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THE POLICY AGENDA-SETTING AND DECISION PROCESS:
RESTRUCTURING NIPPON TELEGRAPH AND TELEPHONE

presented by

Hiromi Maenaka

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**THE POLICY AGENDA-SETTING AND DECISION PROCESS:
RESTRUCTURING NIPPON TELEGRAPH AND TELEPHONE**

By

Hiromi Maenaka

A DISSERTATION

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ABSTRACT

THE POLICY AGENDA-SETTING AND DECISION PROCESS: RESTRUCTURING NIPPON TELEGRAPH AND TELEPHONE

By

Hiromi Maenaka

This study tested the policy agenda-setting model as applied to the policy-making process for the restructuring of Nippon Telegraph and Telephone (NTT). The policy agenda is a set of problems that participants in the policy-making process acknowledge the need for governmental action. The decision agenda is the policy agenda that is placed as a legislative agenda. Two categories of variables that affect policy agenda-setting are participants and process. The process has three components: problems, policies, and politics. Two components, when coupled, trigger setting of a policy agenda, however, all three components should merge for a policy agenda to be transformed into a decision agenda.

A qualitative single-case-study method was used. The unit of analysis was organized groups. To incorporate the dynamics of participants into the analysis, special attention was given to personnel changes within the groups. Problems, policy alternatives, and political environment were investigated by analyzing news articles (N=316), government documents, private organizations' publications, and a taped interview with the informant. The effects of interactions among the three components on the movement of a policy agenda were examined by synthesizing events in a systematic and temporal order.

The idea of breaking up NTT continued for nearly a decade and half since the early 1980s. It lost the first and second opportunities of being placed on the policy agenda in 1985 and on the decision agenda in 1990

because of the weak linkage between problems and policy alternatives or the lack of a favorable political environment. This study focused on the third agenda-setting and decision process started with the advisory council's deliberation in 1995 and ended with the adoption of the breakup in 1997.

The period was divided into three stages by the critical events. In the first stage, the breakup of NTT came very close to being submitted to the legislature. However, the delicately balanced coalition cabinet avoided discussing and coming to a vote on it in the unstable political environment. In the second stage, the Ministry of Posts and Telecommunications and NTT were exclusively negotiating for a mutually acceptable solution. The change in the global telecommunications market was commonly identified as a problem threatening Japan's international competitiveness. Meanwhile, the political environment again became to be stable with the recovery of the Liberal Democratic Party's dominance. The shared definition of problems under the favorable political environment generated a breakthrough policy, the breakup with a holding company. Consequently, the cabinet submitted the proposal to the legislature with the assurance of its smooth adoption.

Based on the findings, the study confirmed that the policy agenda-setting model could explain the process through which a policy agenda was established and transformed into a decision agenda in the selected case.

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To Masami and Tane Maenaka,
Yasuko Koyago,
Pepe, and Hanna.

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LIST OF ABBREVIATIONS

AT&T	American Telephone and Telegraph
CAPs	Competitive Access Providers
BT	British Telecom
DDI	Daini Denden, Inc.
DT	Deutsche Telekom
FT	France Telecom
JFTC	Fair Trade Commission of Japan
JSP	Japan Socialists Party
JT	Japan Telecom Co., Ltd.
KDD	Kokusai Denshin Denwa Co., Ltd.
LECs	Local Exchange Carriers
LDP	Liberal Democratic Party
MCI	Microwave Communications, Inc.
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MPT	Ministry of Posts and Telecommunications
NCC	New Common Carrier
NFP	New Frontier Party
NTT	Nippon Telegraph and Telephone Corporation
NTTPC	Nippon Telegraph and Telephone Public Corporation
OECD	Organization for Economic Co-operation and Development
POP	Points of Presence
PSTN	Public Switched Telecommunication Networks
RBOC	Regional Bell Operating Companies

SDP	Social Democratic Party
TTNet	Tokyo Telecommunications Network
TWJ	Teleway Japan Corporation
VPN	Virtual Private Network

CHAPTER I

INTRODUCTION

The telecommunications network functions as one of the most essential media in progressively more information-oriented societies and plays an important role in people's social, cultural, and economic lives. It delivers services that are necessities of daily life, enabling people to communicate, send or receive information, and conduct various transactions. Developing telecommunications technologies, structuring networks, and administering operations are the basic imperatives for fulfilling such functions.

