**The AT&T-Time Warner Merger: What Are The Pros And Cons For Consumers?**

NPR – Alina Selvukh - October 25, 2016

AT&T wants to buy Time Warner for $85.4 billion, highlighting that the two giants don't compete. But the scope of the deal is already drawing criticism from lawmakers and presidential candidates.

Telecom giant AT&T has reached an $85.4 billion deal to buy media titan Time Warner. The news of this transformational merger has shaken up both industries, [raising eyebrows on Wall Street](https://www.breakingviews.com/considered-view/att-goes-looney-tunes-for-time-warner/) and drawing criticism from lawmakers and even the [presidential campaigns](http://www.npr.org/2016/10/24/499152454/presidential-campaigns-blast-at-t-time-warner-merger).

The deal is expected to face stringent scrutiny from regulators: the Department of Justice, which considers antitrust laws, and potentially also the Federal Communications Commission, which broadly weighs whether deals are in the public interest. (The FCC's involvement [depends on whether](http://www.reuters.com/article/us-time-warner-m-a-at-t-regulators-revie-idUSKCN12O29F) the deal ends up involving broadcast licenses.)

The companies underscore that their deal would combine two entities that don't directly compete in a so-called vertical merger. AT&T is the second-largest wireless carrier, one of the top broadband providers and — thanks to its recent [purchase of DirecTV](http://www.npr.org/sections/thetwo-way/2015/07/21/425111198/fcc-set-to-approve-at-t-directv-merger) — also a major pay-TV provider. Time Warner (not to be confused with Time Warner Cable, which was [recently bought](http://www.npr.org/sections/thetwo-way/2016/04/25/475632490/charters-merger-with-time-warner-cable-nears-regulatory-approval) by Charter Communications) is a massive media and entertainment conglomerate, owner of CNN, HBO, Warner Bros. studio and other assets.

A merger of two noncompeting companies — a content distributor and a content supplier — may not face a public interest test, says New Street Research analyst Vivek Stalam. "So you don't necessarily need to prove that it's absolutely good for the public interest, you just have to prove that it's not bad."

But that's the top question on many consumers' minds: What does this merger mean for me? Below are some of the proposed deal's pros and cons.

**PROS**

**The promise of new kind of content**

AT&T forecasts a new phase of video innovation — and argues that this deal will unleash it.

CEO Randall Stephenson says the company's customers are demanding "[more and more premium content](http://www.npr.org/2016/10/25/499299869/at-t-deal-for-time-warner-casts-renewed-attention-on-cnn)" for their mobile devices — and they want it created, formatted and curated in a way specifically set up for mobility. "As we begin to work with content creators to develop content for this world of mobility, it's proving to be very difficult to get to a world of content that's really curated and formulated for the mobile experience," Stephenson tells NPR's David Folkenflik.

The idea is that having one of the biggest content creators on your side would overcome hurdles in contract and rights negotiations, resulting in more experimentation with mobile video — or "interactive programming" touted by AT&T's general counsel in [a recent blog post](http://about.att.com/newsroom/when_disruption_spurs_innovation_and_investment.html) — or whatever comes next.

**Potential competitor to cable**

AT&T also argues that one day, when the mobile networks reach super-fast 5G, the carrier's nationwide reach combined with Time Warner's success in content creation would offer an alternative to existing choices in cable and pay TV.

"You'd have more packages. If you want a package of more channels, fewer channels, you want it mobile, you want it in your house across all your screens," Time Warner CEO Jeff Bewkes [told CNBC](http://video.cnbc.com/gallery/?video=3000561921).

He also argued that this kind of arrangement would draw in advertisers that would (1) cover some of the costs of programming to lower prices for consumers, (2) use AT&T's data on its subscribers to better target them with more relevant offers. The latter is AT&T's hope to compete with Google and Facebook, which dominate digital advertising.

**NEUTRAL**

"It's not immediately obvious how (the merger) could potentially hurt consumers versus the current environment," New Street's Stalam says. "There are no clear harms from this deal."

And that's a major argument of the companies. "There's no telecom consolidation, not one bit. There is not one bit of media consolidation," Stephenson tells NPR's Folkenflik. "This is a vertical merger; it is not a horizontal merger. This has no effect on competition."

**CONS**

**Potential risk of exclusivity or self-dealing**

Stephenson tells *The New York Times* [that it wouldn't make business sense](http://www.nytimes.com/2016/10/24/business/making-sense-of-atts-bid-for-time-warner.html) for AT&T to restrict the distribution of Time Warner's content, but naturally, that is one of the key issues the regulators are likely to tackle.

