Click here for Full Issue of EIR Volume 23, Number 29, July 19, 1996

Time Warner megalomerger is a real stomach-Turner

by Anthony K. Wikrent

Possibly by the end of July, the conditions could be announced by the Federal Trade Commission (FTC) for approval of a $7.5 billion megalomerger in the media sector: the proposed takeover by Time Warner, Inc., of Turner Broadcasting System, Inc., owner of CNN, and other TV channels, TNT, TBS, and media assets.

Everything about this merger is a real stomach-Turner. According to any good, old-fashioned anti-trust concerns, it should be turned down flat. However, the FTC anti-trust regulators have so far been looking at every way to bend the law, in order to accommodate the merger, as reported by media leak sources. In particular, regulators are supposedly devising "conduct remedies" to govern how the merged entities are to operate for a few years—measures that will not require the merger giants to divest themselves of any assets, in order, supposedly, to avoid violating anti-trust laws.

Nominally, the FTC's major concern is ensuring fair competition and access to cable television. But in recent years, they have been approving every kind of polymorphous media combination that has filed a merger proposal. Right now, there are three bidders for acquiring Metro Goldwyn Mayer film studios for, perhaps, $1.5-2 billion, including a bid by media mogul Rupert Murdoch's News Corp. Last year alone, saw two mega-deals effected.

First, there was the $19 billion merger of Capital Cities/ABC Inc. with Walt Disney Co., the second largest of its kind in U.S. history. (On July 31, 1995, billionaire-mogul Warren Buffett made a cool $400 million "fixer fee" off that deal.)

Then, there was the $5.4 billion 1995 purchase of CBS, Inc., by Westinghouse Electric Corp. While Westinghouse set up the world's first commercial radio station decades ago in Pittsburgh (KDKA), and always had a communications subdivision of TV and radio stations, the company name was synonymous with heavy industrial manufacturing. Not now. Besides having media merger credit from J.P. Morgan and other big-name banks, Westinghouse reportedly raised financing for the CBS deal by offering for sale, chunks of its core industrial subdivisions—refrigerated transport equipment, electronics (radar and defense), power generator machinery, etc.

This is a sign of the times. The media merger mania is a symptom of the speculative lunacy launched in the early 1980s by circles connected to George Bush, and, internationally, connected to the radical free trade and deregulation regime of Britain's Margaret Thatcher (prime minister, 1979-90). In the United States, over the past 15 years, money flows going into speculative mergers and acquisitions have far exceeded investment in capital equipment, infrastructure, and essential services. The rate of such speculative maneuvers has increased, as the international financial bubble swells to the bursting point.

The additional element in the Time Warner-Turner Broadcasting proposal, is the megalomaniacal one. The deal would result in a giant conglomerate, with unprecedented power in cable TV programming, cable company ownership, and movie production. The principals involved in pushing this deal—Ted Turner; Edgar Bronfman, Jr., of the Seagram empire; and C. Boyden Gray, of the old line Reynolds financial power and position—are on a tear to see who can win the global game of "Monopoly," in the rush for establishing a monopoly in the mass media field.

The real anti-trust issue is against Big Brother media, of

© 1996 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

the type projected by George Orwell's book *1984*—with a TV screen controlling every person and household. The fascistic implications of this accelerating merger trend in mass communications, are implicit in the Orwellian behavior by the mass media that we have already seen in the coverage of Lyndon LaRouche's campaign for the Democratic Party Presidential nomination. LaRouche received virtually no news coverage by the ABC, CBS, NBC, or CNN national news networks, yet received an average of around 10% of the vote in the primaries in which he ran, compared to Lamar Alexander, who received 23.6% of the network news coverage of the primaries, but received less than half the vote that LaRouche did.

Profiles: Time Warner and Turner

Time Warner, which already owns 18% of Turner, not only provides entertainment "content" through its film studio, Warner Brothers; it also owns a major part of the entertainment distribution network. Home Box Office, for example, is a subsidiary of Time Warner. There are 29.7 million subscribers to HBO, and to Cinemax, which is also owned by Time Warner. Another subsidiary, Time Warner Cable, has 11.7 million subscribers, with potential access to over 6 million more households. That makes Time Warner Cable the second largest cable system in the United States.

Turner has Cable News Network (CNN), the TNT movie channel, the Cartoon Channel, and the production studios New Line Cinema Corp. and Castle Rock Entertainment. Bringing New Line Cinema and Castle Rock together with Warner Brothers studio will account for just under one-quarter of U.S. box office receipts. Turner also owns one of the MGM film and cartoon libraries, which could be distributed over Time Warner's cable systems. Bringing Time Warner's cable operations together with Turner's, would create a monster very few could hope to compete against successfully.