The telecommunications network has a relatively short history as an area of scholarly research in communications. A landmark work was Ithiel de Sola Pool's *The Social Impact of the Telephone*, published in 1977.¹ However, despite its significant contribution through providing "a crystallizing insight" for telecommunications research and attracting the attention of scholars in various disciplines, it "did not stimulate much additional research," especially among scholars interested in the social aspects of the telephone.² Economics and law, on the other hand, have generated a significant amount of research that has provided policy discussions with theoretical bases to shape and regulate the telecommunications industry.

¹ Ithiel de Sola Pool, ed. The Social Impact of the Telephone (Cambridge, MA: MIT Press, 1977).

² Harmeet Sawhney and George A. Barnett, "Introduction," in Harmeet Sawhney and George A. Barnett ed., Progress in Communication Science, Volume XV: Advances in Telecommunications (Stamford, CT: Ablex Publishing, 1998), xi-xii.

The lack of interest in public telecommunications networks among communications scholars is partly a result of their conservatism. They have focused on production and consumption of messages but excluded distribution in which telecommunications plays a part.³ “The issues raised by the telephone do not oblige us by fitting into our neat theoretical categories but instead disrupt disciplinary patterns of thought.”⁴ Then how can communications scholars contribute to knowledge in the study of telecommunications? This dissertation is an attempt to respond to that question by focusing on the process of telecommunications policy making.

Communications scholars who wish to contribute to the study of telecommunications can integrate and synthesize knowledge across different domains.⁵ The field of communications is characterized by its multidisciplinary orientation⁶ and has shown strengths over time by its flexibility.⁷ This researcher made use of such advantages, incorporating theories of political science and communications into the conceptual and analytical frameworks of the study.

³ N. Garnham, “Editorial,” Media, Culture & Society, 14, no. 3 (1992): 339-342.

⁴ Sawhney and Barnett, xiv.

⁵ Douglas Gomery, “The Centrality of Media Economics,” Journal of Communication 43, no. 3, (Summer, 1993): 196; Milton L. Muellur, “Why Communications Policy is Passing ‘Mass Communication’ by: Political Economy as the Missing Link,” Critical Studies in Mass Communication 13, no. 3 (1995): 468.

⁶ William H. Melody, and Robin Mansell, “The Debate over Critical vs. Administrative Research: Circularity or Challenge,” Journal of Communication 33, no. 3 (1983): 103-116; Muellur, 468; Eli Noam, “Reconnecting Communications Studies With Communications Policy,” Journal of Communication 43, no. 3, (Summer, 1993): 205.

⁷ Muellur, 468.

Theme and Purpose of the Study

The process of telecommunications policy making is the central theme of this study. The researcher focused on the policy agenda-setting and decision process. The policy agenda-setting is one of the three traditions in agenda-setting research.⁸ The other traditions are the media agenda-setting and the public agenda-setting which have been attracting communication scholars' interest.⁹ Despite the lack of attention in communication scholars, policy agenda-setting is "of key importance" in understanding the relationships among the three agenda-setting components.¹⁰ Policy agenda-setting, however, is complex involving various political behavior and communication behavior.¹¹

If public policies were developed only by those who act rationally following respected theories and procedures in a logical order, their outcomes would always be predictable. In reality, that is not always the case. Few policy-making processes are so simple as to be almost self-explanatory. Many individuals identify numerous problems. Some problems get on the policy agenda, whereas others never reach that far. Policy agendas change constantly, and people who participate in policy making come and go. The fluidity of policy making often makes one wonder how certain problems get on policy makers' agenda and make them think that some government actions are necessary, or how a certain policy appears on an agenda, moves

⁸ James W. Dearing and Everett M. Rogers, Agenda-Setting, Communication Concepts Series 6 (Thousand Oaks: Sage, 1996), 5.

