

# ***Public Goods in a Stateless Society: Exploring the Austrian School's Theory Through Kowloon Walled City***

**Zetian Fang<sup>1,a,\*</sup>**

<sup>1</sup>*School of Management, Zhejiang University of Finance & Economics, Hangzhou, Zhejiang, China  
a. 230110730105@zufe.edu.cn*

*\*corresponding author*

**Abstract:** This paper examines the case of Kowloon Walled City, using it as a practical demonstration of the Austrian School's a priori theoretical framework while refuting the mainstream economic view that government intervention is necessary to supply public goods and maximize welfare. Kowloon Walled City, which existed as an anarchic enclave until its demolition in 1993, offers a compelling example of how a community can meet its collective needs—ranging from property protection to social services and sanitation—without governmental oversight. The residents achieved comprehensive satisfaction through voluntary cooperation, fully exercising their rights to person and property. This analysis contributes to the broader discussion of public goods provision, a fundamental source of government legitimacy, and argues that government intervention often proves less efficient than non-intervention, highlighting the relevance of Austrian economic theory in practical settings.

**Keywords:** Austrian School, public goods, Kowloon Walled City, government intervention, protection of private property.

## **1. Introduction**

### **1.1. Background**

In neoclassical economics, public goods are defined as goods or services that are both non-rivalrous and non-excludable [1]. The types of goods vary according to the degree of two properties which means that there is no binary classification of public goods and private goods. Neoclassical economics is committed to the idea that public projects require government investment to improve social welfare. This claim is positivist and imprecise. The Austrian School has a unique a priori theoretical perspective that can test empirical theories and historical explanations. According to its theory, the public goods theory presupposes an ideal state, but this ideal state does not exist in the real world [2], and government intervention will only bring side effects. And only everyone is responsible for themselves, that is, abiding by the Non-Aggression Principle which called NAP which means sanitating or threatening any forceful interference with either an individual or their property or agreements (contracts) is illegitimate and should be prohibited, so that social welfare will be maximized.

## 1.2. Austrian theory of public goods

According to the Austrian School, economic theory is a priori, the conclusion reached by logical derivation based on self-evident axioms that are logically and empirically irrefutable [3]. Therefore, neoclassical economics adopts a hypothetical approach and uses positivist methods to conduct research, and the conclusions drawn are not rigorous. This is the case for "public goods", which are derived from the assumption of externalities and are therefore an imprecise concept. Real-world goods cannot make this distinction. According to the subjective theory of value, "social welfare" cannot be objectively quantified and compared. It can only be deduced from the definition that individuals are responsible for themselves to maximize personal welfare. So, the way to maximize social welfare is also to abide by the NAP. Therefore, it is impossible that government intervention can improve social welfare. The definition of public goods has been changing since the origin of the word. This article adopts a definition that encompasses all definitions: "goods that meet the common needs of people in the community."

## 1.3. Background and reasons for choosing Kowloon Walled City

The Kowloon Walled City is located inside Hong Kong. Due to the special geopolitical background, after the fall of the Qing Dynasty in 1911, neither the Chinese government nor the British colonial government didn't govern it [4]. Until it was demolished in 1993, except for the Japanese occupation during World War II, it was basically in a state of anarchic autonomy. Because it is relatively recent, has a high degree of modernization, and is the prototype of cyberpunk culture, so it is very suitable to study as a real example of the anarchy advocated by the Austrian school. Due to the rapid development that the construction of high-rise buildings of Kowloon Walled City since the 1960s, and abundant documentation, this article chose the period from 1962 to 1993 for research. According to these literatures, in the absence of government intervention and the following of NAP, individual welfare is indeed guaranteed, for example, incidents that damage property rights such as deprivation and plunder will not occur [5].

## 1.4. Research objectives and methods

The purpose of this article is to provide real examples for the Austrian school's views on the supply of public goods. To this end, this article will explore the Austrian school's views on the supply of public goods through a case study of the Kowloon Walled City in the existing literature, point out the errors of mainstream economic theory, and make relevant suggestions for the supply of public goods.

## 2. Case Description

### 2.1. History of Kowloon Walled City

Kowloon Walled City is in the urban area of Hong Kong. When the British colonized Hong Kong in the 20th century, the Kowloon Walled City was not leased to the British because of its special strategic position. China was also unable to exercise actual jurisdiction due to the war, but diplomatically supported the autonomy of the Kowloon Walled City and resisted British takeover intentions. After the founding of New China, the Kowloon Walled City maintained its autonomy until it was demolished in 1993[4]. Therefore, Kowloon Walled City has no government tax collection and low prices [5]. It brings together original residents, mainland immigrants, poor people and fugitives, forming a unique social and economic environment.