But, the merger involves a larger number of players than just Time Warner and Turner. If the merger goes through, these huge cable operations of Time Warner would be linked to those of Tele-Communications Inc. (TCI), the corporate empire of John Mallone, and currently the largest cable distribution network, with over 13 million subscribers. Through its subsidiary, Liberty Media, TCI owns 22% of Turner. Because the proposed merger is a stock swap, not a cash purchase, TCI's Liberty would end up with 9% of the new Time Warner Turner. Liberty also owns large chunks of QVC, the Home Shopping Network, the Discovery Channel, and the largest group of regional sports networks in the United States.

Mallone is known as the "Darth Vader" of the industry; he has stated on more than one occasion that his strategy is to "own a part of everything." Indeed, since 1984, when the cable industry was deregulated, TCI and Mallone have bought over 150 cable companies, and TCI now has an additional financial interest in 91 cable services in the United States. Mallone is now preparing for a new wave of mergers in other areas, which have been opened to him by the recently passed telecommunications deregulation, which allows cable, long-distance telephone, and local telephone service to be offered by one company, or consortium. Mallone has already linked TCI to two other major cable companies, Cox Enterprises and Comcast, in a partnership with long-distance telephone provider Sprint, to begin developing a nationwide network of cable, telephone, and wireless communications services.

In exchange for agreeing to Turner's merger with Time Warner, Mallone has extracted a sweetheart deal that gives TCI and its subsidiaries a substantial discount on all Turner programming for the next 20 years.

In order to avoid the obvious conflict of having the largest and second largest cable systems come together in this complex web of subsidiaries, Mallone has agreed that his Time Warner shareholdings will be voted, not by TCI, but by Time Warner chairman Gerry Levin. This is not enough for the FTC, which reportedly is pressing for Mallone's stake to be comprised of a special issue of Time Warner Turner stock that will have no voting rights whatsoever.

To further complicate matters, 3.33% of the voting power in Time Warner at present is given to another cable magnate, Alan Gerry, who owns nearly 100% of both the Series E and Series F preferred stock. Another 5.01% of Time Warner voting rights is held by Houston Industries, Inc., as a result of Time Warner's $2.2 billion purchase of Houston Industries' cable systems last year.

A similar problem of concentration arises in the combined firm's holdings of film studios. Time Warner, of course, owns Warner Brothers, the second largest studio, after Walt Disney's Buena Vista studio. Turner owns New Line, the fifth largest studio, and Castle Rock. Here again, matters start to get complicated: 14.51% of Time Warner common stock is owned by the Seagram Co. Ltd., the liquor conglomerate run by the notorious Montreal Bronfman gang. Seagram last year bought 80% of MCA, which owns the fourth largest studio, Universal. So, the Time Warner Turner merger would tie together four major film studios controlling 41.6% of the domestic box office take, compared to Disney's 19.0%. The Warner and Universal studios also produce 27 of the 77 shows on prime time television. Moreover, Ted Turner owns the MGM film library, while Time Warner has a 1990 contract with Giancarlo Paretti, the former MGM studio owner, now awaiting extradition to France to stand trial for fraud, giving Time Warner the right to distribute all MGM movies on video, along with the movies of any company that might acquire MGM.

The megalomaniacs

The Hollywood angle is quite important, for it is the oversized egos of the place that are driving most of this stomach-Turner megalomerger. Reporting on the merger when it was first proposed in September 1995, *Los Angeles Magazine* argued that Levin was responding with enraged "cocksmanship" to the recent $19 billion merger of Disney with ABC/Capital Cities, which displaced Time Warner as the world's largest entertainment company: "Any way you look at it, it's a phallic free-for-all." Alan Gottesman, a media analyst for West End Consulting in New York City, told the *Financial World,* in November 1995, "They're all egomaniacs who keep firing each other."

In Turner's case, it might have more to do with the demands of his wife, Jane Fonda. "I'm tired of being little all the time," Ted Turner gushed the week the merger was announced. "I want to see what it's like to be big for a while." As for Mallone, Porter Bibb, a media-investment banker at Ladenburg, Thalmann told *Time* magazine in October 1995 that Mallone's motive was to gain control of Levin. "Levin is now a puppet on Malone's strings. Malone is never going to be CEO of Time Warner. He'll probably never sit on the board. But he wanted to control Levin, and now he does."