⁹ Ibid., 16-17.

¹⁰ Ibid., 72.

¹¹ Ibid., 73.

around, and reaches the legislature for judgment. At a glance, the process and the outcome of policy making appear to be random, involving many variables.

Based on Cohen, March, and Olsen's "garbage can model of organizational choice,"¹² Kingdon developed a model to explain the patterns prevalent in the process of policy agenda-setting. Policy agenda-setting depends on two independent variables: participants and process. The process is composed of three streams¹³: problem, policy, and political. Each stream has discrete participants who play various roles in it. In the problem stream, the participants identify and define problems. In the policy stream, the participants look for, develop, and choose alternative policies to solve those problems. In the political stream, the participants create the political environment that either facilitates or inhibits the progress of agenda-setting.¹⁴

A problem or a policy is more likely to reach a policy agenda when the policy window opens and the coupling of two streams takes place. There are four types of coupling. In the problem stream, participants may find a policy alternative as a means of solution, whereas in the policy stream, participants may find a problem as a means of justification. The problem and the policy may separately be placed on a policy agenda in a certain political

¹² Michael Cohen, James March, and Johan Olsen, "A Garbage Can Model of Organizational Choice," Administrative Science Quarterly 17 (March 1972): 1-25.

¹³ Kingdon uses "stream" as the policy agenda-setting process is fluid and continuous. John W. Kingdon, Agendas, Alternatives, and Public Policies, 2nd ed. (New York: Addison Wesley Longman, 1995), 86-88.

¹⁴ Kingdon, 90-164.

environment. When three streams merge, there is a chance for the policy alternative to be placed on a decision agenda.¹⁵

Kingdon's policy agenda-setting model has been tested and found applicable to a number of policy-making processes in various policy areas in the United States and a few other Western countries. The application of the model to telecommunications policy making, however, has been limited. Moreover, the model has seldom been tested using cases in non-Western countries, Japan in particular, where cultural and institutional differences have been claimed to significantly affect the policy-making process.¹⁶ To fill the void, this researcher applied the policy agenda-setting model to the telecommunications policy-making process in Japan and tested whether the model can readily explain that process.

Research Questions

Guided by the policy agenda-setting model, the researcher tested the hypothesis that the policy window opens when coupling takes place and that all the streams--problem, policy, and political, have to merge before a policy agenda is placed on a decision agenda. In testing this hypothesis, the following questions were posed:

1. What are the general characteristics of the problem?
2. What institutions are involved in the policy making?

¹⁵ Ibid., 165-195 passim.

¹⁶ See Shumpei Kumon, Shumpei, "Japan as a Network Society," in Shumpei Kumon and Henry Rosovsky, eds., The Political Economy of Japan: Cultural and Social Dynamics, 3rd ed. (Stanford, CA: Stanford University Press, 1992), 109-141; and Daniel Okimoto, "Nihon no Seiji-kenryoku (Japanese Political Power), NIRA 3, no. 4 (1990): 17-18, for examples.

3. Who participates in each stream? What are the goals and the incentives of the participants?
4. What problems do the participants identify? How do they define the problems?
5. What alternative policies do the participants generate, favor, or choose?
6. What political environment affects the policy agenda-setting and decision process ?
7. Under what circumstances does a policy agenda transform into a decision agenda?

Background for the Selection of a Case

In many countries, the telecommunications industry was organized as a monopoly for most of its history.¹⁷ However, during the last two decades, a series of regulatory reforms have altered the ownership and structure of the industry. The public telecommunications networks in industrialized countries, formerly owned and operated by the states, have been going through the process of privatizing and accommodating themselves to competition with the entrance of rapidly evolving new communications technologies and services.

