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INSIDE NICARAGUA
A Revolution
Under Fire

AMERICA'S OLYMPICS

A Gold Medal for Los Angeles?



Organizer
Peter Ueberroth

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A Letter from the Publisher

This week's cover story looks at the enormous effort by a group of Southern California businessmen to organize the financing, the facilities and the logistics of the third summer Olympic Games to be held in the U.S. Written by Associate Editor Tom Callahan, the story was largely reported by Correspondent Steven Holmes, who spent three weeks talking with those who have the responsibility of making Los Angeles a comfortable locale for 10,000 athletes and hundreds of thousands of spectators next summer—and of ensuring that Los Angeles does not go broke in the process.

Holmes has had a keen interest in sports since his student days at Mount Vernon (N.Y.) High School, alma mater of such athletes as baseball's Ken Singleton and basketball's Ray Williams and Gus Williams. Holmes was an outfielder on the school's baseball team, but early on ("I was good field, no hit") he decided that journalism might be better suited to his talents. After graduation from City College of New York and the Michele Clark Fellowship Program for Minority Journalists, he got a job as a reporter at the Yonkers (N.Y.) *Herald Statesman*, then moved on to U.P.I. in Dallas and

the Atlanta *Constitution*. He has spent the past 4½ years in TIME's Chicago and Los Angeles bureaus.

For the cover assignment, Holmes interviewed members of the Los Angeles Olympic Organizing Committee (L.A.O.O.C.), including its president, Peter Ueberroth, government officials, law enforcement officers, athletes and representatives from the U.S. Olympic Committee. He also visited a dozen sites in and around the city where the athletes will compete. "I was impressed by the complexity of planning an Olympics," he says, "and also by the dedication displayed by those who are putting on the Games. It is a phenomenon that changes people. This was mentioned time and time again by those involved in the Olympic effort: a security planning chief who can't conceive of going back to being a police division commander, the L.A.O.O.C. head of personnel who doesn't want to return to punching a corporation clock, even the receptionist who is unhappy at the thought of teaching school again. If they can put on the largest Olympic Games ever held, they say, how can they ever return to mundane jobs?"

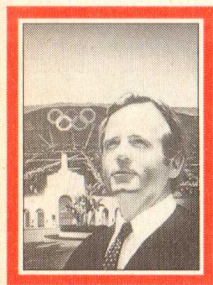


Holmes interviewing L.A.O.O.C. President Ueberroth

John A. Meyers

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Cover: Illustration by Roger Huysen



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Video Games Go Crunch!

As the Christmas season nears, once thriving makers struggle for survival

The imaginary world of video games has always been a treacherous place, full of alien star cruisers, speeding asteroids, menacing centipedes and ravenous Pac-Men. Such dangers, however, are hardly more fearsome than the real-world disasters now battering the manufacturers of the games. With the crucial Christmas season approaching, the once thriving industry is being zapped by overheated competition, an oversupply of games, relentless price-cutting, plunging profits and a new finickiness among young video fans. For the dozens of companies in the contest, the name of the game has suddenly become Survival. Admits President William Grubb of Imagic, which makes *Demon Attack* and *Cosmic Ark*: "Our industry is in chaos."

Warner Communications' Atari, which pioneered home video games with such classics as *Space Invaders* and *Asteroids*, has lost \$356 million so far this year, dropped 3,000 employees from its payroll of 10,000 and finished moving all its manufacturing facilities to Hong Kong and Taiwan. Plagued partly by sluggish sales of Intellivision games, the electronics division of Mattel has run a \$201 million deficit in 1983, while laying off 37% of its 1,800-member work force. Activision estimated that it lost \$3 million to \$5 million in the past three months despite scoring hits with its new *Enduro* and *Robot Tank* games. At Bally, the leading manufacturer of arcade video machines, profits are off 85%.

For the industry leaders the crunch arrived with spaceship speed. Until last year Atari and Mattel were the major competitors. Between 1979 and 1982 their profits surged from less than \$80 million to \$471 million, and the potential seemed unlimited. But their triumphs attracted a fleet of market invaders, including Coleco, Imagic, CBS, 20th Century-Fox, Parker Bros. Milton Bradley and Avalon Hill. By the end of last year, at least 30 firms were in the battle.

Game sales continued to be brisk, but they were not growing fast enough to match the explosion of supply. Retailers, overestimating demand, ordered far too many games and then watched the cartridges pile up on their shelves. The industry now has an inventory of some 35 mil-

lion games, or more than half the number sold all last year. "Everybody's expectations were too high," says Frank O'Connell, president of Fox Video Games. To keep the stock moving, stores are slashing prices. Games that sold for \$30 last year now go for as little as \$5.99. As a result, sales revenues have been flat despite an estimated 33% increase in the number of units sold. Ordinarily, October would

Data Age, a small company in California's Silicon Valley, filed for Chapter 11 protection under the bankruptcy laws after video fans showed little enthusiasm for such games as *Bugs* and *Sssnake*.

