COMMENTARY

Godspeed to AT&T-Time Warner

The $85 billion merger isn't aimed at dominating cable TV. It's an attempt to take on Silicon Valley.

Time Warner and AT&T listings on the New York Stock Exchange. PHOTO: STEPHANIE KEITH/REUTERS

By Michael D. Smith and Rahul Telang

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When the Justice Department filed suit last year to block the merger of AT&T and Time Warner , its argument hinged on seemingly reasonable fears of a monopoly. On Tuesday a federal district court disagreed. "The government has failed to meet its burden," Judge Richard Leon ruled, "to establish that the proposed 'transaction is likely to lessen competition substantially.' "

This is great news for the entertainment industry—and for anybody worried about genuine monopolies. Here's why: In bringing the suit, the Justice Department's antitrust chief, Makan Delrahim, argued that AT&T–Time Warner would quickly dominate the market for cable television, allowing the combined behemoth to raise prices at will. That sounds bad, right? Nobody wants that.

But think about it for a minute. Is this merger really about cable TV? That market is shrinking. Last year only 79% of American households paid for cable or satellite subscriptions, down from 84% in 2014 and from a peak of 88% in 2010. Would AT&T and Time Warner really ink an $85 billion deal merely to gain control of a business in obvious decline?

Of course not. This merger is about something else. It's about where all of those former cable subscribers are going: online. Between 2013 and 2017, the number of streaming-only households in the U.S. tripled. Today nearly 200 million households use a subscription streaming service at least once a month. AT&T–Time Warner wants a piece of this growing market.

The problem is that breaking in isn't easy. Readers of The Wall Street Journal may remember an article last month titled "Tech's Titans Tiptoe Toward Monopoly." Its author, technology columnist Christopher Mims, explained that the unique characteristics of digital markets have allowed a small number of internet giants—among them Amazon, Google, Netflix and Facebook—to dominate their industries and forestall entry by competitors.

These companies have put serious money into customer connections, data analytics and back-end systems, and these investments scale very well. Netflix has penetrated more than half of U.S. households. Google and Facebook control almost three-quarters of online advertising. Amazon does nearly half of all online retail sales. These are astonishing numbers.

Now that these tech giants have established their downstream power in the distribution business, they are beginning to amass upstream power by getting into the content-creation business. Soon, Mr. Mims asked readers to imagine, policy makers might decide they need to regulate Silicon Valley the same way that the steel, rail and telephone industries were in the 20th century.

Given the dominance of Silicon Valley's internet giants, it makes no sense to prevent AT&T and Time Warner from merging. These companies aren't trying to join forces because they want to take control of a dying industry; they want to be allowed to compete in a new one.

Judge Leon's decision was wise. The focus for courts and antitrust agencies today should be to ensure healthy competition in the new entertainment landscape. With any luck, AT&T and Time Warner will shortly be integrating content creation and distribution. Other companies, including Disney , probably will follow suit. That will give them leverage to compete against the tech giants that are fast becoming the dominant entertainment players.

We have no idea who will ultimately win this battle for the future of America's living rooms. But we do know one thing for certain: In a market with more choices, customers will win.

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