Citation

Nationalization as Privatization in Reverse: Understanding the Nature of the Commons to Identify a Possible Point of Optimal Nationalization.

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Abstract:
        The ongoing implementation of liberal privatization policies despite open and increasingly generalized social discontent, especially in developing countries, is leading to the search for efficient ways to counteract it. The Soviet Union disintegrated in 1991 while resisting privatization pressure; and to avoid the same outcome, China took more concrete steps soon after the Soviet Union's collapse going beyond those taken in 1978 to move from a system of full nationalization to allow slowly more and more controlled privatization. This is a policy that continues today, which appears to suggest that the search for optimal levels of nationalization in China is ongoing right now to ensure over all system sustainability. The 2007-2009 financial crises affecting western countries including the United States showed that fully uncontrolled markets can lead to system collapses too; and steps are being taken to ensure the existence of more controlled private forces.
        However, no much is written about the possible relationship between privatization and nationalization processes and the possible existence of optimal levels of nationalization. The main goal of this paper is to introduce new ideas, concepts, and analytical tools related to the commons under different pressures, which can be used to frame a possible point of optimal nationalization.

Introduction

a) Defining the commons
        The commons is a term that has been usually used to describe the pool of resources that belong to the public domain. In other words, the commons is a public asset, either under specific, but unclear use or under communal use. When the commons is under specific use and unclear access controls, the commons is bound to experience the

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tragedy of the commons(Hardin 1968) as rational actions or individuals would lead to its destruction. When the commons is under communal use and clear access controls, the commons is bound to be nurtured, up kept, and protected(Rowe 2008), as again rational actions or individuals would lead to what the author calls "The happy commons".

b) The commons and conservative policy

In general, a conservative policy is directed at maximizing the allocation of the commons for social use in egalitarian ways and minimizing its privatization. The allocation of the commons to social use is not based on how much income/resources the individual or group has, but on the individual/group's right to access public resources to maximize social welfare and stability. Hence, social protection or social issues are of paramount concern. For example, social concerns have traditionally been the driving force behind the search for equity in access to land in Latin America(Muñoz 2001).

This conservative approach is usually called the welfare state model, which uses distribution mechanism outside the market to achieve social harmony and avoid too rich, too poor power struggles. The egalitarian role of the conservative state is not an easy one, redistributive policies such as land reforms are difficult to implement and sustain unless there is a very strong political will and a very strong technical and non-technical grassroots organization(Adams(1995).

Hence, the central theme of this conservative state development approach is the notion that the author calls "Nobody is left behind" mode of government action. However, public assets under the conservative policy of the commons are under constant pressure from private forces as they are not nationalised public assets, just public assets under communal and non-communal uses; and therefore, they are not outside the market's domain. For example, the wave of land reforms promoted by the World Bank in developing countries including in Colombia since the 1990s were done through market based approaches(González and Lopez 2003) as market mechanisms are supposed to be more efficient than non market approaches in redistributing land, in particular, and the commons, in general. So as long as public assets are not nationalized they will be under the pooling influence of privatization pressures.

c) The commons and liberal policy

The liberal policy aims at minimizing the use of the commons for social use and maximizing its privatization. This is usually known as the liberal market model that is expected to sooner or later trickle down and based on perfect market assumptions. The allocation of the commons to private use is then based here on how much income/resources the individual or group has as it is implemented through the free market. Kelly(2006) points out that the conversion of the commons to private use in the USA intensified during the 1980s when the Reagan administration endorsed this policy as an efficient policy; and it was spread all over the world by institutions like the World Bank and the International Monetary Fund. However, it was stressed recently that the perfect market under sustainability requirements is not sustainable(Muñoz 2001).

The central theme of this liberal state development approach is the notion that the author calls "Only a few will be better off" mode of government action. It is a fact, the rich are getting richer and the poor are getting poorer and governments are increasingly less able to meet the goal of "nobody is left behind" as the expected

assumption of trickle down associated with privatization programs mentioned above has not materialized yet. It was pointed out recently that the Embudo Effect explains why the rich are getting reacher under liberal agricultural policies implemented under extreme inequality conditions(Muñoz 2009) as then the trickle down assumption does not work; and hence the Embudo effect allows most benefits to accrue to the rich.

As privatization approaches the point of full privatization, social issues and goals will most likely not be met as whole states can be paralysed when corporate or immense market forces are not allowed to go the way they want to go. Ramonet(1998) pointed out that as corporate mergers get bigger and bigger they have the cloud to transform countries into dwarf states and behave practically as they wish. Hence, without nationalization or limits, the public system will tend towards the full privatization model in the long-term.

d) The commons, non-optimal nationalization and non-optimal privatization policy

It seems that up to today, nationalization policies and privatization policies have been used or implemented with no optimal goals as guiding principles, which in the long-term leads to excesses and waste.

i) Non-optimal nationalization policy

Nationalization policy has been used as a non-optimal reactive, counter privatization policy to ensure social protection from uncontrolled capitalism instead of as a proactive optimal policy to ensure effective social protection while encouraging controlled capitalism. For example, the two main uses of nationalization policies under the banner of social protection are: 1) To protect remaining public assets from market forces or creeping development; and 2) To revert key private assets to public use. For example, Gordon(2006) indicates that the 2006 nationalization of oil and gas industry in Bolivia was implemented under the goal of recovering state property and control; and therefore, as a reactive, specific sector counter privatization policy

And hence the goal of nationalization, if there is one, is social protection, not optimal social protection. Nationalization actions are taken without a clear idea of how much social protection is efficient protection. Nationalization beyond the optimal point would lead to excess nationalization and waste. The author believes that how much of the commons is nationalized should be based on how much of the commons is needed to be under public use to meet national social goals/welfare; and that once that nationalization point is reached, the rest of the commons should be in private hands.

ii) Non-optimal privatization policy

Privatization policy has been used as a non-optimal active, counter welfare state policy to ensure individual protection from an over controlling state instead of as a proactive optimal policy to ensure responsible capitalism and ensuring effective social protection. For example, the two main uses of privatization policies under the banner of efficiency are: 1) To open up remaining public assets to market forces; and 2) To promote a culture or need of more and more maximization or growth is better. For example, the Commission on Growth and Development released a report with the aim of

spreading the culture of more sustained growth is needed to push developing countries out of their development shortcomings(TCGD 2008).