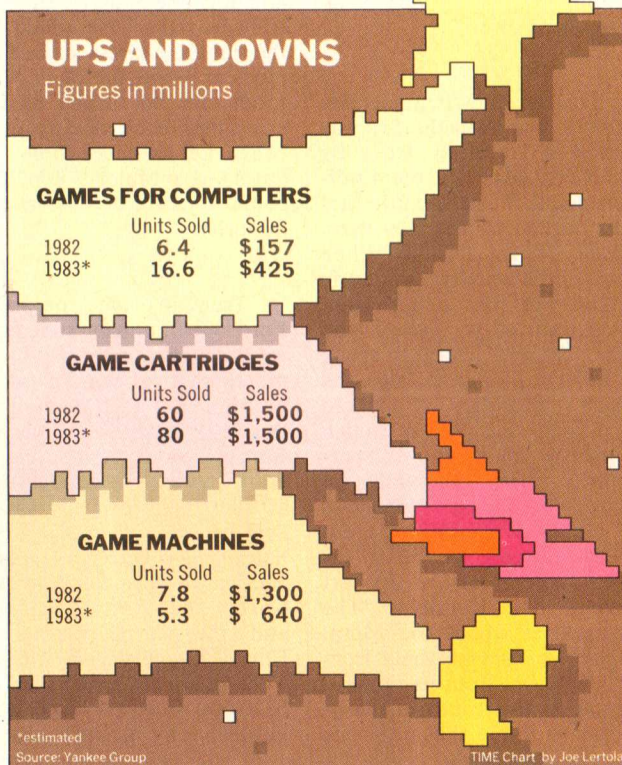
A similar shake-out is happening on the arcade scene. The number of video-game parlors more than doubled between 1980 and 1982, to 10,000, and the machines popped up in motels, supermarkets, pizza joints and college dorms. The

concentration of players in the once teeming arcades, however, has become increasingly sparse, and at least 2,000 of the parlors have closed down this year. In Los Angeles, where the competition is particularly fierce, some arcades are selling eight game-playing tokens for \$1 instead of the usual four. Christopher Kirby, a consumer-electronics analyst for the Sanford C. Bernstein investment firm in New York City predicts that one-fourth of the arcades still open in the U.S. will be forced out of business within a few years. Sales of new machines to the parlors have stalled. Ira Bettelman, vice president of a major arcade-game distributor in Los Angeles, complains of being burdened with inventories of "flops," like *Congo Bongo*, which he now sells for 40% of its original \$2,500 price.

The market for home video games may also be approaching a saturation point. Even some incorrigible joy-stick junkies are getting a bit jaded. Says Rawson Stovall, 11, an Abilene, Texas, sixth-grader who writes a weekly newspaper column for the Universal Press

Syndicate under the name *Vid Kid*: "A lot of manufacturers flooded the market with some poor products. My friends are confused and disappointed by all of the stuff out there. A lot of the games are just not very exciting any more."

While trying to keep customers excited, the video-game industry is being buffeted by the boom in home computers, which can be used to play electronic games. Price wars have pushed the cost of some home computers, including models from Commodore and Texas Instruments, below \$200. As a result, Atari and Mattel machines that do nothing but play games are becoming less attractive and must often be discounted. An Atari 2600 game player, which once cost \$150, is now available for as little as \$59.95.



be the time for stores to stockpile games for Christmas, but retailers are holding back because they are already overloaded.

Slow-selling inventories, price discounts and huge advertising costs have caused the manufacturers' profits to vaporize. Industry experts predict that perhaps one-fourth of the video-game competitors will go out of business. Says Michael Ayers, director of corporate communications at Activision: "A lot of guys who got in for the fast buck are going to disappear." Some firms have already flashed the *GAME OVER* sign. Quaker Oats closed its U.S. Games division in April after a year in the market. "None of our games became a hit," says Spokesman Ronald Bottrell. "Instead of pouring in a lot more capital, we decided to drop it."



An arcade in Sherman Oaks, Calif., after school hours: too many machines, not enough players and competition from home computers

Says the Vid Kid: "A lot of manufacturers flooded the market with some poor products. My friends are confused and disappointed."

