



STUDY GUIDE

CAN THE GOVERNMENT RUN THE ECONOMY?

KEY TERMS:

economy
free market

stimulus
regulation

entrepreneurs
stagnation

NOTE-TAKING COLUMN: Complete this section <u>during</u> the video. Include definitions and key terms.	CUE COLUMN: Complete this section <u>after</u> the video.
<p>What do the metaphoric phrases about the economy being a machine epitomize?</p> <p>When should the government attempt to stop 'bubbles' from happening?</p> <p>What are good bubbles a sign of?</p>	<p>Why is it problematic for the government to treat the economy like a machine?</p> <p>What happens when the free market is allowed to 'ebb and flow' naturally, free of government regulation?</p>

DISCUSSION & REVIEW QUESTIONS:

- Towards the beginning of the video, Mr. Forbes points out that, “...economists have taught us to see an economy—as something that can be manipulated, guided or driven. And guess who does the driving? The government.” Why do you think that economists have promulgated such a metaphor? In what ways do you think that the government attempts to ‘drive’ the economy?
- Mr. Forbes goes on to further explain that, “...the economy is not a machine. It is made up of people, and no one can control what billions of them are going to do,” and that, “What government can—and should—do is to positively influence the environment in which this hum of activity takes place through sensible taxation, monetary policy, government spending and regulation. And in almost all instances the best prescription for economic health is ‘less is more.’” What are some examples of sensible monetary policy? Why do you think that the ‘less is more’ axiom is so important for economic health?
- Later in the video, Mr. Forbes states that, “...the idea of an economy that purrs along like a well-oiled machine hurts, not enhances, wealth creation because it invariably leads to growth retarding government intervention.” What exactly does Mr. Forbes mean by ‘growth retarding government intervention?’ What might some examples be?
- Mr. Forbes answers this last question himself when he shares his next point, that, “The government’s recent mistakes have been compounded by tax increases and an avalanche of antigrowth regulations from ObamaCare, the Dodd-Frank financial services bill and all those Washington regulatory agencies, such as the FCC, the EPA and the National Labor Relations Board.” How exactly do tax increases and antigrowth regulations actually compound the problems with the economy? Do you think that regulation that increases minimum wages would hurt or help the economy? Explain.
- At the conclusion of the video, Mr. Forbes shares his insight and advice that, “...the more a government tightens its grip, the less an economy grows. That’s because an economy is not a machine and the government can’t force it to act like one. So, let’s free the free market. That is and always has been the surest path to prosperity.” What do you think compels the government to attempt to control the economy so much, even though its efforts are often futile or damaging? Why is growth important to a healthy economy?

EXTEND THE LEARNING:

CASE STUDY: Commodore International

INSTRUCTIONS: Read the article “The Decline And Fall Of Commodore Intl. It Was A Failure Of Marketing, Not Technology,” then answer the questions that follow.

- What was the Amiga? What was CDTV? What happened to Commodore International? Who were Irving Gould and Mehdi Ali? What factors contributed to Commodore's downfall?
- Do you think that the demise of Commodore was part of a 'good bubble' or a 'bad bubble?' Explain. What lessons might be learned from the story of Commodore International?
- How do you think that the story might have been different if the government had created legislation meant to incentivize people to purchase Commodore computers in particular or if the government had subsidized Commodore International with taxpayer dollars? Do you think that the government should have gotten involved? Why or why not?



QUIZ

CAN THE GOVERNMENT RUN THE ECONOMY?

1. In almost all instances the best prescription for economic health is _____.
 - a. government intervention
 - b. less is more
 - c. foreign aid
 - d. outsourcing jobs

2. The housing crisis in the mid 2000's was largely created by _____.
 - a. the free market
 - b. the stock market
 - c. government policies
 - d. unemployment rates

3. What government can–and should–do is to positively influence the environment in which economic activity takes place through _____.
 - a. sensible taxation
 - b. monetary policy
 - c. government spending and regulation
 - d. All of the above

4. The idea of an economy that purrs along like a well-oiled machine ____ wealth creation.
 - a. hurts
 - b. helps
 - c. accelerates
 - d. perpetuates

5. The housing bubble was artificially caused by government policies.
 - a. True
 - b. False



QUIZ - ANSWER KEY

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http://articles.philly.com/1994-05-08/business/25829860_1_commodore-officials-irving-gould-services-and-computer-bulletin

The Decline And Fall Of Commodore Intl. It Was A Failure Of Marketing, Not Technology.

By Anthony Gnoffo Jr., INQUIRER STAFF WRITER

Posted: May 08, 1994

It was a wake in cyberspace.