And hence the goal of privatization, if there is one, is uncontrolled capitalism, not responsible capitalism. Privatization actions are taken without a clear idea of how much capitalism will hinder efficient social protection. Privatization far away from the optimal point would lead to excess capitalism and waste. The author believes that how much of much of the commons is privatized should be based on how much of the commons needs to be left out under public use to meet national social goals/welfare; and that once that privatization point is reached, the rest of the commons should be nationalized.

iii) In summary:

There is a need to avoid excess nationalization and to avoid excess capitalism, and to create a nationalization policy guided by the search for optimality or efficient social protection. Such an allocation of the commons to public use would be an optimal allocation as it would allow meeting social/public goals while still permitting some controlled, but efficient privatization. In other words, an optimal nationalization point would be the one that meets social goals while allowing controlled private forces to exist.

e) The commons, full nationalization, full privatization, and sustainability

Sustainability suggest that full nationalization and full privatization processes will backfire in the long-term as they work outside sustainability principles. Full nationalization leads to state/bureaucratic self-interest excesses; and full privatization drives towards individual/corporate self-interest excesses, which through time can lead to the system demise and/or model realignment, as detailed below.

i) The case of full nationalization

The recent history of the commons under unrestricted full nationalization in the Soviet Union appears to indicate that full nationalization will be unstable in the long-term as it creates operational inefficiencies, which without a private option are perpetuated. It can be said that the Soviet Union era lasted about 74 years, it started with the Russian revolution of 1917 and ended with its dissolution in 1991. It resisted the opening of doors to privatization until almost the end, when it was cash empty and short of food. Gaidar(2007) points out in relation to the Soviet Union's collapse the following: a) that the Soviet Union leadership ignored advice provided by key advisers in the late 1970s on the option to introduce privatization in the lines of that in China and so keeping stability and control, but they decided to follow a different route; and b) that the collapse could be understood simply by a story of grain(scarcity) and oil(mismanagement and unpredictable revenue).

By discouraging privatization and competition and working beyond the optimal level of nationalization, the Soviet Union allowed the increasing accumulation of widespread state/bureaucratic financial, production, and resource use inefficiencies across the commons creating in the process, what the author calls in this paper, "excess nationalization, social welfare waste, and privatization deficits", which rendered the system in the end politically unstable.

In other words, the unrestricted socialist program implemented by the Soviet Union operated under excess nationalization, social welfare waste, and privatization

deficits, which long term led to a system breakdown. Then, the quick privatization that followed the break up of the Soviet Union helps us to see the social instability and health implications of privatizing all state assets too fast. Stuckler et al(2009) found in a study of massive and quick privatization and health issues in former members of the Soviet Union that fast and huge national privatization programs have a significant impact in adult mortality trends.

China on the other hand, started to allow privatization in the late 1970s in a very slow fashion, and it apparently quickly learnt the lesson from the experience of the Soviet Union described above to maintain political stability: i) The need to avoid social welfare waste; ii) The need to bring in controlled privatization below national level by allowing private forces to set up shop and access assets of local or provincial relevance; and iii) The need to bring change in slowly. Hence, right now the Chinese system is slowly moving away from full nationalization and in that way maintaining political stability. Cao(2000) points out the following: a) That since 1978 China has an open door policy towards international capitalism; b) That privatization in China has been planned to take place first, not in the state sector, but in a lower parallel sector acting as a social cushion with the possibility of later privatizing the state sector if all goes well; and c) That China has planned to implement capitalism through a socialist market.

Hence, the rise of privatization in China can be said to be a locally oriented slow process driven by a market under the spell of social goals. In other words, China has planned the slow introduction of capitalism in the sectors below national or state relevant assets to maintain stability and insulate the state sector from expected or unexpected initial changes or shocks. Breslin(2004) points out the following about the Chinese move towards capitalism: a) That China created a primitive state controlled hybrid system where a state public system and a non state, often local, private system now exist side by side; and b) That the process towards privatization has gone through three periods: policy reformulation period(1978-1984), Old system abandonment period(1984-1994); and the macro economic tunning period(1994-to now).

See then that the private market in China is controlled by the state; and that China's period of old system abandonment(1984-1994) coincides with the period of downfall and break up of the Soviet Union(1985-1991). And this indicates that China took into account the political instability leading to the break up of the Soviet Union; and the fast privatization implemented by its former members after the break up when deciding to take further steps towards more controlled capitalism.

And currently, the experiences of the Soviet Union and of China with privatization are facts that perhaps are putting pressure on other countries under full nationalization such as Cuba to allow some type of controlled privatization too and move away from full nationalization. Tamayo(1996) reported that privatization was already taking place in Cuba under official denials; THJ(2007) reported the expectation among participants in a panel discussion about the future of Cuba that Cuba was on the way to the free market economy; and TBI(2008) reported that Raul Castro is expected by observers to lead Cuba through a slow privatization process similar to that in China

And perhaps, the experiences of the Soviet Union and that of China with privatization are lessons that current governments such as those of Venezuela and Bolivia should take into account to start thinking about nationalization policy from the optimal point of view, not based on the old reactive model, to achieve efficient social protection

and controlled, but efficient privatization. It has been reported that nationalization policy is sweeping Venezuela under President Hugo Chávez(Ingham 2007) with more intensity. Hults(2007) points out the following: i) That nationalization started in Venezuela 1975, when then-president Carlos Andrés Pérez expropriated assets from private oil companies and created the state company Petróleos de Venezuela, S.A; and ii) That nationalization pressures intensified when President Hugo Chávez won election in 1998 as when entering office in 1999, he began implementing policies aimed at taking control of this state company to support nationalization's aims. Now, nationalization in Venezuela has spread to other sectors in the oil industry such as oil service contractors(Arostegui 2009) and to other sectors of the economy such telephone, electricity, and now banks(Simon 2009).

On the other hand, it has been stated that the election of Evo Morales as president of Bolivia in 2006 has been taken by observers and investors as another sign that Latin America is going left, increasing the nationalization risk(Zissis 2006); and that the 2006 nationalization of the Oil and Gas sector in Bolivia is the third out of four nationalization attempts since 1936 in the same industry(Jova 2006).

ii) The case of full privatization
The recent history of the commons under unrestricted full privatization and globalization in the USA and other developed countries appears to show that full capitalism will be unstable in the long-term too as privatizing the commons above and beyond what is needed to meet social/state goals or far away from the optimal level of nationalization brings in long-term unsustainability. The recent financial crisis exposed the need to make capitalism a socially responsible and accountable system and move it away from its irresponsible past. Mcintosh(2010) pointed out in his foreword piece of "Capitalism in Question" with the financial crisis in the background the following: 1) That economic governance needs a big overhaul; 2) That the model of economic growth itself has now fallen into question; 3) That a model that provides both private and public benefits at the same time is now desirable; and 4) Then we can have a society that is sustainable.

Hence, free capitalism is leading to the increasing accumulation of widespread individual/ corporate self interest excesses or inefficiencies across the commons, creating in the process, what the author calls in this paper, "excess capitalism and social welfare deficits", which are capable of rendering the system in the end politically unstable and lead to system breakdown and/or realignment. Truman(2009) pointed out four types of possible causes behind the 2007-2009 financial crisis: 1) macroeconomic shortcomings; 2) regulatory shortcomings; 3) abuses in promotions of new and little understood financial instruments; and 4) abuses in exposure or risky behaviour, but he felt that in his view macroeconomic and regulatory failures were at the heart of it. However, IBT(2010) reported in January 2010 that Mr. Lloyd Blankfein, Goldman Sachs CEO, blamed excess credit and excess liquidity as the main drivers of the financial crisis when addressing The USA Financial Crisis Inquiry Commission. Notice that all of those causes are in one sense or another excesses which are expected under full capitalism so it can work as efficiently as those financial officers expected it to be, but they underestimated or did not care about the social pain and flashback associated with it.