The companies' competitors and consumer interest groups are worried that AT&T would use Time Warner's programming as a bargaining chip. "DirecTV, for instance, might favor Time Warner content, crowding out or refusing to carry alternative and independent programming that viewers might prefer," advocacy group Public Knowledge [has argued](https://www.publicknowledge.org/press-release/public-knowledge-responds-to-reported-att-time-warner-merger-deal), also positing that AT&T might try to toy with prices to drive customers to its platforms or exclude Time Warner content [from data caps](http://fortune.com/2016/10/23/att-time-warner-merger-consumers/) on its broadband networks.

A related matter is the question of consumer privacy, with advocates raising questions about AT&T's plans to safeguard consumer data as it pushes to track users across even more screens and platforms.

**Consolidation and risk of higher prices**

This is the antithesis to the idea that the colossal merger would create a competitor to cable and digital advertising giants, potentially lowering prices.

Historically, consolidation does not tend to lower costs for consumers, partially because that's not something regulators typically can prescribe as they place conditions on deals.

"The sorry history of megamergers shows they run roughshod over the public interest," says former FCC commissioner and now consumer interest advocate Michael Copps. "Further entrenching monopoly harms innovation and drives up prices for consumers."

**How Waning Competition Deepens Labor’s Plight**

*The New York Times* - [Eduardo Porter -](http://www.nytimes.com/by/eduardo-porter) Nov. 1, 2016

The [Communications Workers of America](http://topics.nytimes.com/top/reference/timestopics/organizations/c/communications_workers_of_america/index.html?inline=nyt-org) union has learned to appreciate corporate consolidation.

When [AT&T](http://www.nytimes.com/topic/company/att-inc?inline=nyt-org) tried to purchase the rival wireless company T-Mobile five years ago — a deal that was ultimately blocked as anticompetitive — the union [called the proposal](http://www.cwa-union.org/news/entry/cwa_the_facts_support_attt-mobile_merger) “good for American consumers and good for American workers.” Three years later, [it argued](http://www.cwa-union.org/news/entry/cwa_att_directv_merger_can_benefit_workers_consumers_news) that AT&T’s acquisition of DirecTV “provides substantial public interest benefits for consumers, workers and the U.S. economy.”

The union offered concrete reasons for its support, not least that the deals could increase the ranks of unionized workers. In 2010, it [opposed the merger](http://www.cwa-union.org/news/entry/CWA_ComcastNBC_Merger_is_a_Bad_Bet_) of the cable giant Comcast and NBC, which was ultimately waved through by antitrust regulators, partly on the grounds of Comcast’s hostility toward unions.

These days, yet another media leviathan is in the making. If it is approved by regulators, the proposed [$85 billion combination of AT&T and Time Warner](http://www.nytimes.com/2016/10/24/business/making-sense-of-atts-bid-for-time-warner.html) will merge one of the nation’s biggest wireless networks, which also owns a satellite television system, with studios that make some of the most popular movies and television shows.

The Communications Workers’ leadership is now mulling over whether to support the proposition — a spokeswoman said the union was evaluating the merger, but she would not comment further. This time the union might want to change its tune.

The latest deal may pass muster when viewed in isolation. But collectively, mergers at this scale are reconfiguring the American economy in ways that seem to be tilting the scales toward the interests of ever-larger corporations, to the broad detriment of labor.

As Senator John Sherman, the principal author of the nation’s core antimonopoly law, put it more than a century ago, a monopoly “commands the price of labor without fear of strikes, for in its field it allows no competitors.”

Stumped by an economy where wages have gotten stuck for all but the most highly educated, where too many men in their prime working years struggle to stay in the job market, and where women’s long march into the work force has stalled, some economists are turning their attention anew to the role that diminishing competition might have in causing workers’ plight. “I think it is an underappreciated part of the problem,” said Jason Furman, President Obama’s chief economic adviser.

Competition policy can no longer be understood in the narrow terms of protecting consumers from higher prices.

Three years ago, the Nobel laureate economist Joseph Stiglitz proposed that increasing profits from companies managing to avoid normal competitive forces — what economists refer to as “rents” — appeared to be an important factor in the rising share of the nation’s income flowing toward corporate profits and top [executive pay](http://topics.nytimes.com/top/reference/timestopics/subjects/e/executive_pay/index.html?inline=nyt-classifier) in recent years. He surmised that weak labor unions — which represent barely over 7 percent of workers in the private sector — did not have the clout to protect the workers’ share.

Since then, several other studies have presented various channels through which a lack of competition between employers could keep wages down. In [a report](https://www.whitehouse.gov/sites/default/files/page/files/20161025_monopsony_labor_mrkt_cea.pdf) published last month, the White House Council of Economic Advisers, led by Mr. Furman, laid out the case.

In a competitive market, companies will vie with their rivals to hire the best workers, lifting wages up to workers’ “marginal product,” the last cent where their employers could still turn a profit. As productivity grows, wages will be bid up further. Prosperity will spread. But when there are few or no rivals in a labor market, employers will pay much less.