The first wave of telecommunication infrastructure liberalization took place in a few countries between 1984 and 1990. Japan, New Zealand, and the United States were among the pioneers who liberalized the provision of public switched telecommunication networks (PSTN). The United Kingdom

¹⁷ Robert W. Crandall and Leonard Waverman, Talk is Cheap: The Promise of Regulatory Reform in North American Telecommunications (Washington, DC: The Brookings Institution, 1995), 1.

liberalized its telecommunications market as early as 1984; however, it granted a license to only one entrant and had a duopoly until 1991.

The second wave, during the early 1990s, enveloped such countries as Australia, Canada, Korea, Finland, and Sweden, although there was some variation in the degree of liberalization.¹⁸ The evidence for the benefits of liberalization brought about the third wave, which has been sweeping the Organization for Economic Co-operation and Development (OECD) countries since the late 1990s. By the early 2000s, no PSTN monopoly will exist in the OECD countries.¹⁹ The wave of infrastructure liberalization has been diffusing to the developing countries as well, although the reasons for liberalization and the outcomes expected from it are sometimes different from those of the developed countries. For example, many countries in Latin America that were facing economic difficulties wanted to generate capital for the governments from privatization to expand and modernize their telecommunications networks, whereas several African countries wanted technologies to be transferred by liberalization, allowing foreign investment.²⁰ Nonetheless, competition in the telecommunications market as a policy choice is becoming a matter of course everywhere in the world.

¹⁸ Australia adopted a duopoly. Canada opened a part of its market segments. Korea liberalized international services in 1991.

¹⁹ The countries that have already liberalized their PSTN are Netherlands in 1997, Belgium, France, Germany, Ireland, Italy, Luxembourg, Norway, and Spain in 1998. Korea starts local competition in 1999. Portugal will introduce competition in 2000. The Czech Republic, Greece, Hungary, Poland, Turkey will open the market for competition between 2001 and 2006. See OECD, Communications Outlook 1999 (Paris: OECD Publications, 1999), 12.

²⁰ International Telecommunication Union, General Trends in Telecommunication Reform 1998 – World Vol. 1 (Geneva: ITU, 1998), 3.

Despite the extensive adoption of policies for competition, the degree of competition and market growth varies from one market to another, depending on the regulatory frameworks that significantly affect the entries and performance of entrants. The OECD report indicates that liberalization in long-distance and international service markets induced greater competition²¹ than that in local-access markets.²² It also evidenced that increased competition made prices for long-distance and international calls fall substantially, whereas de facto monopoly remained and kept prices at the same or even higher levels in local markets.²³ An exception to the general tendency of persistent market dominance of incumbents may be found in Finland, where the privately owned incumbents of the local-loop market captured their market share in the long-distance market from the state-owned incumbent during the first year of liberalization. The case in Finland suggests that carriers controlling the local loop have a better chance to gain a market share in the liberalized long-distance market than entrants seeking a market share in the long-distance market without ownership of the local loop.²⁴ As long as the incumbents hold the local-loop bottleneck, the issue of stimulating competition in local markets remains a challenge for policy makers and regulators in many countries.

²¹ The new entrants in the US and the UK held more than 50 percent of international market share. See OECD, Communication Outlook 1999, 29 for international market share of new market entrants in other countries.

²² New entrants in OECD countries provided less than 0.9 percent of the access lines in 1997. See OECD, Communication Outlook 1999, 19.

²³ OECD, Communication Outlook 1999, 173, 176.

²⁴ OECD, Communication Outlook 1997, 23; P. M. Nattermann and D. D. Murphy, "The Finnish Telecommunications Market: Advantage of Local Access Incumbency," Telecommunications Policy 22, no. 9, (1998): 757-773.