Apparently, the USA and other developed countries have quickly learnt the lesson from the excesses described above, the need to avoid unrestricted capitalism and to avoid the presence of social welfare deficits to maintain political stability as they have recently taken coordinated leadership in implementing regulatory measures that will avoid corporate/individual excesses and that will achieve more predictable social protection. President Obama is planning to take action right now on limiting the activities and size(WH 2010) and the risk taking behaviour(TWSJ 2010) of banks. Hence, right now the USA system is in the process of slowly moving away from full unrestricted privatization towards more controlled privatization and maintaining that way political stability. The European Union has been coordinating regulatory and crisis recovery actions with the USA since 2008 when the EU leadership called for the realignment of the international financial framework(EC 2008); and right now they are pursuing an ongoing coordinated response to seeking tighter financial rules within their borders and internationally to address now well-known system flaws(EC 2010).

And currently, the experiences of the USA and other developed countries with unrestricted privatization are facts that perhaps are putting pressure on other countries, especially developing countries around the world to control more closely their local privatization programs and speed; and move away from local unrestricted privatization programs as they do not have much control over the forces behind international capitalism. Soon after the financial crisis stroked in 2007, the World Bank moved to point out the high vulnerability developing countries, especially the poorest ones, have when facing an international financial crisis that is not of their making; and it challenged policy makers, among other things, to take actions to address their financial crisis in a way that do not push developing countries to worse development conditions than before the crisis(TWB 2008).

iii) In summary:

Historical facts appear to suggest that full nationalization scenarios and full privatization scenarios do not meet the true sustainability test in the long-term, that where social, economic and environmental values can be conjuncturally met; and therefore, they should be avoided. This suggest that if sustainability is the goal, the aim is then to find an optimal level of nationalization, the point where social goals are met and excess privatization avoided; and therefore, there is a need to avoid processes of full nationalization and of full privatization.

The need to identify conditions leading to optimal nationalization policies

Hence, nationalization policy and privatization policy have been used as non-optimal opposing tools, not as optimal tools for effective social protection. Yet, no much is written about the relationship that may exist between privatization processes and nationalization processes; and about the nature of possible optimal levels of nationalization, levels where social/public goals are achieved while providing some room to efficient private forces. This papers intends to share some ideas on the issues mentioned above.

Goals of this paper

The main goals of this paper are: a) To show that nationalization can be understood as privatization in reverse; b) To point out how these ideas can be arranged in a way that it is possible to point out a possible level of optimal nationalization; and to highlight the consequences of operating short or beyond of it; and c) To use the framework mentioned above to capture the process by which China is right now slowly moving away from full nationalization and going towards the optimal nationalization point; and to stress the implications of this.

Methodology

First, the qualitative comparative terminology used in this paper is listed. Second, some operational concepts relevant to the presentation of the ideas in this paper are introduced. Third, a commons variability model is presented, which allows to point out the nature and especial characteristics of the different types of commons consistent with it. Fourth, the notion that there can be four different levels of privatization is pointed out. Fifth, the inverse idea that there can be four different levels of nationalization is discussed.

Sixth, a framework that allows us to visualize the nature of a possible optimal level of nationalization both using a general asset and a specific asset inversegram is shown. Seventh, the optimal framework above is used to show how China, by slowly allowing some levels of privatization, is moving toward a point of optimal nationalization right now. Eight, some general implications that can be extracted from the ideas discussed above are highlighted. Finally, some relevant specific and general conclusions are provided.

Terminology

The qualitative comparative terminology used to present the main ideas in this paper are listed in Table 1 below.

Table 1

C = The commons	c = There is no commons
G = Public use exist	g = no public use exist
P = Private use exist	p = no private use exist
M = Compromised use	M* = Optimal compromise use
FP = Full privatization	FN = Full nationalization
N = Assets of national relevance	L = Assets of local relevance

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Operational concepts

a) Inversegram: refers to a diagram used to present or represent opposite processes.

b) Representing the commons as a rectangular general asset inversegram
      The commons(C) can be represented by a rectangular object or cake made up of assets under inverse uses, public use moves from left to the right; and private use moves from right to the left, as shown by the arrows in Figure 1 below.
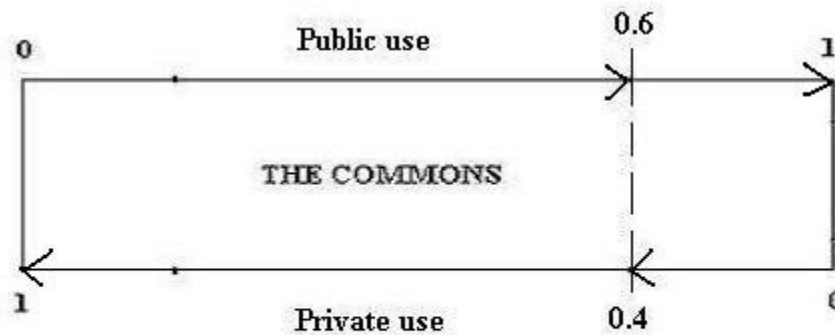

Figure 1 The general asset inversegram reflecting the commons under
        public use and private use pressures.

      The inversegram in Figure 1 above allows us to see that the commons(C) can be envisioned as a rectangular figure or cake that can be divided among different uses such as public use(G) or private use(P) or compromised uses(M).

i) Public use(G): When the commons is being used to meet social goals it is said to be in public use. Figure 1 above shows, as indicated by the arrow at the top moving left to right, that public use of the commons(C) can vary from zero to one or from nothing to 100%. When public use is zero($G = 0$), then the commons is totally privatized or there is full privatization(FP).
      When the public use is one($G = 1$), then all the commons is in a fully totalitarian state or there is full nationalization(FN). When public use is between zero and one($0 \leq G \leq 1$), the commons is in a mixed use state.

ii) Private use(P): When the commons is being used to meet private goals it is said to be in private use. Figure 1 above also indicates as shown by the arrow at the bottom moving right to left, that private use can vary from zero to one or from nothing to 100% too. When private use is zero($P = 0$), then the commons is totally in public use or there is full nationalization(FN).

When the private use is one(P = 1), then all the commons is in a fully private state or there is full privatization(FP). When private use is between zero and one(0 ≤ P ≤1), the commons is in a mixed use state.

iii) Compromised use(M): When the commons is in a mixed used state, it is said to be in a compromised use(M). When the portion of the commons in public use related to the portion in private use is bigger, we have a public use-dominated mixed use or public use-dominated compromised use. When the portion of the commons in public use related to the portion in private use is smaller, we have a private use-dominated mixed use or private use-dominated compromised use.