This kind of power doesn’t even require employers to hold absolute monopolies. Employers can collude more easily when there are few competitors. They can more easily impose tough contractual restrictions that make it tough for workers to shop for better jobs.

Competition in product markets does not necessarily translate to competition in the labor market — an exporter that sells into global markets but hires domestically may experience a lot of the former yet little of the latter.

Waning competition in employment can muck up the economy in more ways than one. It slows wage growth, of course. Lacking outside options, workers are much less likely to leave a job. But economic output and employment will suffer, too, because fewer workers will be willing to work for the lower wage.

Not everybody agrees that a lack of competition is having a big impact on the job market. “There is evidence of market power,” acknowledged Michael Strain, a moderate conservative at the American Enterprise Institute in Washington. But “pending further research, my current view is that big macroeconomic forces like technological change and globalization are significantly more important.”

The main reason for falling wages and declining employment is simply that demand for less-skilled work is falling.

Still, American markets have been growing more concentrated. Since the late 1990s, the [share of revenue accruing](https://www.whitehouse.gov/sites/default/files/page/files/20160916_searle_conference_competition_furman_cea.pdf) to the top 50 firms has been rising in most industries. The average age of firms is rising, as fewer new firms have been entering many markets. In some sectors, like health care, there is [clear evidence](http://www.nber.org/papers/w19800) of monopoly profits.

And there is direct evidence that big employers are interested in limiting their workers’ options. [Hospitals in several metropolitan areas](http://economics.emory.edu/home/documents/documents/Depasqualechristina_1.pdf) have been accused in court of colluding to reduce nurses’ pay. In a better-known case, some of the titans of Silicon Valley were [sued by the Justice Department](http://www.nytimes.com/2015/01/15/technology/silicon-valley-antitrust-case-settlement-poaching-engineers.html) for agreeing not to poach one another’s engineers.

Employers have other tools to limit competition in hiring. The Treasury Department has discovered, for instance, that 18 percent of workers are covered by noncompete agreements. They aren’t all high-end engineers with trade secrets in hand. The list includes [fast-food workers](http://www.cbsnews.com/news/should-low-wage-workers-have-to-sign-non-compete-agreements/).

Policy makers can push back against employers’ market power. Strengthening labor unions, of course, would give workers more leverage against dominant employers. Raising the minimum wage would provide a higher wage floor. But it seems there is an opportunity to rethink the nation’s approach to antitrust law, too. It should not be seen exclusively as a tool to protect consumers from sticker shock.

In a speech in September, [Renata Hesse](https://www.justice.gov/opa/speech/acting-assistant-attorney-general-renata-hesse-antitrust-division-delivers-opening), the Justice Department’s acting assistant attorney general for antitrust, argued forcefully that “the antitrust laws were intended to benefit participants in the American economy broadly — not just in their capacity as consumers of goods and services.”

Antitrust enforcement efforts, Ms. Hesse said, “also benefit workers, whose wages won’t be driven down by dominant employers with the power to dictate terms of employment.”

Christopher Shelton is the president of the Communications Workers of America. Maybe he’s listening this time.

**The AT&T-Time Warner Merger: A Match Built on Hope**

The New York Times - By [GRETCHEN MORGENSON](http://www.nytimes.com/by/gretchen-morgenson)  - OCT. 28, 2016

Randall Stephenson, chief executive of AT&T, and Jeffrey Bewkes, chief executive of Time Warner, defended their big merger on CNBC’s “Squawk Box.”

Is [AT&T](http://www.nytimes.com/topic/company/att-inc?inline=nyt-org)’s [$85 billion bid](http://www.nytimes.com/2016/10/23/business/dealbook/att-agrees-to-buy-time-warner-for-more-than-80-billion.html) for [Time Warner](http://www.nytimes.com/topic/company/time-warner-inc?inline=nyt-org) the triumph of hope over experience?

It is certainly true that the last two mega-mergers involving Time Warner fell far short of their promise. After the [1989 marriage](http://www.nytimes.com/1989/07/25/business/time-inc-gains-control-of-warner-within-hours-of-court-approval.html) of Time Inc. and Warner Communications, for instance, it took seven years for investors to see any real gains in the combined companies’ stock.

But even that painful deal paled in comparison to the [2001 merger](http://www.nytimes.com/2001/01/12/business/fcc-approves-aol-time-warner-deal-with-conditions.html) of AOL and Time Warner. That was the worst combination in corporate history, at least until 2008, when Bank of America bought Countrywide Financial, the toxic mortgage lender.

This time it’s different, [contends](http://about.att.com/story/att_to_acquire_time_warner.html) Randall L. Stephenson, AT&T’s chairman and chief executive. He called the merger “a perfect match of two companies with complementary strengths who can bring a fresh approach to how the media and communications industry works for customers, content creators, distributors and advertisers.”

