

Piotr Brozyna and Mark Lilla

DISMANTLING SOCIALISM IN ONE COUNTRY (II)

Now that the Poles are free to be capitalists, their government must play the leading role in creating conditions that will allow business and trade to flourish on a Western scale. Without strong public institutions, Polish capitalism won't have a chance.

In our previous article on the present Polish situation (see February *TAS*) we reviewed the postwar intellectual transformation of Polish economic opinion from an anti-capitalist consensus of Catholics and Communists to a new, if somewhat resigned, agreement on the principles of free-market liberalism. It is our impression that no rival economic theory now challenges that new consensus, and that whatever political arrangements or compromises the Poles make in the near future—on taxes, subsidies, the welfare state—there is little doubt that they are all capitalists now. As more than one social democrat has remarked over the past few years, even those Poles who dream of a Swedish-style welfare state now recognize that Sweden is a capitalist country, not a socialist one.

Since we wrote that article, the first phase of the economic “shock” plan drawn up by Harvard professor Jeffrey Sachs has begun under the watchful eye of Finance Minister Leszek Balcerowicz. It has been . . . well, something of a shock. Previously controlled prices now float with the market and the *zloty*, creating a revolution in relative prices that will take some time to stabilize. Prices of natural gas and electricity, always kept artificially low and now only partially decontrolled, have quadrupled in a month; gasoline and insurance are now so expensive that more than 10,000 automobile owners have turned in their license plates; lines for previously rationed items have shrunk drastically since few can afford what they once waited hours to buy. But on the supply side there is also movement. Farmers have begun carting their own produce to nearby towns and have been selling it on the streets, undercutting the arthritic state stores, and there is an unprecedented variety

of meat and poultry now available for those who can pay. More important still, the hyper-inflation that once reached 1,000 percent has already slowed to 70 percent in January and was predicted to fall even further to nearly six percent in February as the debt-inflated Polish economy grinds to a halt.

Yet despite these unsettling changes to a once predictably deteriorating way of life, the Poles seem to have found new reserves of “solidarity” to manage them. Representatives of some peasant and workers organizations have complained that their members bear an unfair burden during this transition, and one farmer even chained himself to the gates of parliament recently in a gesture of protest. But by and large the Poles seem to accept the necessity of suffering through these additional hardships. There is no way of predicting whether this willingness can persist, especially since the inevitable layoffs

and plant-closings will not begin for a few months. Poles are used to making do without meat or gasoline, but they have never before faced the unsettling prospect of losing protected jobs and supporting families during long periods of unemployment. The government's nightmare is that, as the layoffs begin, disgruntled unemployed workers will join with frightened small farmers to form a parliamentary coalition to block the necessary “shock” reforms. Such a reaction could only work to the advantage of ambitious demagogues on the Catholic-agrarian right and the nomenklatura robber barons of the Communist (now “Social Democracy”) party, both eagerly awaiting the Mazowiecki government's collapse.

However serious this threat may be, it is a short-term one: in the next twelve months we will know whether the “shock” was too large to be handled. Thereafter the Poles will enter the

medium term, where the challenges will be of an entirely different sort and equally formidable. As we noted briefly in our previous article, the medium term will be dominated less by purely economic and political reforms than by *institutional* ones. The Western press has been virtually silent about these institutional reforms and seems not to understand why Poland's economic future will depend on them. The day-to-day crises are interesting and distracting enough, to be sure. But Western observers also seem to be under the libertarian illusion that a free market will grow up naturally in Poland so long as there is no active government or union interference in the economy.

This is simply not true in Poland—or anywhere, for that matter. Every advanced capitalist economy in the world depends on the support of strong public institutions that capitalism by itself does not create. Businesses need ample public utilities, postal services that function, unbribable customs officials, honest tax collectors, university-trained professionals, and so on. Westerners take these institutions for granted because their governments are stable and their political customs deeply rooted, and they are often shocked to discover countries where these assumptions cannot be made. Thus, when Western firms abandon underdeveloped nations because “things don't work there,” they do not usually mean that laws of economics fail to operate in tropical climes. What they really mean is that the necessary public institutions that support economic activity are nonexistent, dysfunctional, or hopelessly corrupt.