For example, it can be seen in Figure 1 above that if the commons or cake is cut as indicated by the broken line in such a way that 0.6 of the commons is in public use and 0.4 of the commons is in private use, then we have a public use-dominated mixed or compromised state in this case.

c) Optimal nationalization point(M*): refers to the nationalization point where social/public goals can be met while allowing efficient levels of privatization at the same time. It is an optimal point of compromised use. Nationalizing after this optimal point leads to nationalization inefficiencies or waste; and nationalizing short of this point leads to nationalization deficits, both of which are sources of system unsustainability. In the long-term, as they accumulate, they can even lead to system collapse.

d) Representing the optimal nationalization of the commons through the general asset inversegram
If we assume that the optimal nationalization level is found at point M*, as shown in Figure 2 below, then we can use it to introduce the following concepts:

i) General asset optimal compromise use: is the level of public use and the level of private use that meet at the point of optimal nationalization(M*). Operating to the right or left of M* is not optimal. The further away we operate from optimal M*, be it right or left, the more unsustainable it is expected to be in the long-term, as these would be non-optimal levels of nationalization. Point M* can be appreciated in Figure 2 below.

ii) General asset social welfare waste: represents the inefficiencies that accrue or accumulate when operating at levels of excess nationalization found at any point to the right of M*. Social welfare waste can be partial or total. For example, point T in Figure 2 below represents a point of full nationalization; and therefore, it is a point of total social welfare waste(section "a" and "b") while point Q shows a place of partial welfare waste(section "a") as it is somewhere between optimal(point M*) and total(point T) nationalization.

iii) General asset excess capitalism: refers to private use of assets beyond the optimal point of nationalization(M*), it can be partial or total. For example, we can see in Figure 2 below that the private use to the left of point M* represented by section "e" is partial excess capitalism while operating private use at point W would be total excess capitalism.

iv) General asset Social welfare deficit: refers to the situation where nationalization stops to the left of the optimal point of nationalization(M*) leading to a situation where it is not possible to fully meet the social goals. For example, we can see in Figure 2 below that if we operate at point K, and therefore to the left of M*, then we would have the social welfare deficit represented by section "f".

v) General asset capitalism deficit: refers to the situation where we have excess nationalization. For example, we can see in Figure 2 below that if we operate at the point of excess nationalization T, we have a privatization deficit represented by sections "d" and "c"; and if we operate at point Q, then we have a capitalism deficit represented by section "d".

vi) General asset Soviet Union effect: refers to the expected system breakdown that results from operating at the point of full social welfare waste or point T in Figure 2 in the long-term. This effect may explain why the Soviet Union broke down under full excess nationalization and total privatization deficits.

vii) General asset full privatization effect: refers to the expected system breakdown that results from operating at the point of full excess capitalism or point W in Figure 2 in the long-term. This effect may explain why the financial system broke down recently under full excess capitalism and total social welfare deficits.

viii) General asset principle of inverse action: If the road from full capitalism to full nationalization is fast to ensure system stability, then road from full nationalization to privatization should be slow, to remain stable.
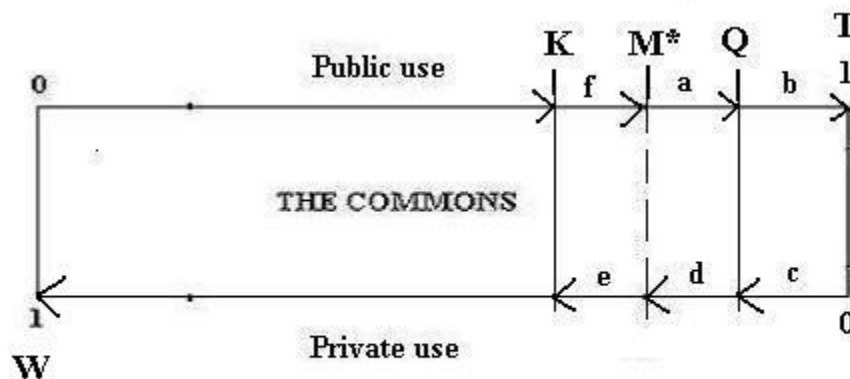

Figure 2 Optimal nationalization(M*) under the general asset inversegram.

e) Representing the commons as a rectangular specific asset inversegram
    The commons(C) can also be represented by a rectangular object or cake made up of assets of national(N) and local(L) relevance under inverse uses nationalized use and privatized use as shown in Figure 3 below:
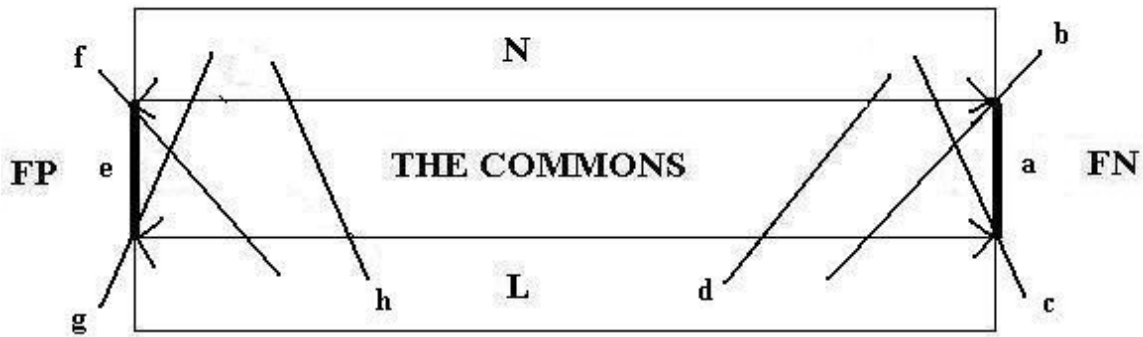
Figure 3 The specific asset inversegram reflecting the commons under nationalization and privatization pressures on assets of national and local relevance.

Figure 3 above allows us to see that the commons(C) can be envisioned as a rectangular figure or cake that can be divided among different uses such as full privatized use(FP) or full nationalized use(FN) or compromised use(M) of assets of national(N) and local relevance(L).

i) Asset specific full nationalization(FN):
Figure 3 above allows us to see the following: Line "a" indicates that all assets, national(N) and local(L), are nationalized; Line "b" shows that all national assets(N) are nationalized and some local assets(L) are privatized; and Line "c" demonstrates that some national assets(N) are privatized and all local assets(L) are nationalized;

ii) Asset specific full privatization(FP)
Figure 3 above lets us appreciate the following: Line "e" indicates that all assets, national(N) and local(L), are privatized; Line "f" shows that all national assets(N) are privatized and some local assets(L) are nationalized; and Line "g" demonstrates that some national assets(N) are nationalized and all local assets(L) are privatized;

iii) Asset specific compromised use(M)
Figure 3 above permits us to point out the following: Lines "d", "b", and "c" represent three different types of nationalization-dominated compromised use; and that Lines "h", "f", and "g" represent three different types of privatization-dominated compromised use.

f) Representing the optimal nationalization of the commons through the specific asset inversegram
If we assume again that the optimal nationalization level is found at point M*, as shown in Figure 4 below, then we can use it to restate the following concepts:

i) Specific asset optimal compromise use: is the level of public use and the level of private use of national and local assets that meet at the point of optimal nationalization(M*). Operating to the right or left of M* it is not optimal and the further

away we operate from optimal M*, be it right or left, the more unsustainable we expect it to be in the long-term. Point M* can be appreciated in Figure 4 below.