## 2.2. The phenomenon of public goods within the Walled City

Some of the usual infrastructure is provided by private individuals, such as postal services; some are provided by Christian churches, such as schools and kindergartens, and services such as drug treatment; and some are not provided, such as environmental protection, because residents have no demand for them. There is a volunteer team to maintain security in the Walled City. Everyone has the same consensus on security - to do things that are mutually beneficial, and those who infringe on property rights (such as stealing) will be intercepted by everyone. The sanitary condition of the Walled City is very poor, with garbage everywhere. Residents have become accustomed to this, and the demand is very small. There are Neighborhood Welfare Association that are responsible for some sanitation, ensuring that water pipes are not clogged, repairing sidewalks, etc. There are 77 wells for water supply [5]. Water is pumped to the roofs through water pumps and then introduced to the users who buy it through pipes by water sellers [6]. Electricity was sneaked in from outside the Walled City and there was no management. Fire hazards are eliminated by everyone [5].

## 3. Analysis on the Problem

### 3.1. Theoretical Analysis of Public Goods Supply

Economics is a discipline that studies how to make people live better. To this end, mainstream economics is committed to abstracting the real world into a mathematical model to calculate the optimal solution that makes people happy. However, mainstream economics ignores the fact that people cannot obtain all the information in the real world, and the decisions and judgments people make about their actions are based on the uncertainty of the real world. This incomplete information cannot be eliminated, and human society make extensive use of unknown information [7]. Therefore, the model abstracted by mainstream economics cannot be restored to the real world, and its solutions always have errors and may even contradict themselves. Only by using prior knowledge can we judge the correctness of these solutions. Mainstream economics assumes that people's preferences can be calculated and defines non-exclusive and non-competitive items as public goods. After its calculation, it is concluded that the market cannot maximize total welfare, and thus opposes complete free trade [8,9]. The error of this theory is because it does not consider that people's preferences are dynamic and cannot be accurately calculated. Although the economic calculations of mainstream economics have a significant positive significance for market transactions, they can only be used as reference information to assist people in making decisions. It is not rigorous to use assumptions as a premise to support the conclusion that the government infringes on the personal or property of others and to believe that this is also the case in the real world. In the real world, there is no natural division of private goods or public goods. There are only general goods, no special goods, and transactions in any case are controlled by supply and demand. Strict and accurate preference calculations can only be obtained through negotiations between two people, and third parties cannot make accurate judgments.

The error of government intervention can also be proved ethically. Private property rights precede any government in both logic and time. Assuming that the existence of the government is legitimate, then the owner or owners of some private property have signed a contract with the government. The content of the contract is to permanently transfer part of their personal or property rights and prohibit others from protecting the transferred rights. This conflicts with the legitimacy of the contract: private property and personal self-ownership [3].

To sum up, there is no legitimacy for government intervention in the supply of public goods, and it itself has administrative costs. Therefore, government intervention in the supply of public goods must be a less efficient method than the market in providing public goods.

### 3.2. Kowloon Walled City Case Study

The Austrian school's prior knowledge can be used to explain the phenomenon of Kowloon Walled City, while the intervention conclusions of mainstream economics cannot. In Kowloon Walled City, there is no forced intervention by a third party. According to residents, the public security in the Walled City is "better than outside the Walled City", and they hope to live in each other's happiness rather than inflict pain on each other. According to the original residents, "although many people hide in the Walled City to commit crimes, they will not harm people living in the Walled City; the neighbors know each other, so there are few robbers in the Walled City, and there is no robbery." "No one charges us protection fees, and no one steals or robs [5]." There is a volunteer team to maintain public security in the Walled City, and everyone has the same consensus on public security - only by doing mutually beneficial things can the efficiency of social operation be maximized, and those who infringe on property rights (such as theft) will be blocked by everyone. Such rules based on "recognition by everyone" are relatively smooth to implement and have low regulatory costs and are much more restrictive than laws. People may have the intention to violate the law, but they will not have the intention to violate their own morality.

As a classic social work and public service, the church was opened in the heart of the Walled City for a small number of Christians. It usually carried out social work, such as helping immigrants find their relatives. The Salvation Army opened schools and kindergartens here. In the mid-1960s, a British Christian established a youth club here to help drug addicts quit drugs and provide services for homeless people. He continued to work in Hong Kong after the Walled City was demolished. The Neighborhood Welfare Association of Kowloon Walled City is a social service organization, but it is a market product rather than an administrative product. It was originally established because the Kowloon Walled City resisted the demolition launched by the British and Hong Kong side in 1962 and defended against the violent actions launched by the British and Hong Kong side. The main source of income for the Neighborhood Welfare Association is property sales. People can purchase a house and obtain a title deed by paying a contract handling fee of 200 yuan. The Neighborhood Welfare Association will take care of other matters, their monthly income is about 2,000 to 3,000 yuan. In addition, the work content mainly includes welfare, hygiene, ensuring that water pipes are not blocked, repairing sidewalks, etc[5].