There’s something for all investors in this corporate marriage, AT&T says: Those seeking earnings growth will benefit as well as investors on the hunt for income. For one thing, the company expects the combination to begin adding to earnings the year after it closes — a quick turnaround by traditional standards. And it also says the takeover will improve its so-called dividend coverage. That’s the measure of how much excess cash AT&T has to cover its 5.3 percent dividend.

Company executives always make promises when they announce big deals. But talk is cheap, delivery costly.

This holds especially true for telecommunications shareholders. “The telecom industry has many examples of deals which failed to reach their potential, or destroyed significant value, including investments in content,” Simon Flannery, an industry analyst at Morgan Stanley, wrote in a note published on Monday. After one year, his research shows, the top quartile of telecom deals generated positive returns of around 6 percent; the bottom quartile, meanwhile, showed a roughly 25 percent loss in value.

I wanted to ask Mr. Flannery for more details, but a Morgan Stanley spokeswoman said he was restricted from commenting because the firm is an adviser on the AT&T-Time Warner deal.

AT&T shareholders would surely welcome a lift in earnings if the Time Warner deal were to deliver one. A more immediate concern for investors may be what the merger will mean to the future of AT&T’s beloved dividend. These payouts have been the main reason to own what has otherwise been a lackluster stock.

AT&T’s dividend of 5.3 percent per year, well above the 3.6 percent paid by its peers, according to Bloomberg, has been a lure for investors. It also may have lulled them into complacency about the company’s operations over the years.

During the last five years, AT&T shares have gained 25 percent versus a 67 percent rise in the Standard & Poor’s 500-stock index, not counting dividends. The company’s operational performance has also disappointed. In 2015, AT&T’s net income was 27 percent below the level of two years earlier. Revenue growth is one area where AT&T has outpaced its peers, but much of the 11 percent increase in 2015 from the year before was attributable to AT&T’s purchase of DirecTV and Mexican wireless operations.

Some analysts think the deal for Time Warner could put a dent in the rich AT&T dividend. “Investors should be cautious because in order to maintain the dividend, AT&T has to take on a huge amount of debt,” said Ginette Rowe Beecherl, an analyst at Greenbrier Partners, a money management firm in Dallas. “To the extent that their assets decline as their technology is supplanted, will they really be able to support such a high dividend?”

Brad Burns, an AT&T spokesman, said the company was confident in its ability not only to sustain the dividend, but also to raise it. He said free cash flow generated by Time Warner would help the combined companies bring down debt ratios by the end of the first year after the deal closes. And four years after, the company will be back to its historical target debt range, he said.

“That’s why on Saturday, [we announced](http://about.att.com/story/att_third_quarter_earnings_2016.html) we’ll increase our quarterly dividend for the 33rd straight year,” Mr. Burns added.

Among the 500 companies in the S.&P. index, AT&T is the fourth-largest dividend payer in aggregate dollars, said Howard Silverblatt, senior index analyst at S&P Global. This year, AT&T is expected to pay some $12 billion in dividends. Only Exxon Mobil, Apple and Microsoft pay more.

In recent years, AT&T’s dividend payouts have accounted for 60 to 70 percent of the company’s free cash flow. This compares with a 40 percent average dividend payout ratio among S.&P. 500 companies currently.

To conclude the merger, AT&T’s debt will rise to over $190 billion, from about $126 billion, according to Mr. Flannery at Morgan Stanley. He wrote that this debt load could put the dividend at risk if AT&T’s business deteriorated or its capital expenditures and interest costs rose.

Shareholders are not the only ones benefiting from AT&T’s sumptuous dividend. Some of the incentive pay received each year by Mr. Stephenson and his top lieutenants is tied to the total shareholder return of the company’s stock. AT&T’s hefty dividend makes a big contribution to that total return measure.

Last year, Mr. Stephenson received a compensation package of $25 million, the company’s proxy filing shows. He was the [38th](http://www.nytimes.com/interactive/2016/05/29/business/how-much-ceos-made-last-year.html)-highest-paid chief executive in 2015, according to Equilar, a compensation research firm in Redwood City, Calif.

“AT&T is not a technology company, not a services company and not a utility company — it’s a dividend-paying company.” Ms. Beecherl, the Greenbrier analyst, said. “if it pulls off its latest gamble to remain relevant by acquiring Time Warner, investors will be left with a company with one of the highest levels of debt in the world while its technology is supplanted, and its C.E.O. receives $25 million a year.”

Mr. Stephenson may well be right about the promise of the Time Warner deal. But judging by the 5 percent loss in AT&T shares since the deal was announced, it seems that quite a few of his shareholders aren’t sticking around to find out.