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### Policy Brief 2

On October 22, 2016, Time Warner Company and AT&T Inc. entered into a merger agreement. “The potential merger highlights one of the most definitive trends of the modern media business: the push from tech and telecommunications giants to control the lucrative, popular content they once passively supplied” (Fung and Harwell, 2016). In November 2017, the United States Department of Justice filed a federal lawsuit to block the acquisition, arguing that it was anticompetitive. Considering the seemingly easy acquisition of other companies with vertical merges in the past, this came as a shock to many. I agree with the DOJ’s decision to block the merger due to two reasons; the acquisition is anticompetitive considering AT&T’s past acquisition with DirecTV, and the potential market power acquired would hurt consumers more rather than help them.

In 2015, AT&T merged with DirecTV which was a \$67.1 billion deal. DirecTV is a satellite service that is present in households across the United States, Latin America, and the Caribbean. Services include the equivalent of many local television stations, broadcast television networks, subscription television services, satellite radio services, and private video services. Subscribers have access to hundreds of channels, so its competitors are cable television service and other satellite-based services (AT&T Newsroom, 2015). It seems that AT&T is not only competing for content but how it is broadcasted to consumers. By taking part in this acquisition, the company is definitely competing for space next to larger companies such as Google, Facebook, Amazon, and Apple (UVA Today, 2018).

The AT&T and Time Warner merger deal values at over \$85 billion. Time Warner is an American multinational mass media and entertainment conglomerate. It is currently the world's third largest entertainment company in terms of revenue, after Comcast and The Walt Disney Company. It was also once the world's largest media conglomerate. A similar merge occurred in 2009 with Comcast’s acquisition of NBC Universal for \$30 billion. Due to the fact that such a

deal that was approved before, there are many questions as to what makes the AT&T merge different from that of Comcast. One of the biggest differences is how expensive it is. Even after accounting for inflation for the Comcast and NBC Universal deal (over \$35 billion measured March 2018 dollars, BLS CPI Inflation Calculator), \$85 billion is a significant amount of money. Additionally, and like Comcast, they would have ownership over greater amounts of content, including HBO, Turner, and DC Films. AT&T is traditionally a telecommunications company. The company is showing that it would like to expand beyond that, which may not necessarily be ideal for consumers.

Firms usually try to merge when antitrust or competitive laws prevent them from colluding. Therefore, many governments block mergers from happening in order to prevent all the firms in the market from combining and forming a monopoly (Perloff, 2014, 493). In the case of AT&T and Time Warner, it appears that this is what is happening. They've already purchased DirecTV as a subsidiary and has power over a massive broadcasting system. Not to mention AT&T also has another service broadcasting service, AT&T U-Verse. With the purchase of Time Warner, they will have more power over the content that is being broadcasted, most likely over their system. This leads to a reduction in competition, which is greater than an increase in efficiency, as Perloff (2017) describes as a choice of offsetting effects.

According to Christopher Ali, a media studies assistant professor at the University of Virginia, the United States views a monopoly as an acquisition through horizontal integration. "We would be more worried if AT&T were to buy Verizon because they are in the same industry, and much less interested if AT&T were to buy Time Warner since they don't actually compete with one another" (UVA, 2016). AT&T already has an oligopoly-like structure according to Paul W. MacAvoy, professor of Management Studies at Yale School of Management. "Its Lerner Index values clearly resulted from a new collective strategy...Given a market share of 0.40 and the Lerner Index at 0.88, the conjectural variation coefficient had to exceed 1.5" (MacAvoy). It is clear that AT&T has had a lot of power for a long time and is exasperating such power considering, "One can no longer tell what the oligopoly is doing" (MacAvoy).

So what does this mean for consumers? For one thing, consumers will mainly be receiving content through only two companies: AT&T and Comcast. It is fair to consider also that many consumers now, namely millennials, use the internet and other streaming services such as Netflix and Amazon to view content. And to refer to an earlier point, the merge can easily be viewed as a way in which AT&T is trying to compete with these other companies, which is exactly what the government wants; competition. However, if the government decides to go through with this merger, because there would be mainly two competitors in this market, consumers would be very much limited to their choices, especially if they are not a part of the streaming population for content.

There has also been much speculation that the merger's block has political motivations. President Trump openly disagrees with the way CNN, which is owned by Time Warner, portrays his image (NBCNews.com, 2018). In an attempt to find common ground, the Department of Justice proposed that AT&T sell CNN (and others from Time Warner's Turner Broadcasting unit) in order to gain approval for the deal. Parties from AT&T are choosing not to cooperate (Los Angeles Times, 2017). Even though this proposal is not in favor of the company's wishes, agreeing to such deal could potentially decrease the market share that AT&T currently has if the DOJ approved it. Therefore, it would be less of a threat to consumers.

In conclusion, the AT&T merger with Time Warner would ultimately not benefit consumers to their fullest extent due to the reduction in competition. AT&T clearly wants more market power and it has shown with their acquisition of DirecTV years ago, which is a legitimate move if they are trying to compete with larger companies. But in a time where consumers like a wide variety of choice, they would be hurting this desire more than assisting. An acquisition of the third largest mass media conglomerate in the world seemed to be a far-fetched goal even for a powerhouse such as AT&T.

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