Minutes after Commodore International Ltd., the company that helped launch the personal-computer revolution 15 years ago, said it was going out of business nine days ago, the Commodore faithful tapped into the Internet, CompuServe, GENie and a host of other on-line services and computer bulletin boards.

They came from their bedrooms and dens, from offices and college dormitories, from America and Europe and Australia and Asia, from everywhere people keep desktop computers. Software engineers, videographers, techno- artists, hackers - they eulogized Commodore's Amiga computer as far better than those pitiful Macintoshes and IBM-compatibles.

Their Amigas can handle streams of video that would choke a Mac or an IBM. Their Amigas can produce eye-popping graphics and dazzling sound at a lower cost than the competition. Yet their Amiga was unappreciated in the personal- computer marketplace dominated by Macs and IBMs.

Why didn't Commodore try harder, they wondered.

"They really seemed to believe that if you build a better mousetrap, the world will beat a path to your door," said Brian Jackson, a former Commodore engineer.

Why didn't chairman Irving Gould, who routinely was paid more in a month than most people make in a year, spend more to market the Amiga? Why was their beloved computer left to wither and die?

They may never know.

As is its habit, Commodore, which is incorporated in the Bahamas but keeps much of its corporate offices in West Chester, announced its bad news after the close of the stock market on a Friday. As has also been their habit, Commodore officials have not returned repeated phone calls to answer any of the questions raised by their terse announcement.

Drowning in debt from its recent losses, Commodore did say that it would voluntarily sell off its assets for the benefit of its creditors. Among the creditors is Gould, who lent the company \$17 million in 1993, when the company erased its shareholders' equity with a \$356.5 million loss for the year that ended June 30.

Commodore's overseas subsidiaries were not included in the announcement. What is to become of them, including operations in Europe and Asia, is not known.

The company said it would turn its assets over to an unidentified trustee who would oversee their sale under Bahamian law.

There have been assumptions and rumors among the Commodore cult that Commodore's technology, so adored for its ability to process video images and multimedia applications, will live on. Such theories hold that some other company - perhaps a big Japanese consumer electronics house - will buy the rights to Commodore's proprietary chips. But no one knows for sure, and no companies have made any offers.

At least not in public.

There is also a movement afoot among the small companies and individuals who developed software and peripheral hardware for Commodore to assemble a consortium to buy the technology rights. It is being organized on the Internet, just as a move to gain control of the company's board of directors was pursued this year; that effort failed.

"No one knows what's going on or what will happen," said one Commodore dealer. "There's nothing but guesses and speculation."

*

Paul Higginbottom began tinkering with a Commodore PET computer - PET, for Personal Electronic Transactor - in 1978, when he was still a college student in England. Jimmy Carter was in the White House; Mac's Apple II was not yet on the market, and the IBM PC was three years away.

"I was experimenting with it, writing some programs, just a typical hobbyist kind of guy," he said. "So I showed (Commodore) one of the programs I wrote, and they thought it would be quite useful." In the summer of 1979, he went to work for Commodore.

"What I liked about going to work for Commodore was that it was a new industry," he said. "No one knew where it could really go, but the sky seemed to be the limit as far as where you could go within the company.

"It was a place where the engineers were looking into neat things. The company was innovative."

And it was a leader. As early as 1979, Commodore shipped 80,000 small computers, 14 percent of all the PCs sold that year, according to the market-research firm Dataquest, of San Jose, Calif.

Fueled by the popular Commodore 64 computer, which was introduced in 1982, the company hit its peak in 1984, shipping 3.4 million desktop computers and controlling nearly a quarter of the market.

Of course, 1984 was the year that Apple introduced Macintosh. And it was also about that time that computer firms from the Silicon Valley to Singapore began marketing inexpensive clones of the IBM PC.

Since 1979, Commodore has sold more than 20 million personal computers worldwide, according to Dataquest. Compare that, however, with the universe of IBM-compatible personal computers, of which nearly 30 million were sold in 1992 alone.

Instead of recognizing the pervasiveness of IBM's operating system, Commodore continued to bet on its own system, and upon that isolated foundation built its Amiga computer. And just as Sony's Betamax video format failed to capture the market, even though it was judged superior to VHS, Commodore's Amiga operating system failed to wrest customers from IBM's MS-DOS.

AMIGA'S MARKETING SPOTTY

"I can still remember the introduction of the Amiga" in 1985, said Andy Bose, an analyst at Link Resources Inc., a technology market-research firm in New York. "It was a real media event. It was at Lincoln Center. Andy Warhol was there, Deborah Harry from (the pop group) Blondie. It was truly a rich computer; perhaps it was ahead of its time."