Poland is not an underdeveloped country. It is, as one journalist joked, a “formerly developed” nation. There is an important truth buried in this quip: because Polish Communism blocked the restoration of free political and economic institutions that once ex-



Piotr Brozyna is a historian and journalist living in Warsaw. Mark Lilla, a former editor of the Public Interest, lives in Paris.

isted before the war, its own sclerotic institutions now occupy the field. This difference is decisive. In underdeveloped nations there are no public works; in Poland they have been provided by large incompetent staffs hired with party patronage. In underdeveloped nations the tax and regulatory systems are never stable; in Poland there has been a paralyzingly stable system of supported monopolies controlled by a central planning office. In underdeveloped countries there is no legal system for settling private disputes; in Poland there has been an enormous one filled with lawyers and judges whose job until now had been to follow party directives. In underdeveloped countries public agencies must be constructed from scratch; in Poland, "socialist" ones must first be dismantled before new ones can be built.

Oddly enough, these differences could all work in Poland's favor. No one knows how to build public institutions *de novo* in underdeveloped nations, but the Poles at least have them, if only in their perverse forms. The trick will be to transform or replace them without threatening the existing economic tissue or the social consensus underlying the reforms now under way. This is the real challenge facing the Mazowiecki government in the medium term, and it deserves the attention of all those in the West whose interest in Poland extends beyond the present crisis. To illustrate this point we have chosen to review three areas where institutional reform will be most urgent. Each demonstrates how heavily Poland's long-term economic health will also depend on public initiative.

Public Infrastructure

First-time visitors to Warsaw Pact cities are always surprised to see traces of the Second World War that have long since disappeared from the rest of Europe. Bullet-riddled walls and rubble-strewn lots are not uncommon. Yet these scars on the urban landscape are only superficial signs of a more dramatic underinvestment in public infrastructure by these Communist regimes over the past forty years. Poverty—the imposed poverty of a centralized economy—helps to explain the absence of modern technological wonders, but not of the most basic services such as clean running water, working telephones, and a regular electrical current. The fact is that these "socialist" regimes felt no need to provide such services to their voiceless masses, and chose instead to waste resources on heavy-industrialization projects that never became profitable. As a consequence, water is nonpotable in most cities and must be boiled before use, and electrical currents fluctuate so wildly that one hears of high-tech computers bought with precious

foreign currency now lying unused in government offices because they keep short-circuiting.

In Poland the most debilitating deterioration has taken place in the telecommunications system. There is fewer than one telephone for every ten individuals in the country, and the number of receivers would have to be *quintupled* if Poland were simply to reach the European average. We have learned (through frustrating experience in writing this article) that there are only 1,500 international lines in and out of Poland, rendering communication with the United States or the rest of Europe simply impossible for much of the day. Domestic service is not much better, and callers must dial and redial repeatedly just to reach the other side

not yet fully open, and given that few foreign businessmen speak Polish, the government will have to act as intermediary between foreign capital and local markets. Every indicator is that few individuals in the Polish government know how to play that role today, and we have already heard complaints from businessmen that "there is no one to talk to there." Neither in Warsaw nor in foreign embassies are there truly professional business liaisons; appointments are made and not kept, rules on bidding are unclear or suspicious, and no one wants to take responsibility. The "soft" infrastructure needed to allow for a free flow of economic information simply does not exist.

Another sector where this "training gap" could prove decisive is banking.

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of town. American telephone experts have estimated that an investment of \$15 billion would be required to bring Polish communications up to European standards—clearly an impossibility in the near future. But even to render the system reliable enough to guarantee the transmission of electronic data would require a \$3 billion investment. The World Bank has offered to put up \$300 million and the Polish government is now planning to end the government's monopoly over telecommunications in the hope of attracting private capital. But it will be a very long time before a new, functional public "grid" necessary for private telecommunications can replace the present one.