ii) Specific asset social welfare waste: represents the inefficiencies that accrue or accumulate when operating at a level of excess nationalization of national and local assets as found at any point to the right of M*. Social welfare waste can be partial or total. For example, line T in Figure 4 below represents a point of full nationalization of both national(N) and local(L) assets; and therefore, it is a point of total social welfare waste in assets of national relevance(N) as shown by section "a" and of assets of local relevance(L) as indicated by section "b" while any point of compromised used between M* and T would show a place of partial welfare waste in national and local assets.

iii) Specific asset excess capitalism: refers to private use of national(N) and/or local(L) assets beyond the optimal point of nationalization(M*), it can be partial or total too. For example, we can see at point K in Figure 4 below that the private use to the left of point M* of national assets(N) as represented by section "d" and of local assets(L) as indicated by section "c" is partial excess capitalism while operating private use of national(N) and local(L) assets at point W would be total excess capitalism.

iv) Specific asset Social welfare deficit: refers to the situation where nationalization of local(L) and national assets(N) stops to the left of the optimal point of nationalization leading to a situation where it is not possible to fully meet the social goals. For example, we can see in Figure 4 below that if we operate at point K, and therefore to the left of M*, then we would have the social welfare deficit in national assets(N) represented by section "d"; and a social welfare deficit in local assets(L) indicated by section "c".

v) Specific asset capitalism deficit: refers to the situation where we have excess nationalization. For example, we can see in Figure 4 below that if we operate at the point of excess nationalization T, we have a privatization deficit in national assets(N) represented by section "a"; and a privatization deficit in local assets(L) indicated by section "b".

vi) Specific asset Soviet Union effect: refers to the expected system breakdown that results from operating at the point of full social welfare waste in national(N) and local assets(L) or line T in Figure 4 in the long-term. This effect may explain why the Soviet Union broke down into different states under full excess nationalization of assets of national(N) and local(L) relevance; and full privatization deficits in assets of national(N) and local relevance(L).

vii) Specific asset full privatization effect: refers to the expected system breakdown that results from operating at the point of full excess capitalism in national(N) and local assets(L) or point W in Figure 4 in the long-term. This effect may explain why the financial system broke down recently under full excess capitalism in assets of national(N) and local(L) relevance; and total social welfare deficits in assets of national(N) and local(L) relevance, creating unsustainability within and between capitalistic countries.

viii) Specific asset principle of inverse action: If the road from full capitalism to full nationalization is fast, from national to local assets to ensure system stability, then the road from full nationalization to privatization should be slow, from local to national assets to remain stable.
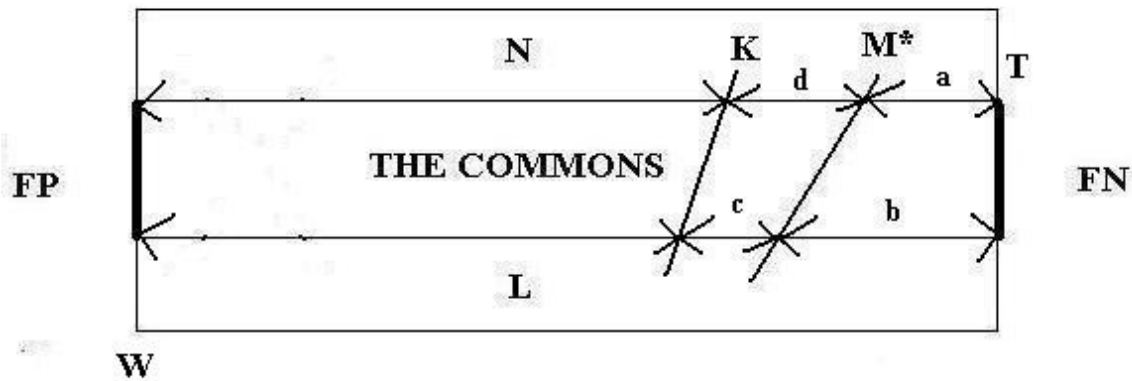

Figure 4 Optimal nationalization through the specific asset inversegram.

g) Dwarf country: refers to a state that is viewed as having a full use paradigm, but it does not as it in fact has a compromised use; it is neither this, nor that, but a mixed used model.

h) Dwarf development: refers to the process that is viewed as reflecting a specific use development paradigm, but it does not as it in fact is being supported by a compromised use; it is neither this, nor that, but a mixed development model.

h) Dwarf market: refers to a market that is viewed as being driven by free invisible hand, when in fact is being cleared by a regulated invisible hand.

The commons variability model

If we think of the commons(C) as assets that can be under public use(G) or under private use(P) or in both uses at the same time or compromised use(GP), then it can be expressed as follows:

$$C = G + P$$

Notice that when there are no assets in public use(g) and in private use(p) at the same time, then there is no commons(c), which can be stated as follows:

$$c = gp$$

The nature and characteristics of the different types of commons

From the model presented above(C = G + P), it can be seen that there can be three different types of commons:

a) The commons under full public use(C1)

One possibility is that the commons is under full public used(G), no private use exist(p), which can be represented as:

C1 = Gp

This would be the case of a fully totalitarian state or full nationalization(FN) where no private uses exist(p). As it can be seen in Figure 5 below, there is a point of full public use at point "a".

b) The commons under full private use(C2)

Another possibility is that the commons is under full private use(P), no public use exist(g), which can be presented as follows:

C2 = gP

This would be the case of a fully capitalistic state or full privatization(FP) where no public uses exist(g). As it can be seen in Figure 5 below, there is a point of full capitalistic use at point "b".

c) The commons under compromised use(C3)

The third possibility is that the commons is under compromised used(M), one where the commons is under both public(G) and private(P) use at the same time:

C3 = GP = M

This would be the case of a mixed state, where both public(G) uses and private uses(P) coexist or exist at the same time. As it can be seen in Figure 5 below, there is public use-dominated mixed state at point "c" and there is a private use-dominated mixed state at point "d".

FULL PUBLIC USE (a)

```
0                                                1
                                            (c)
                                      ←──────────
           THE COMMONS
               (d)
     ←──────────────────────────────────────
1                                                0

←────────────────────────────────────────────
(b)              FULL PRIVATE USE
```
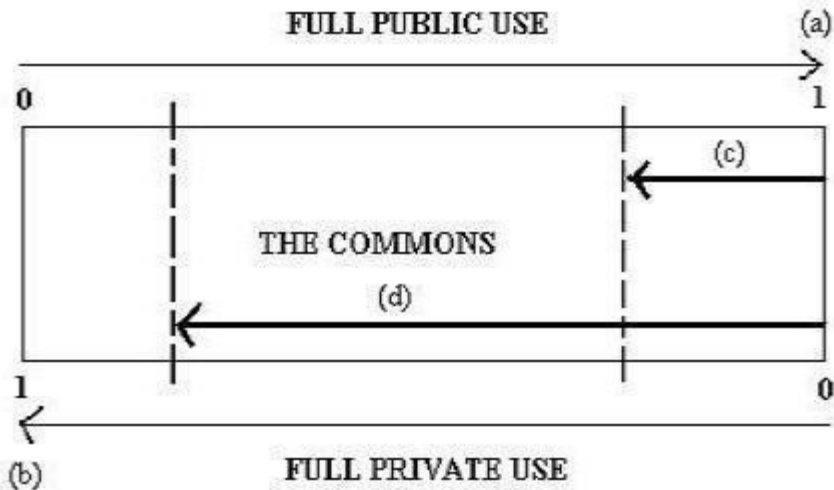
Figure 5 The commons under public, private and mixed pressures.