Meanwhile, the environment surrounding the telecommunications industry has changed considerably. Rapid technological innovations have transformed the ways in which consumers communicate and transmit information. The Internet and mobile telephones, for instance, have rapidly diffused to households. Consequently, the nature of local telecommunications services has been changing significantly.

In the United States, for example, local markets were dominated by the baby Bells following the breakup of AT&T in 1984. Then in 1996 the Telecommunication Act allowed all companies to compete in all markets, including telephony, television, and information services. Consequently, several mammoth mergers across the diverse communications industries have been taking place, such as, SBC and Ameritech, AT&T and TCI, and MCI and WorldCom. More recently, MCI WorldCom and Sprint, and Bell Atlantic and GTE, are seeking possible merger deals. Moreover, a few global telecommunications operators have been forming alliances with each other across continents.

In these circumstances, stimulating fair and effective competition in dynamic telecommunications markets has become one of the most urgent and important issues for telecommunications policy makers and regulators. Different paths toward the development of a sound telecommunication market may exist. However, few economic theories provide a definite structural model for achieving such development. It is still not known precisely how to develop and maintain a competitive market that maximizes benefits to consumers and maintains fairness among firms in the market.

Since early 1980, restructuring the telecommunications industry has been considered one of the top priorities to prepare for the coming of an information-based global society in Japan. The U.S. model of breaking up the

incumbent gave Japanese policy makers a procedural example for promoting competition. The breakup of NTT was on and off the policy agenda for almost 15 years until it was finally decided in June 1997. The breakup was implemented in July 1999.

Because a strong converging force has been integrating the world major telecommunications operators for the last several years, some people may think that the breakup of NTT, at this time, is an anachronism.²⁵ Although Japan has one of the most developed telecommunications sectors of advanced telecommunications technologies, only a few comprehensive studies have been undertaken on the telecommunication policy-making process. Japan is truly an underreported country on this subject. The present study about the process of the restructuring of NTT is expected not only to add an empirical test of the policy agenda-setting model but also to assist in understanding Japanese telecommunications policies in general.

Overview

The dissertation consists of seven chapters. Chapter I served as an introduction. It started with a brief review of the functions of the telecommunications network as it has become an area of study in communications. Subsequent sections provided the theme and the purpose of the study, followed by a brief explanation of the model and a presentation of research questions. A discussion of the recent situation in world telecommunications industries and policies provided a background for selecting the case that was analyzed in this study.

²⁵ "Hanging on the Line: Telecoms in Japan." The Economist, 24 February 1996, 338, no.7954, p. 67.

Literature on policy agenda-setting is reviewed in Chapter II. In this chapter, the researcher conceptualizes the study for the empirical test.

The methodology used in conducting the study is explained in Chapter III. The methods of data collection and analysis are specified.

The telecommunications policy-making institutions in Japan are described in Chapter IV.

Chapter V contains a history of the breaking up NTT before the 1995 Telecommunications Council's review of the status of NTT. The writer explains how the idea was generated, put on the policy agenda, and eventually shelved in 1985 and 1990.

In Chapter VI, the writer presents the results of the analysis along three stages of the policy-making process, from the beginning of the Telecommunications Council's review of the status of NTT in 1995 to the promulgation of the breakup in 1997.

Chapter VII concludes the dissertation. The chapter answers the research questions. Limitations of the study are discussed, and directions for future research are proposed.

CHAPTER II

THEORIES OF THE POLICYMAKING PROCESS

Introduction

Economists have achieved a great deal identifying structure and characteristics of the telecommunications industry. They have also helped to explain the relationship among the structure, conduct, and performance of the telecommunications industry under different policy settings. Economists have been and will be playing central roles in studies of the telecommunications industry and policies.