But the big egos to really worry about are those of the Bronfmans. Presently the largest shareholders in Time Warner, the proposed merger would reduce them to third place, with a diluted stake slightly smaller than those of Turner and Mallone. Reportedly, Edgar Bronfman, Jr., who was given the reins to Seagram last year at age 39, is not thrilled with the prospect of being shoved down to the number-three position.

The Bronfman fortune was originally amassed in bootlegging during Canadian Prohibition in the 1910s, then during U.S. Prohibition in the 1920s. Through both decades, the supply of illicit booze that the Bronfman patriarchs, Sam and Abe, depended on, came from the Distillery Company of London, directly owned by the higher echelons of the British nobility, including Field Marshal Haig, Lord Worlavington, Lord Dewar, and the family of Sir Stewart Menzies, the legendary head of British intelligence from the 1930s to 1970s.

When Sam Bronfman died in 1971, the presidency of Seagram was passed on to his son, Edgar, Sr., while Edgar's brother Charles controlled the family's fortune, through his holding company, Claridge, which is the actual owner of the Bronfmans' 36% stake in Seagram. Charles also served as co-chairman of Seagram, a position he still maintains, with Edgar, Jr. at the helm.

A fascination with Hollywood was evidenced by both Edgars. *Canadian Business* magazine reported in October 1994 that Edgar, Sr. attempted to buy MGM in the late 1960s, with the idea of merging it with Time, Inc. Thus, the Seagram stake in Time Warner may very well be largely the result of Bronfman egoism. In any event, it is clear that the Bronfmans have finally been fully accepted as bona fide members of the "new establishment," as decreed by an article in the October 1994 issue of *Vanity Fair.*

Still, given the family's background, and its continued subservience to British imperial policies, the Bronfman stake in Time Warner is the crux of the political problem with the merger. As head of the World Jewish Congress, Edgar, Sr. has been in the forefront of a number of British attempts to kill off the Strategic Defense Initiative, and to maintain Britain's position as the senior U.S. partner in NATO, by seeking to destroy the U.S. relationship with Germany.

C. Boyden Gray and family trusts

Another matter to consider is that 100% of Time Warner's Series C preferred stock, which carries no voting rights, is owned by five trusts of the family of C. Boyden Gray, the White House counsel under former President George Bush. The stock was issued to the Gray family, along with 900,000 shares of common stock, in September 1994, when Time Warner's payment bought Summit Communications Group, a cable system in North Carolina and Georgia, from the family.

This is the same Gray family that financed and supervised the 1946-47 experiment, run out of the Bowman Gray Medical School in Winston-Salem, North Carolina, that tested grade school students to determine their level of intelligence, then surgically sterilized those with the lowest scores. Dr. Claude Nash Herndon, assistant professor of "medical genetics" at the school, who supervised the "experiment," boasted to an interviewer in June 1990 that "we had a very good relationship with the press." At the time, the Gray family owned the *Winston-Salem Journal,* the *Twin City Sentinel,* and radio station WSJS.

More recently, C. Boyden Gray reportedly underwrote the costs of a conference held last year by the Freedom and Progess Foundation, the think-tank of Speaker of the House Newt Gingrich (R-Ga.). An executive of Seagram serves as a director of the foundation.

Reportedly, FTC Chairman Robert Pitofsky wrote 17 years ago that anti-trust regulators must consider the risk that "excessive concentration of economic power will breed anti-democratic political pressure." With the Time Warner Turner merger, what Pitofsky is facing are political influences, most anti-democratic, seeking to exert monopoly control of the U.S. entertainment and news media.

Ted Turner has quite a track record in this regard. His video empire was active in propaganda for the UN environment conference at Rio de Janeiro three years ago, on behalf of London financial circles' anti-industrial, anti-development campaigns. Turner has created an international cartoon network for children, carrying greenie, anti-science shows, in many languages. In 1994, Ted Turner Broadcasting started up a children's video project, on contract with *National Geographic,* to promote the lie that water resources are scarce, and the causes are waste, mismanagement, and overpopulation. "The problem is simply people—our increasing numbers and our flagrant abuse of one of our most precious, and limited, resources," according to "Water: The Power, Promise, and Turmoil of North America's Fresh Water"—a *National Geographic* Special Edition, November 1993. The project involved a school curriculum on water, put in the hands of a 200,000-person network of U.S. teachers. An estimated 6 million children were reached in the first few months.