Note that the arrow on the top of the inversegram indicates that levels of public use(G) of the commons move from left to the right; and that the arrow below the inversegram shows that levels of private use(P) of the commons move from the right to the left.

Possible levels of privatization
To facilitate the presentation of ideas, it is assumed that there are four possible levels of privatization: zero privatization, weak privatization, strong privatization, and full privatization. Figure 6 below captures these ideas in detail.

LEVELS OF PUBLIC USE

```
0                                                1

           THE COMMONS
            (c)                    (b)
(d) ←───────←──────────────────────←────────── (a)
1                                                0

←────────────────────────────────────────────
        LEVELS OF PRIVATIZATION
```
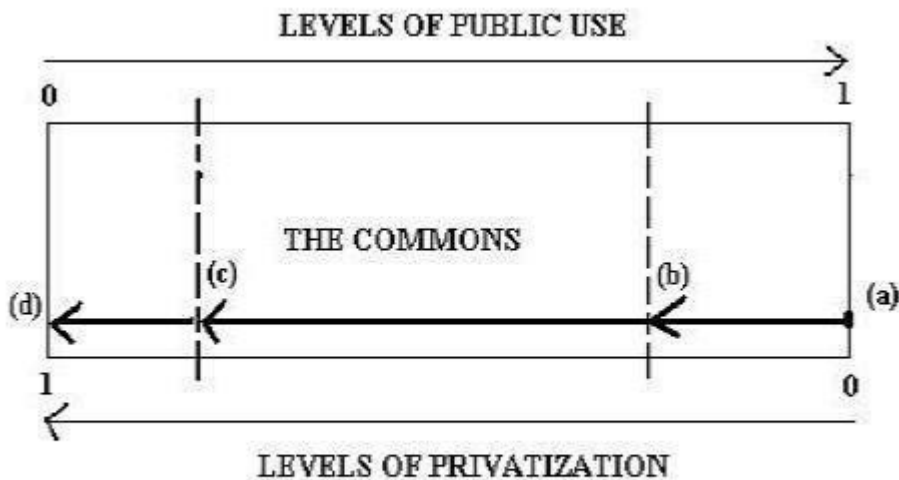
Figure 6 The commons under four possible levels of Privatization.

Figure 6 above shows the different levels of privatization of the commons as we move from right to left at the base of the figure: At point (a) we have zero privatization; at point (b) we have weak privatization; at point (c) there is strong privatization; and Full privatization is found at point (d). Notice that as the level of privatization increases, the level of public use decreases, showing that nationalization is privatization in reverse.

Also see that the move from point (a) to point (b) in Figure 6 above can be seen as the pre-globalization period when we moved from no privatization at all slowly to some privatization; and that the move from point (b) to point (c) can be taken as the globalization period, the move from weak quickly to strong privatization.

Possible levels of nationalization

Since nationalization can be seen as the opposite of the privatization process or as privatization in reverse, then there can be also different levels of nationalization, which can be appreciated in Figure 7 below:
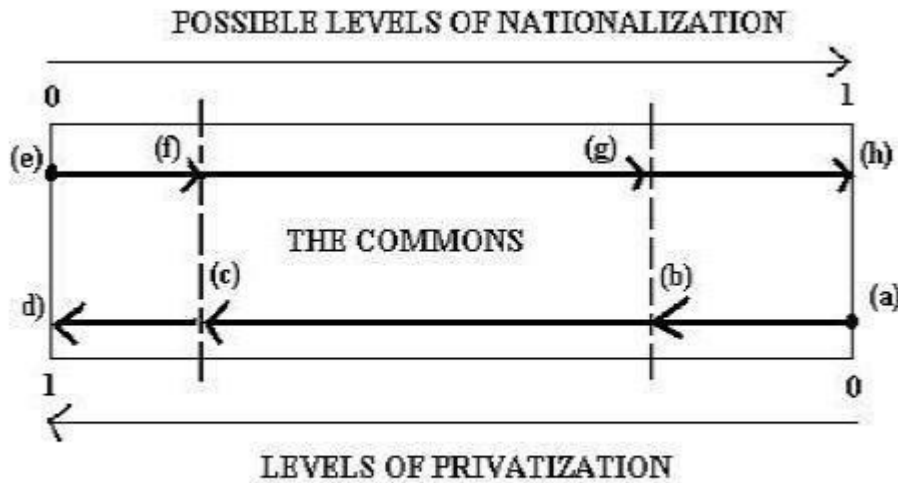
POSSIBLE LEVELS OF NATIONALIZATION

Figure 7 The Commons under four possible levels of Nationalization

Figure 7 above points out the different levels of nationalization possible as we move from left to right at the top of the figure: at point (e) we have zero nationalization; at point (f) we have weak nationalization; at point (g) there is strong nationalization; and full nationalization is found at point (h). Notice that as level of nationalization increases, the level of private use decreases. Hence, privatization is nationalization in reverse, which is consistent with the principle of inverse action.

Also see that the move from point (e) to point (f) in Figure 7 can be seen as the period of nationalizing all assets that are not yet in private hands and are still in public hands. And the move from point (f) to point (g) can be taken as the period of strong nationalization of private assets.

Determining the optimal level of nationalization

      While we can nationalize it all, as some communist/socialist countries have done or did, this may not be an efficient move today as empirically it has been shown that some levels of privatization are needed to keep the over all system sustainable. Persistent full nationalization and total privatization deficits appears to be the empirical reason why the soviet block fell or so called Soviet Union effect, which may explain why China became more eager to move towards capitalism allowing slowly more controlled levels of privatization and moving away from full nationalization..

      This raises the possibility of the existence of an optimal level of nationalization, a situation where the level of the commons under public use meets social/public goals while allowing for some efficient private use. This situation can be appreciate both through a general asset inversegram and through a specific asset inversegram.

a) Optimal nationalization under the general asset inversegram

      Figure 8 below captures the dynamics leading towards this possible point of optimal nationalization using a general asset inversegram.
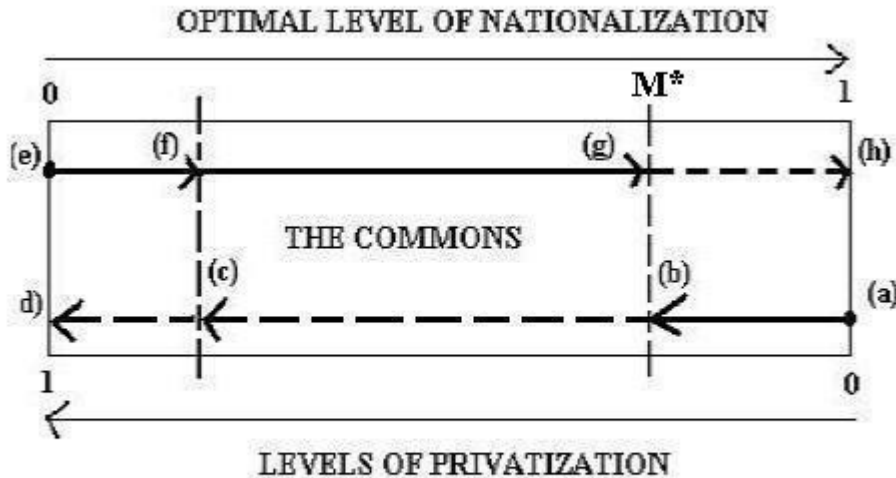