It is precisely when everyone can exercise full rights over their own person and property that the residents of Kowloon Walled City united as one and obtained the optimal solution for everyone's choice. Everyone's urgent need for public security is adequately supplied, and the demand for sanitation is very small, so the supply is also very small. The conclusion of mainstream economics that government intervention in public goods can maximize public interests cannot explain the phenomenon of the good life of people in Kowloon Walled City.

### 3.3. A detailed explanation of the "dirty, messy and poor" situation of Kowloon Walled City

For Hong Kong people, when it comes to Kowloon Walled City, the general impression is "dirty, messy and poor", but this cannot deny the positive side of Kowloon Walled City. "Dirty" (unsanitary) is the intuitive judgment of a third party. For the residents of Kowloon Walled City, they do not think that the phenomenon of Kowloon Walled City with garbage everywhere and stench is intolerable. On the contrary, residents have long been accustomed to it, and there have been no large-scale infectious diseases due to poor hygiene. Therefore, even if there is a demand for cleaning up garbage, residents will not choose to spend money to buy cleaning services because the cost of buying cleaning services is greater than the expected benefits of cleaning but choose to clean up by themselves or not. If government intervention is introduced, residents will bear more burdens than buying cleaning

services. "Dirty" is accepted by residents, so residents stay here; if they do not accept it, they will not stay in Kowloon Walled City.

"Chaos" refers to the "lawless elements" hidden in Kowloon Walled City [10], but breaking the law is in terms of Hong Kong law. Since Kowloon Walled City is an anarchic area without legal constraints, the legitimacy of people's behavior can only be examined from the perspective of the NAP. In Kowloon Walled City, "criminals" lived together and were clearly separated from ordinary residents; "illegal" organizations such as the Triads did not rob residents. On the contrary, residents in Kowloon Walled City believed that the security inside the Walled City was better than outside the Walled City.

In summary, the "badness" of Kowloon Walled City is based on the perspective of modern society. Since Kowloon Walled City, itself has a small population and small capital, it cannot be better than modern society in terms of livability.

#### 4. Suggestions

Before providing effective suggestions for the supply of public goods in modern society, it is necessary to examine the connection between Kowloon Walled City and modern society. Kowloon Walled City had very little communication with the outside world, a small population, and a simple structure. The supply of public goods was also relatively simple, that is, it was implemented by specific familiar individuals or a single organization that residents trusted. The structure of modern society is large in number and complex in structure. A single specific individual or organization generated by a simple society cannot meet the needs of a complex society. Therefore, the supply of public goods by private individuals or enterprises also arises, and competition between institutions occurs. However, regardless of the supply method, the fundamental principle is that individuals exercise full rights to their own person and property, that is, abide by the NAP.

The most basic common need of people in a community is the protection of their personal and property. In the simple structure of Kowloon Walled City, the volunteer team provides security services on the basis of everyone protecting their personal and property safety. When society becomes complex, private individuals and companies will provide security in the market competition. Such companies are usually called insurers.

Insurers provide protection and compensation services. Based on the principle of non-aggression, we can get the following characteristics of the insurance system generated by market transactions. The most basic market operation mode is that the better the protection of the insured property, the lower the damage claim and the lower the cost; as insurers compete for customers, prices tend to fall, which achieves a normal virtuous cycle in the market. To gain the trust of customers, it is necessary to have sufficient ability to deal with risks to fulfill its promises, otherwise no one will buy its products, which will lead to the company's bankruptcy. There are also restrictions on the insured objects. To ensure the stability and trust of the insurance system, insurers will not accept insurance applications from anyone who intends to infringe on the person or property of others. Compared with insurers using contracts and constant laws, there is no legislation. Changes in contract terms and conditions require the joint consent of multiple parties. Competitive insurance systems will increase the flexibility and variability of laws as product differentiation and after-sales competition and reduce conflicts. Different insurers will launch different legal systems for different groups. Ultimately, a security system will be established in which individuals have sufficient defense power while insurers provide further security [3].

For the insured, the following constraints can also be inferred from the non-aggression principle. Risks whose consequences are wholly or partially controlled by oneself cannot be insured, and attacks and invasions provoked by the victim cannot be insured. For example, if someone cannot get out of bed in the morning and delay work, this unconditional and comprehensive insurance can only be



provided by himself, that is, he must be responsible for himself. Accidents can be insured. Protection becomes an insurable commodity only when the insurers restrict the insured's behavior by contract to exclude the insured's provocative behavior. The definition of provocation varies from insurers to insurers, but the principle of prohibiting aggressive behavior is unified. Those who want to get more protection than they can get through self-defense must voluntarily abide by the non-aggression principle and more specific legal and moral standards [3].