The telecommunications industry recently has been very dynamic, experiencing rapidly increasing diversity and complexity. The problems and the challenges for policy makers have become so intricate that few can readily and straightforwardly find solutions with confidence. Under such precarious circumstances, the outcome of a set of policy decisions is becoming much more obscure than conventional economic models could predict. Even the most up-to-date academic research has not been keeping abreast of new challenges. As Laffont and Tirole commented, “important policy decisions have been and are being made on ad hoc reasoning in the absence of clear guidance from economic theory.”¹ Increased uncertainty about future industry performance has caused the people at stake to develop varied scenarios, relying on often limited and ambiguous information. Hence, telecommunications policy making has become increasingly controversial.²

¹ Jean-Jacques Laffont and Jean Tirole, Competition in Telecommunications (Cambridge, MA: MIT Press, 1999), xiii.

² Gerald W. Brock, Telecommunication Policy for the Information Age: From Monopoly to Competition (Cambridge, MA: Harvard University Press, 1994), 61.

The study of telecommunications policy ought to be more inclusive with the understanding of the process through which the policies are formulated and take effect. It is important to know how various people at stake identify problems, develop various policy alternatives, discuss the issues, and reach consensus on either adoption or rejection of particular proposals. Theories dealing with the political aspect of policy making guided the researcher to investigate whether consistent patterns and a general structure exist in telecommunications policy making.

Political scientists have tried to explain and generalize policy-making processes. Three approaches--systems theory, structural functionalism, and the policy cycle--have been taken, each of which focuses on the process of policy making with distinctive assumptions.³ Systems theory views the political system as a mechanism through which problems as input are processed to produce policy as output to meet the public demand. Policy making is seen as achieving a clear set of goals with a feedback loop. The strength of the systems theory approach is that it allows us to identify the interrelationship of the participants and institutions. It does not answer the questions about how the policy decisions are made.⁴ Structural functionalism is an attempt to discover the functions that the political system must carry out to deal with the problems or achieve the goals, and the structures that will facilitate its performance. It focuses on the functions of various institutions.⁵ The policy-cycle approach views policy making as “a dynamic

³ Stella Z. Theodoulou, “The Contemporary Language of Public Policy: A Starting Point,” in Stella Z. Theodoulou and Matthew A. Cahn, eds., Public Policy: the Essential Readings (Englewood Cliffs, NJ: Prentice-Hall, 1995), 3.

⁴ Ibid., 4.

⁵ Ibid., 4-5.

ongoing process” involving learning. The focus is on how the policy is made and improved.⁶

The Rational Model and the Incremental Model

In earlier studies of the policy-making process, two models were generated: the rational model and the incremental model. The rational model portrays policy making in terms of a logical sequence of several stages of activity, including problem recognition and issue identification, agenda setting, policy formulation, policy adoption, policy implementation, and policy analysis and evaluation. In the problem-recognition and issue-identification stage, a problem or a set of problems catches the attention of policy makers. Agenda setting is the stage in which government officials and interested private parties give the issue status a matter for serious attention and discussion. Once an issue is on the policy agenda, the policy process moves ahead to policy formulation, where various conferences are held to seek potential solutions and to develop proposals for dealing with the issue. The proposals are then debated and voted on for support and adoption. In the policy-implementation stage, the government fulfills its mandate through various measures using its resources. The final stage is policy analysis and evaluation, which involves examining the outcomes of policy implementation. The process constantly moves through the stages. The process does not stop at the final stage but continues back to the first stage with the feedback from analysis and evaluation.⁷

⁶ Ibid., 5-6.

⁷ Stella Z. Theodoulou, “How Public Policy is Made,” in Stella Z. Theodoulou and Matthew A. Cahn, eds., Public Policy: the Essential Readings. Englewood Cliff, NJ: Prentice-Hall, 1995), 86-7.

Despite the frequent use of the rational model of policy making, empirical evidence has failed to indicate a logical policy process.⁸ The selection and perception of problems are not objective.⁹ The first four stages often intermingle with each other when the problem is many-sided posing multiple issues in a dynamic environment.