OPTIMAL LEVEL OF NATIONALIZATION

THE COMMONS

LEVELS OF PRIVATIZATION

Figure 8 **The commons under an optimal level of nationalization(M*) through the general asset inversegram.**

      Figure 8 above indicates that we can nationalize up to point (f), which covers the section of the commons that is not yet under private use, section between point (c) and point (d), but this does not meet social/public goals so it is not optimal. Figure 8 above also shows that we can nationalize all the way to point (h) and allow no private use at point (a), but this would be unsustainable in the long term as it would be subjected to the general asset Soviet Union effect as it would be operating at a total social welfare waste and total privatization deficit level the distance from point (g) to point (h) and from point (a) to point (b) respectively.

      Finally, Figure 8 above can be used to express the view that if we nationalize the commons to a point of nationalization such as point (g) and allow some privatization to point (b), then this would be an optimal nationalization point M* as at point (g) social/public goals are met while some efficient private activity can take place. In other

words, a point of optimal nationalization M* is a point where the commons is in an optimally compromised state.

In summary, Figure 8 above can be used to say the following: 1) That an optimal nationalization point M* is possible at point (g); 2) That nationalizing beyond that point (g) = M* or to the right of it is not a good choice as doing this may make the over all system unsustainable as we would be operating under social welfare waste and privatization deficit; and 3) That allowing privatization beyond point (g) = M* or to the left of it, would lead to excess capitalism and to a social welfare deficits rendering those governments unable to meet their social goals. Hence, the optimal nationalization point M* in Figure 8 above is more than just social protection, it is the point of effective social protection.

b) Optimal nationalization under the specific asset inversegram

Figure 9 below shows the nature of the optimal point of nationalization(M*) of national(N) and local(L) assets and its characteristics.
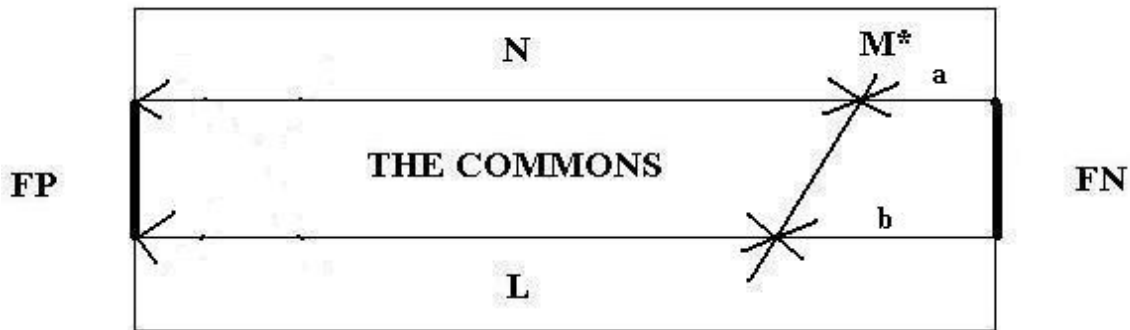

Figure 9 The commons under an optimal level of nationalization(M*) under the specific asset inversegram.

Line M* in Figure 9 above indicates the following: 1) That optimal nationalization requires the nationalization of assets of national interest(N) and of assets of local interest(L) up to line M* and the introduction of privatization of national assets(N) and of local assets(L) as indicated by section "a" and section "b" respectively; 2) That if we nationalize to the left of line M*, there will be nationalization or social welfare deficits and excess capitalism of national and/or local assets, a non-optimal situation; 3) That if nationalize to the right of line M*, there will be excess nationalization or social welfare wast and privatization deficits of national and local assets, another non-optimal situation; and 4) That at line M*, there is no social welfare waste, no excess nationalization, no privatization deficits, no excess capitalism, and no social welfare deficits of any kind as it is the optimal point of nationalization.

In summary, Figure 9 above can be used to say the following: 1) That an optimal nationalization point is possible at point M*; 2) That nationalizing to the right of that point M* is not a good choice as doing this may make the over all system unsustainable as we would be operating under social welfare waste and privatization deficit; and 3)

That allowing privatization to the left of point M* would lead to excess capitalism and to a social welfare deficits rendering those governments unable to meet their social goals. Hence, the optimal nationalization point M* in Figure 9 above again is more than just social protection, it is the point of effective social protection.

The search for the optimal level of nationalization in China

As mentioned in the introduction above, China appears to be allowing currently some levels of private activity involving assets of local relevance to little by little move towards a level of optimal nationalization while protecting assets of national relevance and keep political stability as its over all goal is still to meet its social/public goals, and the process of how China is doing that can be appreciated both ways, through a general asset inversegram and through a specific assets inversegram.

a) The optimal level of nationalization in China using a general assets inversegram

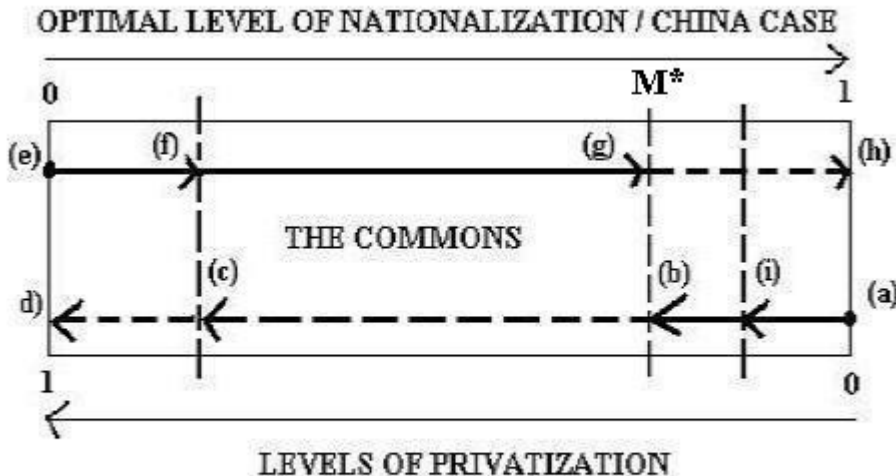The general asset inversegram for China is shown in Figure 10 below:

Figure 10 The commons moving towards an optimal level of nationalization (M*) in China through the general asset inversegram.