When there is a disagreement between the insurers and the insured, there is a need for arbitration. The arbitrator is independent of the insurers and the insured and provides arbitration services when there is a disagreement between the insurers and the insured. The relationship between the arbitrator and the insurers is also governed by a contract. The arbitrator is jointly selected by both parties and is therefore trusted by both parties. If the arbitrator does not provide a solution that satisfies both parties and is considered to have lost trust in the arbitrator, then this person will no longer be selected as an arbitrator [3].

In Kowloon Walled City, due to the small population and economic isolation from the outside world, the division of labor and cooperation at the social level is relatively simple, but it is still based on the principle of non-aggression. Individuals have their own defense power, and a volunteer team dedicated to defense forms a security system. However, due to the lack of division of labor and cooperation, there are many shortcomings in Kowloon Walled City. The direct cause of the dirtiness is that people pile up garbage and debris everywhere, factories discharge them at will, and no one cleans them up effectively, no one organizes the cleaning, and no one organizes the purchase of cleaning services. Although people pay special attention to fire hazards and urge each other to make the Walled City with no safety standards almost never have fires, they still happen. The direct cause of the fire cannot be verified, and there are no casualties, but the safety hazards brought by densely packed houses that do not follow safety standards cannot be ignored. Without the help of the power company, there are serious safety hazards of illegally stealing electricity from outside the walled city and pulling wires randomly, and fires have occurred. This safety hazard that threatens life and property should be regarded as a problem. The most fundamental reason for poverty is insufficient capital. The fact that Kowloon Walled City has achieved a modern standard of living with a population of about 30,000 is enough to illustrate the superiority of market operation without intervention. Therefore, if Kowloon Walled City wants to develop upward, it needs to increase economic exchanges with the outside world and promote market division of labor and cooperation.

## 5. Conclusion

In the anarchy of the Kowloon Walled City, the supply of public goods is abundant, and people live happily, which cannot be explained by the neoclassical theory that the government should intervene in the supply of public goods. Through theoretical analysis, this paper concludes that government intervention in the provision of public goods is not justified and will harm people's happiness and points out that abiding by NAP and taking full responsibility for one's own person and property can greatly improve people's happiness. Through case analysis, the theory of the Austria School is revealed in the case of the Kowloon Walled City. This paper provides the Austria School with realistic evidence of people's higher happiness under non-governmental intervention, further refutes the theory of government intervention in the economy of neoclassical economics and brings more discoveries to the theme of public goods. There are still the following limitations in this paper: since there are only documents left in the Kowloon Walled City for research, it is not possible to conduct targeted research and investigation through field investigations. At the same time, there has been no government intervention in the modern Kowloon Walled City, so it is impossible to make an effective comparison, so that the specific process of government intervention affecting people's happiness cannot be revealed.

## References

- [1] Qing Han. (2022) *A Study on the Evolution of Western Public Goods Theory*. Central University of Finance and Economics.
- [2] Haijiu Zhu. (2021) *The Real Market - From the Perspective of Action and Rules*. Shanghai. SDX Joint Publishing Company.
- [3] Hans-Hermann Hoppe. (2001) *Democracy: The god that failed*. New Brunswick, N.J.: Transaction Publisher.
- [4] Edited by Guangdong Provincial Archives. (2007.11) *Selected Historical Materials from the Kowloon Walled City Archives in Hong Kong*. Beijing. China Archives Press.
- [5] Greg Girard, Ian Lambot. (2015) *City of Darkness: Day and Night in the Kowloon Walled City*. Hong Kong. Chung Hwa Book Company (Hong Kong) Limited.
- [6] Barrie Shelton, Justyna Karakiewicz, Thomas Kvan. (2013.5) *The Making of Hong Kong: From Vertical to Volumetric*. Beijing. Publishing House of Electronics Industry.
- [7] Friedrich August von Hayek. (2022) *Law, Legislation and Liberty*. Beijing. Encyclopedia of China Publishing House.
- [8] Zhiming Liu. (2006) *The theory of public goods as the basis of government economic activity – reflections of the Austrian school*. *Journal of Hubei University of Economics* (05):28-33.
- [9] Zhiming Liu. (2002) *Microeconomic Intervention: Theoretical Basis and Institutional Boundaries*. South China Normal University
- [10] Jin lu. (2002) *History of Kowloon Walled City*. Hong Kong. Joint Publishing (Hong Kong) Company Limited.