Besides this "hard" infrastructure built with steel, concrete, and copper wire, there also is a "soft" infrastructure lacking in Poland today. This is made up of publicly trained men and women working in services on which business also depends. Poland is in desperate need of educated professionals—accountants, statisticians, engineers—that the recently liberated universities will not be capable of providing for many years to come. (Countless professionals trained under the Communist regime left Poland in the brain drain of the last decade or two, and at this stage they are unlikely to disrupt their lives in the West to return to the new Poland.) This lack of publicly trained personnel has already hamstrung the government in its efforts to attract private investors. Since Poland is a new market, an unstable one, and

Until recently the Polish banking system was dominated by the Narodowy Bank Polski (NBP), which served both as a central bank and finance monopolist. Government agencies were obliged to pass all their receipts through it and received their loans and subsidies in return. Besides controlling the money supply like any other European central bank, the NBP also made bureaucratic decisions about particular movements of capital within the economy as a whole.

This monopoly ended on January 1 of this year, and soon there will be private banks to join the handful of smaller government banks that once controlled the accounts of individuals and private firms. But all these banks, public and private, will suffer the effects of previous bureaucratic centralization for some time. The NBP, for example, is still staffed by the same incompetent bureaucrats who have little or no training in economics, finance, or even accounting. (An American economist we spoke to recently reported that a long conversation with NBP officials convinced him that they simply did not understand the economic concept of "money.") Private banks will also have difficulty finding sufficiently trained personnel to offer standard banking services. Moreover, many of the basic tools of modern banking simply do not exist in Poland today—telephones, computers, even *zloty* counting-machines. Private training and investment will slowly fill some of these gaps, but at some point the government itself must make these

same investments in material and education.

Public Administration

As the example of banking indicates, the heavy centralization of the economy inherited by the Mazowiecki government means that many management problems eventually to be inherited by private business must first be confronted by governmental agencies that will dominate the scene in the medium term. Public administration now, business administration later: that is the order of priorities. But even in the long term Poland will need an able, well-trained professional civil service to build its public infrastructure and to provide standard services. Such a cadre will not be easy to establish.

The largest stumbling block, of course, is the cadre that already exists. Solidarity and the new government decided quite soon after coming to power that there would be no purges, no "decommification" that might hand the ex-Communist party a natural class of resentful, disinherited public workers. Even if Solidarity learned to distrust the myth that "Poles will not fire upon Poles," they think it more prudent now to let it be said that "Poles will not fire Poles." Theirs was, after all, a bloodless revolution meant to restore national unity. And from a perfectly practical viewpoint Solidarity knows that it still needs people to man the governmental machinery.

The nomenklatura problem has two faces, national and local. At the national level, the problem is less severe. Many of the offensive members of the high nomenklatura have already left their jobs to join General Jaruzelski's presidential staff, and others are using their advantageous economic and social positions to start businesses or buy up cheap land. But at the local level there exist mafia-like connections between ex-party officials, monopoly managers, the police, and nomenklatura businessmen, and this knot will only be untied by legal force. This too will take time. A law must be passed on returning Communist party property to the state (as is already under way in Hungary) and strict rules must be established to regulate the privatization of public enterprises to ensure that these mafiosi do not end up running the local economies. Wild stories of profiteering and illegal "privatization" are already circulating throughout Poland.

Below this leadership level the problem is somewhat different. Deep in the bowels of state bureaucracies we find functionaries who are, for the most part, simply scared and incompetent clock-punchers. Reforming this large non-workforce will be an extremely long and delicate procedure. The gov-

ernment has less to fear from active resistance to its policies than from the lassitude of Communist administrative habit. Eventually Poland will need to train its civil servants in the skills and ethos of administration, and some funds for bureaucrats' "retooling" have already been set aside. But before the civil service can be completely rebuilt, a new legal and constitutional framework must be put into place. At the end of last December the Polish parliament changed the basic contours of the constitution: references to the "leading role of the Communist party" were deleted, as were professions of friendship to the Soviet Union, and the liberty to own property and organize politically are now guaranteed. The country is no longer called the Polish People's Republic, but the Republic of Poland, and the official Polish eagle again wears a crown. But before the end of 1990 an entirely new constitution will be drafted and voted upon (probably in a referendum). A special parliamentary committee is already at work drawing up possible blueprints. This new constitution will redefine the separation of powers among the various governmental branches at the national and local level, as well as the relative powers of national and local institutions overall. Only when this constitution is in place will a definitive reform of the civil service be possible, and with it the highly politicized legal system.