Its lavish introduction aside, Commodore's marketing efforts on behalf of Amiga were spotty. Ad campaigns were launched, then dropped before they could be effective, analysts said.

Eventually, Commodore made an effort to sell IBM-compatible systems in Europe. But the effort, said Dataquest analyst Philippe de Marcillac, was too little and too late.

"If they had just been more wholehearted about things," de Marcillac said, "a lot would have been different."

Many analysts, company insiders, shareholders and other Commodore stakeholders lay the blame squarely at the feet of Gould and his lieutenant, Mehdi R. Ali, the president of the company.

FINGERS POINTED AT TOP

In 1993, when the company lost \$356.5 million, Gould drew a salary and benefits of \$708,333; Ali's salary and benefits amounted to \$1,038,098.

Neither was awarded bonuses that year, according to the company's proxy statement. And for the current fiscal year, Ali had his base salary reduced

from \$1 million to \$750,000, and Gould's was reduced from \$750,000 to \$250,000.

"There is only one answer for what happened to Commodore, and that's Irving Gould," said Tim Bajarin, president of Creative Strategies International, a computer-marketing consulting firm in San Jose.

"He lived by quarterly numbers," Bajarin said of the Commodore chairman. "I don't think he ever understood the computer revolution and what it took to take part in the infrastructure of the computer revolution."

What it took was an operating system common to many computers, Bajarin said. "But he kept moving in proprietary directions."

GOOD AT FINANCE, BUT . . .

Like Gould, Ali knew how to read a balance sheet, Commodore employees said. What he didn't understand was the computer business.

"He was very sharp at finance," said Higginbottom, who left the company in 1991. "He never understood that if you are going to have a proprietary operating system, you have to go to great lengths to support the people who are writing software for your system. Apple understood that. Mehdi Ali did not."

"He just didn't know the computer industry; he didn't understand technology."

For the computer-oriented middle managers at Commodore's offices in West Chester, where employment fell from more than 400 in 1984 to about 20 or so when the liquidation was announced, the result was a harried and unpredictable working environment, former employees said.

"Commodore was just so nuts," said Jackson, the engineer who was laid off in June 1993, when the company seemed to give up any hope for the future by letting go more than half of its engineers. "If it appeared nuts from the outside, it really appeared nuts from the inside.

"You didn't really have a computer company," Jackson said. "Commodore was a widgets company. They wanted anything we could hack together real quick

from existing technology and sell a zillion of them like we did with the Commodore 64. And with that mentality, you can never really support customers."

Indeed, many Commodore observers said, the success of the Commodore 64, which came without an aggressive marketing campaign, may have spoiled Commodore's top managers into believing that such was the way of the computer business.

"So that's what they were always looking for, the next big hit," Jackson said.

When the Amiga didn't provide the big hit, the focus, in 1992, became CDTV, for Commodore Dynamic Television. That product was intended to bring the computer into the homes of people who were afraid of computers. A Trojan horse, the CDTV had a computer on the inside, but no keyboard. It played games and multimedia reference works on the family TV set, controlled by the couch-potato's favorite tool, the hand-held remote control.

But it, too, suffered from a lack of marketing. Analysts said that by the time Commodore brought CDTV and its enhanced successor, CD32, to market, the company's financial situation was too precarious. Credit markets would not provide the funds needed to pay for a major advertising push. The product languished even though some reviewers of CD32 have said it is better than the well-hyped products by Sega and 3DO.

The epilogue to Commodore's sad story is anybody's guess.

"There is so much speculation; people are mentioning Hewlett-Packard and Philips and Sony as possible buyers of the technology," said Michael Levin, a former Commodore employee who heads the Commodore Shareholders Movement, the Internet-linked group that tried to oust the company's management.

"The dream would be a consortium of Amiga developers," he said, acknowledging that such a scenario is, for now at least, fairly far-fetched.

"The dice are being rolled, and anything could happen with the Amiga technology," he said.

Indeed, all that can be said for certain about the future of Commodore and its Amiga technology is that the lawyers are likely to have a field day interpreting Bahamian corporate law.

In the meantime, computer junkies across the globe will be watching events unfold. One young Commodore customer posted this message on the Internet last weekend:

"I am a very shy teenager who grew up with few friends. What did I care? I had my Commodore computers! THEY were my friends. They didn't care about the way you looked, the way you spoke, the way you did ANYTHING! Just press RETURN after every line; that's all they wanted. In a way, I have lost a friend. I cannot say that I didn't give birth to a small tear when I heard the news of (Commodore's) liquidation."