system. Yet without endorsement by the PRC government, a truly democratic system cannot be materialised. The unfulfilled desire for a more democratic government and the unsatisfied specific and diverse social demands under the neo-liberalist policies have given rise to the expansion of populist politics. It is in this context that the advocates of neo-liberal doctrines have been able to effectively employ empty signifiers such as “economic freedom” and its “enemy” (“welfarism”) to subsume heterogeneous social demands to the populist demand of neo-liberalism³¹.

²⁸ As Harvey (2005: 21) argues, “enough contradictions in the neoliberal position to render evolving neoliberal practices (vis-à-vis issues such as monopoly power and market failures) unrecognizable in relation to the seeming purity of neoliberal doctrine.”

²⁹ For instance, the government does not hesitate to call the highly concentrated and regulated practices and the oligopolistic structure of the real estate and oil markets as SRM, and to name the relocating government assets to the private monopolies as “privatization”, as well as to describe the mal-practices (such as naming high-risk financial products as “bonds”) as “financial liberalization”.

³⁰ The Gini coefficient in Hong Kong has increased from 0.453 in 1986 to 0.518 in 1996, and further to 0.533 in 2006. Likewise, the ratio of the income between families in the top 10 percent income bracket and the lowest 10 percent was 38 times in 1996, which further increased to 52 times in 2006.

³¹ As I have argued elsewhere, “some of the local social movements have also deployed and reinforced similar populist logic. For instance, the anti-globalisation and anti-neo-liberalism movements have worked on the dichotomy of “grassroots people” and “neo-liberal global forces” and have attempted to establish “globalisation”/ “capitalism”/ “neo-liberalism” (again, empty signifiers) as the common enemy of the “people” (grassroots). With such a common enemy, heterogeneous social demands are “unified” by “grassroots people,” another empty signifier, and a common or populist demand — anti-capitalism/ globalisation/ neo-liberalism — is introduced.” (Hui 2007)

It should now be clear that what Polanyi perceived as the “confusion of [economic] thought” (p.130, 141) and the elasticity of economic liberalism³² are not shortcomings of the classical (and neo-classical) economic discourse but rather reflect the very nature of the empty signifiers whose semantic function is not to convey any positive content but to name “a fullness which is constitutively absent” (Laclau 2005). The idea of SRM is able to flourish and be maintained only through utilizing the “extraordinary intellectual resilience” of market liberalism, or the “vagueness” and “imprecision” of the liberal (and neo-liberal) languages.

Hence, as Block (2001: xxvii) argues, “[t]he creed of market self-regulation thus cannot be discredited by historical experiences; its advocates have an airtight excuse for its failures.” That is to say, the operation of the dissemination of economic liberalism is not based on its intellectual coherence, but instead relies on the functioning of the chosen empty signifiers to affirm “laissez faire” or “free market capitalism” without proof.

As the SRM cannot be unified and represented by logical-conceptual connections, the effectiveness of the liberal hegemonic project requires a radical investment in which the affective dimension plays a critical role (cf. Laclau 2005). It seems that Polanyi was also well aware of the importance of the affective dimension in understanding the dissemination of economic liberalism, as can be seen from the fact that he did not hesitate to name the idea of SRM (or economic liberalism and laissez-faire) as “veritable faith”, or “crusading passion”, or “militant creed”, or “fanaticism”, or “religion” (Polanyi 2001: 141, 143. 145).

To conclude, re-reading Polanyi and Braudel in the midst of the contemporary Hong Kong

³² Economic liberalism’s “apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills...This is the myth of the anti-liberal conspiracy which in one form or another is common to all liberal interpretations of the events of the 1870s and 1880s. Commonly the rise of nationalism and of socialism is credited with having been the chief agent in that shifting of the scene; manufacturers’ associations and monopolists, agrarian interests and trade unions are the villains of the piece. *Thus in its most spiritualized form the liberal doctrine hypostasizes the working of some dialectical law in modern society stultifying the endeavors of enlightened reason*, while in its crudest version it reduces itself to an attack on political democracy, as the alleged mainspring of interventionism.” (Polanyi 2001: 150-151, my emphasis)

context supplemented by the cultural economy approach support the interpretation that the-rise-of-the-SRM-thesis and the “free market = capitalism” formula are basically fictitious, and to grasp the dissemination of economic liberalism (and neo-liberalism in contemporary contexts) by bringing the centrality of culture – representation and identity, as well as the attribute-performative and affective dimensions – back in to the study of political economy. This certainly enhances our understanding of Hong Kong’s past, and subsequently makes possible a more realistic projection on our future.

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