Public Monopolies

Officially, Polish government policy is that economic planning has been abolished and that most public monopolies will be dissolved shortly. But in reality the government will be forced to continue planning because the system of monopolies it has inherited cannot be sold off or dissolved overnight. It has already learned that there are few "guardian angels" like Barbara Piasiecka Johnson ready to buy up unprofitable factories and shipyards in the hope of turning them around. (In fact, at this writing the widow Johnson has evidently changed her mind about saving the former Lenin Shipyard.) Until those enterprises are sold or dismantled, the Polish government will have to run them: making production decisions, hiring and firing, and perhaps even selling their goods.

This is a daunting task even under ideal conditions. As every economist knows, it is almost impossible to make pricing and investment decisions in the Alice-in-Wonderland world of command economies, and there is a serious risk that bad decisions within the monopolies could cause serious distortions in other sectors. The new managers of these monopolies will share the additional burden of having to work within severe political constraints; they

must try to minimize unemployment, encourage competition, and ensure that the nomenklatura does not exploit its advantages. In short, they are being asked to eliminate jobs and to save them, to run factories and to dissolve them, and to sell off hardware without enriching a previously favored class. All this is to be accomplished by people with very little economic training and certainly no real business experience.

Some of the larger industrial and natural-resource monopolies may prove

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rather simple to dissolve quickly (though the recent violent debates over the administration of coal mining show that dissolution will never be without struggle). But others are so firmly rooted in daily Polish economic life that it could take months or years to loosen their grip on commerce and allow competitors to be born. The most visible example of such a monopoly today is the system of agricultural "cooperatives." In Western countries cooperatives earn their name: they are (or originated as) truly joint ventures of farmers who needed to store, wholesale, and process their products, or wanted to reduce the cost of agricultural machinery, fertilizers, seeds, and so forth. In Poland, however, the "cooperatives" were actually run by the government with little input from the "members" themselves. The "cooperative" directors simply played their part in the economic planning game, setting unreal retail prices for the consumer and paying farmers with a phantom *zloty*.

But when agricultural prices were decontrolled by the Mazowiecki government last year, the "cooperatives" proclaimed their legal independence and continued their work, acting as the dominant agricultural wholesaler in the Polish economy. The results were predictable. Unable or unwilling to let the price mechanism function, the "cooperatives" raised retail prices to unheard of levels while reducing payments to farmers as much as possible—a perfect monopoly/monopsony strategy. While the "cooperative" coffers filled, the farmers had no incentive to produce, and stocks of already expensive products were declining in the stores.

Parliament finally managed to scale back the powers of the "cooperatives" early this year, though not until after a serious struggle with the cooperatives' administrators. And the farmers themselves are very frightened of the

changes in store. Polish farms are extremely small, most lack electricity and running water, and there has been little investment in agricultural machinery. It is inevitable that farms will be consolidated in the future, and this is what the peasants fear most. During this period of transition the government is going to have to gain the confidence of the peasant population by taking other measures to stabilize the agricultural markets. There is already talk of American-style price support

and subsidy programs, all of which would have to be run by the government. In short, more planning. Until a truly competitive system of wholesaling or cooperatives grows up, the government will be forced to help manage the agricultural economy.

Our point in presenting these examples is not to suggest that there are insurmountable barriers to building capitalism in Poland. It is simply to remind Western observers that Polish socialism must first be dismantled and that, in the medium term at least, the government will be responsible for establishing the preconditions for a flourishing market economy. That economy will never "take off" without the provision of public infrastructure,

the founding of an independent public administration, and sound management of the remaining public monopolies so as to minimize market distortions.