The incremental model focuses on making necessary changes and revisions in existing practices. It involves making policy one small step at a time and is intended to deal with present problems and to seek solutions with only minor alterations to the current system and regulations.¹⁰

The incremental model is suitable for describing government policy-making processes in areas in which there are already established and rather stable policies. Afraid of negative outcomes of their decisions, people inside the government sometimes hesitate to take big steps. However, the incremental model does not explain those agenda changes of considerable magnitude that take place rather suddenly.¹¹ Empirical case studies have indicated that incremental approaches are prevalent in the development of policy alternatives and proposals even when the agenda changes abruptly and discontinuously.¹² The incremental-model perspective is, therefore,

⁸ David A. Rochefort and Roger W. Cobb, "Problem Definition, Agenda Access, and Policy Choice," Policy Studies Journal 21, no. 1, (1993): 56. See Aaron Wildavsky, The Politics of the Budgetary Process, 3rd ed., (Boston: Little Brown, 1979), for example.

⁹ David Dery, Problem Definition in Policy Analysis (Lawrence, KS: University of Kansas Press, 1984), xi.

¹⁰ Charles E. Lindblom, "The 'Science' of Muddling Through," Public Administration Review 19, (1959): 79-88.

¹¹ Kingdon, 79-80.

¹² Ibid., 80-82.

necessary in understanding and explaining the nature of developing alternatives and formulating proposals.¹³

Policy Agenda-Setting

Kingdon focused on the process by which an idea becomes a policy agenda.¹⁴ He developed a model that explains why some problems arise to be placed on policy agendas, why some policy alternatives receive more attention than others, and how problems and alternatives reach decision agendas. This study was based on Kingdon's policy agenda-setting model, which was reinforced with other relevant works. The discussion starts with definitions of terms, followed by conceptualization.

Definitions

Participants are all of the individuals inside and outside the government who are involved in various stages of the policy process.

A *problem* is a condition that presents uncertainty, confusion, complication, and/or difficulty. An *issue* is "a conflict between two or more identifiable groups over procedural or substantive matters relating to the distribution of positions or resources."¹⁵ A policy issue is a conflict whose resolution necessitates some governmental action. A problem is not an issue unless it involves disagreement between groups in their perceptions about its cause, severity, solution, and other related elements.

¹³ Ibid., 83.

¹⁴ Kingdon, 1-2.

¹⁵ Roger W. Cobb and Charles D. Elder, Participation in American Politics: The Dynamics of Agenda-Building (Baltimore and London: Johns Hopkins University Press, 1983), 82.

Policy agenda is a set of problems to which the people who take part in the policy process pay serious attention, acknowledging the need for governmental action at any given time.¹⁶ It is “specific, concrete, and limited in the number of items.”¹⁷ Some policy agendas become *decision agendas* when they placed in the legislature for active decisions.¹⁸ *Policy alternatives* or *proposals* are measures that might be taken to cope with the problems and are therefore solutions to the problems. Members of the policymaking community narrow all conceivable alternatives to a set of proposals for serious consideration.¹⁹ A typical decision agenda involves the question of whether a certain policy alternative or proposal should be adopted as a measure to solve the problem at hand.

Policy agenda-setting is the process through which problems are placed on the policy agenda and ultimately to the decision agenda. Problems or alternatives need serious attention before they are put on the policy agenda. A policy agenda that carries both problems and alternatives for solving the problems has a chance of moving up to a decision agenda in certain political environments. This process generally accounts for a substantial part of the policy-making process.

¹⁶ Kingdon, 3. Cobb and Elder call this type of agenda the “institutional, government, or formal agenda” interchangeably. This study uses the policy agenda to avoid confusion.

¹⁷ Cobb and Elder, 87.

¹⁸ Kingdon, 4.

¹⁹ Ibid.