To fight back, video-game leaders have forged into the home-computer business. Atari's line (priced from \$199 to \$399) has captured 15% of the market, but Mattel's Aquarius (\$85 to \$100), unveiled last year, is selling poorly. Wall Street has been enthusiastic about Coleco's Adam computer, scheduled to reach stores this month. Besides being able to play Donkey Kong and Zaxxon, the \$600 Adam system includes a high-speed memory, a built-in program for editing text and a letter-quality printer. Before now, assembling a computer system with Adam's features would have cost at least \$1,000. Adam's prospects have been clouded, however, by a *Wall Street Journal* article two weeks ago contending that the computer did not work as well as promised. Last week a Coleco shareholder sued the company, claiming its officers had concealed serious production problems.

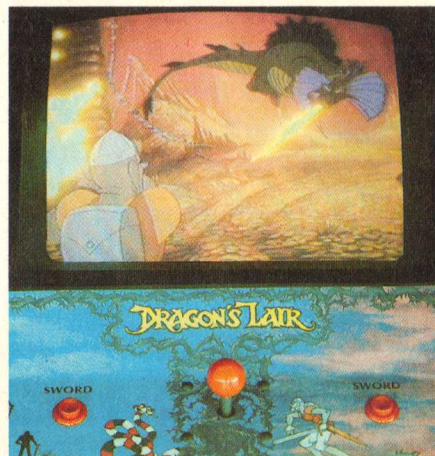
Many companies have avoided the hazards of building computer hardware and concentrated on the games themselves. The strategy at Parker Bros. is to sell multiple versions of games that can be played on a wide variety of machines. Says Parker Bros. Executive Vice President Richard Stearns: "Trying to decide which systems will survive and which will be dinosaurs is a volatile and risky guessing game." The company's new \$28-to-\$40 Q* Bert game, which was designed to be used in eight different computers or cartridge players, jumped to No. 1 on *Billboard's* Top 25 video-game chart within two months of its release.

None of the newest home video games, however, seem to be blockbusters in the same league as Atari's alltime champ Pac-Man, which came out 19 months ago and has sold more than 7 million cartridges at up to \$40. "The day of the big hit looks to be over," says Spencer Boise, a Mattel vice president. Teen-agers seem to be growing

weary of watching blips bounce around on a screen and are demanding more imaginative games with greater realism.

One may have already arrived. At scores of arcades, which have always been the proving ground for new games, players are lining up to try their luck at Dragon's Lair. Unlike any of its predecessors, the game uses a laser video disc to project a movie-like color picture. By wielding a joy stick and mashing a button, a player can direct his own animated cartoon, in which the hero, Dirk the Daring, tries to kill villains, elude traps and slay the dreaded dragon in a gallant quest to rescue the king's imprisoned daughter. Arcades have ordered some 10,000 of the games at an average price of \$4,300 in little more than three months. Ironically, Dragon's Lair is being manufactured by Cinematronics of El Cajon, Calif., an ailing company that has been reorganizing under Chapter 11 for the past year. The firm's president, Jim Pierce, says that Dirk the Daring may save Cinematronics along with the king's daughter.

But Dirk will have rivals in the ar-



New hope: a laser video-disc adventure

cade. Data East USA has begun shipping a laser video-disc game called Bega's Battle, in which a superhero must save the world from destruction by fending off fireballs and dragons. Also expected to reach the arcades soon is Mylstar Electronics' M.A.C.H. 3, which stands for Military Air Command Hunter. The game puts the player in the cockpit of a fighter or bomber, and the laser disc projects film footage of terrain passing below, while the computer generates graphics representing enemy tanks, bridges and factories, which the pilot tries to destroy.

Coleco has bought the rights to produce a home version of Dragon's Lair and hopes to have it ready some time next year. Some companies, however, think the technology of bringing laser video-disc games into the home may be tricky. Says Parker Bros.' Stearns: "We very much want to participate in the laser video-disc market, and we're exploring it. But to rush headlong into this area when the hardware hasn't been perfected would be foolish."

Video-game enthusiasts contend that the industry is in its infancy, like Hollywood in the silent-movie era. Says Clive Smith, an electronics-industry expert at the Yankee Group consulting firm in Boston: "The previous generation of video games was primitive compared with what is coming. This is not a fad. Interactive electronic entertainment is here to stay." Smith thinks that the wizards behind the special effects in today's movies could become the star video-game designers of tomorrow. If that happens, he says, the games will be "very, very lucrative."

Maybe so, but for now the industry faces a rough passage through perilous times. With dozens of companies trying to make the journey, the casualties are bound to be heavy.

—By Charles P. Alexander.
Reported by Lisa Towle/Boston and Richard Woodbury/Los Angeles