We also mean to suggest that Westerners truly interested in Poland's long-term economic health might want to consider how they might assist during this transitional period. The French government, for example, always eager to export Gallic *dirigisme* around the globe, has just initiated a series of internships for local Polish politicians, who will spend time in French towns this year learning how government ought to work. There is even discussion of establishing such internships for bureaucrats as well. Americans, perhaps convinced that economies are governed best when governed least, seem prepared to invest and to give economic advice when needed, but with the exception of the impressive work done by the National Forum Foundation and, on a smaller scale, the USIA and the *Congressional Quarterly*, we are unaware of any similar intergovernmental or interbureaucratic contacts with Poland. This is unfortunate, since the Poles will soon be making important decisions about their public institutions on the basis of very little experience—experience the United States and other Western democracies might share with them. If Americans are rightly proud of their economic success and wish to share its secrets, one wonders why they are reticent about discussing their system of government and habits of public administration, from which the new republics of Central Europe might still have something to learn. □



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THE CALIFORNIA SPECTATOR



SUPER SUNDAY

by Benjamin J. Stein

It's one of those mornings when I can't stop my criminal brain from working. I'd like to. I'd like to just walk out the door and wander down the Champs Elysées, going cafe to cabaret. But the wind is roaring through the backyard palm fronds like a locomotive going through Central Jersey. So I'm wired and I have to make a list of all of the genius ideas I've had that night:

- A cable channel which would foment wars in remote parts of the world and cover them around the clock. For example, it might fund the rebels in New Guinea and then fund the government, and watch them kill each other. Let's face it: TV news was never as interesting as during the Vietnam war. Let's go for it again. Simulation is today's game, and we can all play. If a few spear-chucking natives have to die, well, what the heck. They'd probably die from boredom anyway.

- A special free marketeers' sperm bank. It would collect specimens from the surviving Nobel laureates like Friedman and Stigler who have served the cause of laissez-faire. Then, young *madchen* from the Cato Institute and the Heritage Foundation could be inseminated with the precious seed. A whole new generation of ideologues to serve Morgan, Stanley would be created. Maybe Morgan, Stanley would pay for it.

- For me to rent a storefront here in Malibu to dispense advice on any subject. Like Lucy in "Peanuts," I would offer advice on a variety of subjects that any passing surfer might want to talk about: good breaks, the effects of high real interest rates on mergers and acquisitions, how to find a cute girlfriend—anything. I might also give lessons in ordering off a Chinese menu, which I'm pretty good at as well.

- The Richard Nixon Cafe, also here in Malibu. It would overlook the Santa Monica Bay, and would be decorated only with photos and posters celebrating Nixon. His kitchen debate with Khrushchev. His Checkers speech. His

walk on the Great Wall of China. There's a lot here. On the stereo, we would have his greatest speeches on C.D.'s, and we would have Mexican Food Day on Thursdays, just the way we did back in the 1973 White House Mess.

- A movie about a 16-year-old boy who is very shy, who gets serious head injuries in a car crash. He's in a coma for months, and then he gets out and starts going to rehab. His mother and father are too busy to drive him there every day. They hire a beautiful out-of-work actress named Scarlet to drive him there. In a way too moving for words, the two of them start to have feelings for each other. In a way that neither of them could possibly have foretold, they have a SAFE SEX romance. Then she goes back to her multi-millionaire investment banker boyfriend, and he goes back to high school. Or maybe vice-versa.

Enough of that. I attached Trixie, the German Short-Haired Pointer of my dreams, to her red leash with her name on it, and headed down Dume Drive. Past Martin Sheen's house, I saw a house for sale. It was open.

I tied Trixie's leash to the nearest wrought iron fence and strolled in. A pleasant young woman of about nineteen smiled and handed me her

real estate card. "Tristan Brando," it read.

"How old are you?" I asked.

"Twenty," she said.

"And you're agenting a million and a half dollar house?"

"Right," she said.

She showed me around the manse. It was laid out as if it had been designed by an architect on angel dust. Tiny rooms not facing the ocean. A huge kitchen with no appliances. A tennis court whose wall blocked the view of the ocean. This is typical of Malibu, where the usual two-million lot has a house designed by a ten-cent mind. At the end of my exclusive street (where I rent, and do not own), a hideous brick house has been built with the perfect Malibu name of "Whale's Way" (sic). It has huge windows facing its driveway and tiny ones facing the ocean. Go know. Where modern minds meet the eternal sea, there you find "Whale's Way."