Figure 10 above shows the following: 1) That China before opening its commons to private activity in assets of local relevance was operating at full level of nationalization at point (h) just as the Soviet Union did; and therefore China was operating at the point of full social welfare waste and total privatization deficits; 2) That since China now has started to allow some private use of assets of local relevance, it is operating at point (i) in terms of levels of privatization and between point (g) and point (h) in terms of levels of nationalization reducing the level of social welfare waste, but still at a private sector or privatization deficit at the space between (i) to (b) as China is still operating beyond the point of optimal nationalization at point (g) = M*, which is not efficient; and 3) That China in the future will allow privatization slowly to move from point (i) to point (b) to eliminate that social welfare waste and that privatization deficit associated with it, an

efficient move as it coincides with the level of nationalization at point (g), which is the optimal level of nationalization(M*) as it meets its social/public goals.

See that at point (g) or optimal nationalization point(M*) in Figure 10 above, 1) There is not social welfare waste and there is no excess capitalism; 2) To the right of point (g) there is social welfare waste and privatization deficits; and 3) To the left of point (g) there is social welfare deficit and excess capitalism. In other words, as long as China can meet its social/public goals by operating at point (g) = M*, it will be able to efficiently allow private activity at point (b), which will help to keep the system as a whole stable.

However, Figure 10 above also permits us to see by the broken line from point (b) to point (d) that 1) If private activity in China is allowed to go beyond point (g) or to the left of point M*, slowly or quickly, it will be a point of excess capitalism, then China would not be able to meet its social/public goals as it would be operating at a social welfare deficit point; and 2) The bigger the social welfare deficit, the more unstable the China system would become. Therefore, China has a strong incentive to keep for sure private activity up to the optimal nationalization at point M* and avoid privatization beyond this optimal nationalization point M*.

b) The optimal level of nationalization in China using a specific assets inversegram
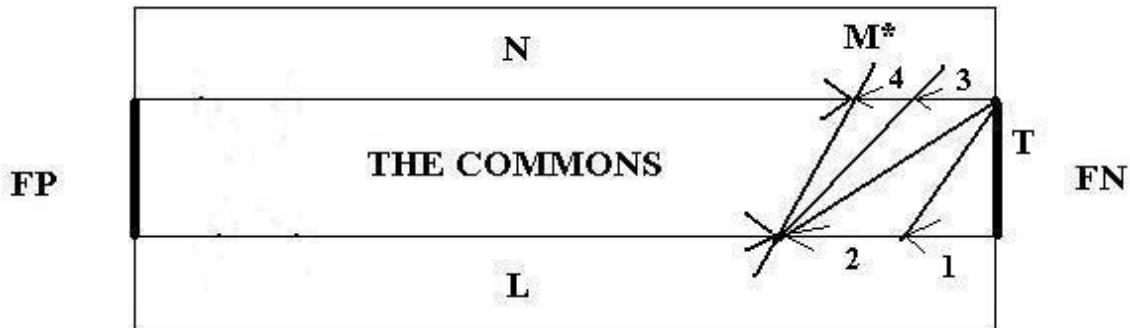The specific asset inversegram for China is shown in Figure 11 below:

Figure 11 The commons moving towards an optimal level of nationalization(M*)
in China through the specific asset inversegram.

Figure 11 above allows us to point out in detail step by step how China is moving from full nationalization(line T) to optimal nationalization(line M*) to remain politically stable during the transition: i) Section "1" and section "2" show that China has decided to allow slowly the privatization of local assets(L) and it will continue to allow it until it reaches the point of optimal nationalization M* and avoid that social welfare waste and privatization deficit; and ii) Section "3" and section "4" indicate that after reaching optimality in the local assets privatization arena, China will have an incentive to privatize some national assets(N) up to the optimal point M* to avoid that social welfare waste and privatization deficit associate with national assets.

Notice that China is following the principle of inverse action, it quickly nationalized everything after the revolution starting from national assets to ensure system

stability; and right now it is slowly allowing privatization starting from local assets to remain stable with the goal in mind of later privatizing some state assets. And also notice that when China started to allow privatization in 1978, then the following happened: i) China went from a communist country to a dwarf country(Socio-capitalist) and from a communist development system to a dwarf development system(Socio-economic) as now it has a compromised use model; and ii) China created a dwarf market(State controlled invisible hand).

General Implications of the discussion above

Nationalization policy should be used as a proactive optimal policy to ensure effective social protection while encouraging controlled capitalism, not as a reactive anti-privatization non-optimal policy as it has been used so far. This requires the nationalization of assets still in public use to place them outside the pulling forces of the private market; and the nationalization of private assets of national and local relevance.

Full nationalization is not an optimal point as it is affected by excess state/bureaucratic self interest, leading to total social welfare waste and privatization deficits; and therefore, it is not an efficient social protection mechanism. Full nationalization should be avoided. as it is not sustainable in the long-run as shown by the fall of the Soviet Union.

Full privatization is not an optimal point too as it is affected by excess individual/corporate self interest, leading to total excess capitalism and social welfare deficits; and therefore, it is not an efficient social protection mechanism too. Full privatization should be avoided. as it is not sustainable in the long-run as demonstrated by the recent excesses and crash of the financial system.

The optimal level of nationalization is an optimal compromised state and its goal is to ensure effective social protection, not just social protection.

The China experience shows that when moving from full nationalization to an optimal nationalization point, to remain politically stable, it should be done slowly beginning with the privatization of nationalized assets of local relevance first.

The principle of inverse action suggest that when moving from full capitalism to an optimal nationalization point, it should be done fast, beginning with the nationalization of assets of national relevance first.

The long-term viability of implementing optimal nationalization programs needs the creation of a world bank for optimal nationalization to assist countries with the financial support and expertise they may need to implement and ensure the success of such programs in the long-term.

Optimal nationalization theory is consistent with sustainability requirements.

Specific conclusions

First, it was indicated that the commons can be thought as existing in three different scenarios: fully in public use, fully in private use, and as a compromised commons. Second, it was shown that the process of privatization and nationalization can be viewed as having different stages; that the nationalization process can be seen as the

opposite of the privatization process or as privatization in reverse; that a level of optimal nationalization may exist at a point where nationalization meets social/public goals while allowing some levels of privatization; and that this is an optimal compromise state where social goals are met and controlled capitalism can take place.

Third, it was pointed out also that current empirical development experience of China appears to be consistent with the theoretical possibility mentioned above as by allowing little by little some levels of privatization in assets of local relevance, China is now moving towards a level of nationalization that will still allow it to meet its social/public goals while eliminating social welfare waste, and therefore China is moving slowly towards an optimal nationalization point or a point of optimally compromised commons right now. And finally, the general implications to other countries that are now moving towards or who will need to move away from the point of full nationalization or of full privatization were pointed out.

General conclusions

First, it was shown that nationalization can be expressed as privatization in reverse. Second, it was stressed that a possible optimal rate of nationalization exist; Third, it was shown that China is following the principle of inverse action when moving from full nationalization state towards the optimal nationalization point by slowly allowing privatization of assets of local relevance first; and finally, it was pointed out that nationalization policy should be used as a proactive optimal policy to ensure effective social protection while encouraging controlled capitalism, not as a reactive non-optimal policy as it has been the case so far.

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