Tristan Brando showed me the guest house next to the tennis court. "I guess your folks were opera buffs, huh? Like *Tristan und Isolde*?" I said.

"Well, not really," Tristan answered. "They were rock 'n' rollers. More like 'Tristan Shout.'"

"You're kidding," I said.

"No. That's the name on my birth certificate, 'Tristan Shout Brando.' No relation to Marlon."

I promised Tristan Shout that I would think seriously about her house. Let's see. One point four million. That comes out to roughly \$14,000 per month, or about \$168,000 per year. For a freelance crank, that sounds about right.

Just as I was leaving the for-sale house, a gleaming red Ferrari Mondiale came screaming up the driveway. Out of it came a scary looking man in black leather and mirrored sunglasses. With him was none other than Staci, my former assistant, now a successful commercial real estate broker. She still looks beautiful, even though she's worried about reaching the age of twenty-seven.

While her boyfriend, a sort of out and out bunco artist, toured the house with Tristan, I talked to Staci.

"What are you working on?" she asked. "Still writing those long articles about junk bonds?"

"Exactly," I said. "Somehow I just can't get out of my head the fact that these guys made billions selling worthless bonds."

"How is that different from the guy who made so much money selling the Pet Rock a few years ago?" Staci asked.

"Well, it's acknowledged up front that a Pet Rock isn't really much more than a joke. An industrial bond is supposed to have some value somewhat near its cost."

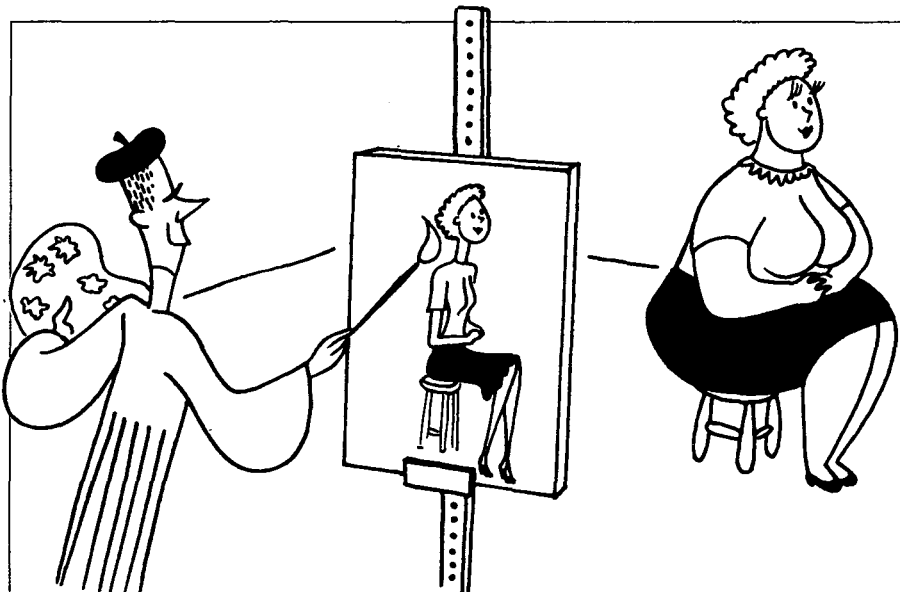
"See, Ben, this is why you just rent out here and don't own anything. Because you insist on making everything so complicated," Staci said. "Just what is a bond supposed to be?"

"More than a Pet Rock," I said.

"Well, to you it is," Staci answered, "but maybe not to Michael Milken. That's why he's rich and you're not."

There's such a thing as being too smart, so I let Staci rejoin her friend and Tristan Brando.

I walked back to my adorable rented house with Trixie. Here's a valuable point to recall about life: I spend a lot of envy thinking how much better other people's houses are than mine.



Benjamin J. Stein lives in Malibu.