The Process of Policy Agenda-Setting

Kingdon used the “garbage can model” of organizational choice²⁰ to elucidate the process of agenda-setting, alternative specification, and policy formation. The policy agenda-setting model explains the patterns prevalent in public policy making, focusing primarily on the “predecision processes” from problem identification to decision agenda-setting in the United States.²¹

The model involves two major categories of variables that affect the policy process. The first category includes “the participants who are active in the process.” The second category is “the process by which agenda items and alternatives come into prominence.”²²

Participants. Some participants are more active and influential than others are in one or more of the policy-making stages. The participants who are active and influential in a particular stage may be less active or even absent in other stages. Some are visible actors who receive considerable press coverage and public attention, whereas others are “hidden” from the public.²³ Who are those participants? How are they involved in each stage of policy agenda-setting, specification of alternatives, and decision? Identifying the participants and their roles and activities is the first step in understanding one of the two factors that affect the policy-making process.

Kingdon categorized participants by their locations, either inside or outside the government. The administration, civil servants, and Congress, for example, are participants inside of the government. Interest groups,

²⁰ Cohen, Michael, James March, and Johan Olsen, 1-25.

²¹ Kingdon, 196.

²² Ibid., 15.

²³ Ibid., 199.

academics, the media, and public opinion are participants outside of the government.²⁴ Kingdon states that “the line between inside and outside of government is exceedingly difficult to draw”²⁵ because people outside of government sometimes hold positions within the government. However, the classification of participants is still meaningful because some participants within the government have “a formal decision-making authority” and others are “bound by rules of accountability.”²⁶

Cobb, Ross, and Ross recognized three models of different initiatives that may account for variations in policy agenda-setting.²⁷ The outside-initiative model describes the situation in which a group outside of the government “articulates a grievance” and “expands interest in the issue to other groups in the population in order to gain a place on the public agenda.” Consequently, decision makers are moved to put the issue onto the formal agenda for their serious consideration.²⁸ The inside access model describes the situation in which people inside the government initiate the agenda building and expand it to particular influential groups in placing it on the decision agenda.²⁹ In the mobilization model, the political leaders are active participants who choose issues to put on the agenda and transfer the issues from a systemic agenda to a government agenda by actively mobilizing the

²⁴ Ibid., 21-70 passim.

²⁵ Ibid., 45.

²⁶ Ibid.

²⁷ Roger Cobb, Jennie-Keith Ross, and Marc Howard Ross, “Agenda Building as a Comparative Political Process,” American Political Science Review 70, (1976): 126-138.

²⁸ Ibid., 132.

²⁹ Ibid., 135.

relevant public through effective use of symbols and mass media.³⁰ Parties and elected officials may initiate changes in the agenda reflecting changes in control and balance of their political power.³¹ Issues may also be elevated to the agenda through the diffusion of ideas among professionals and bureaucrats.³²

Processes. The garbage can model, as applied to policy making, reflects the view that the government is “an organized anarchy” of order and disorder.³³ The agenda at any given time depends on the mix of garbage in the can. The garbage originates from three separate streams: the *problem stream*, the *policy stream*, and the *political stream*. Figure 1 illustrates the process of policy agenda and decision agenda settings.

The Problem stream: The problem stream is participated by people in and out of the government who identify problems. There are three means of identifying some conditions with problems. The first is the use of indicators, which sometimes show a problematic condition. Indicators measure the magnitude and change of the condition. The second means is “a focusing event” such as “a disaster, crisis, personal experience, or powerful symbol” as a firmer indication of a problem, confirming “a preexisting perception,” or taking it as the reinforcement of other events of similar problems. The third

³⁰ Ibid., 132-135; Cobb and Elder, 82-159.

³¹ Benjamin Ginsberg, “Elections and Public Policy,” American Political Science Review 70, (1976): 41-49; Barbara D. Sinclair, “Party Realignment of the Political Agenda,” American political Science Review 71, (1977): 940-953.

³² Jack L. Walker, “The diffusion of Innovations Among the American States,” American Political Science Review 68, (1969): 880-899.

³³ Cohen, March, and Olsen, 16.

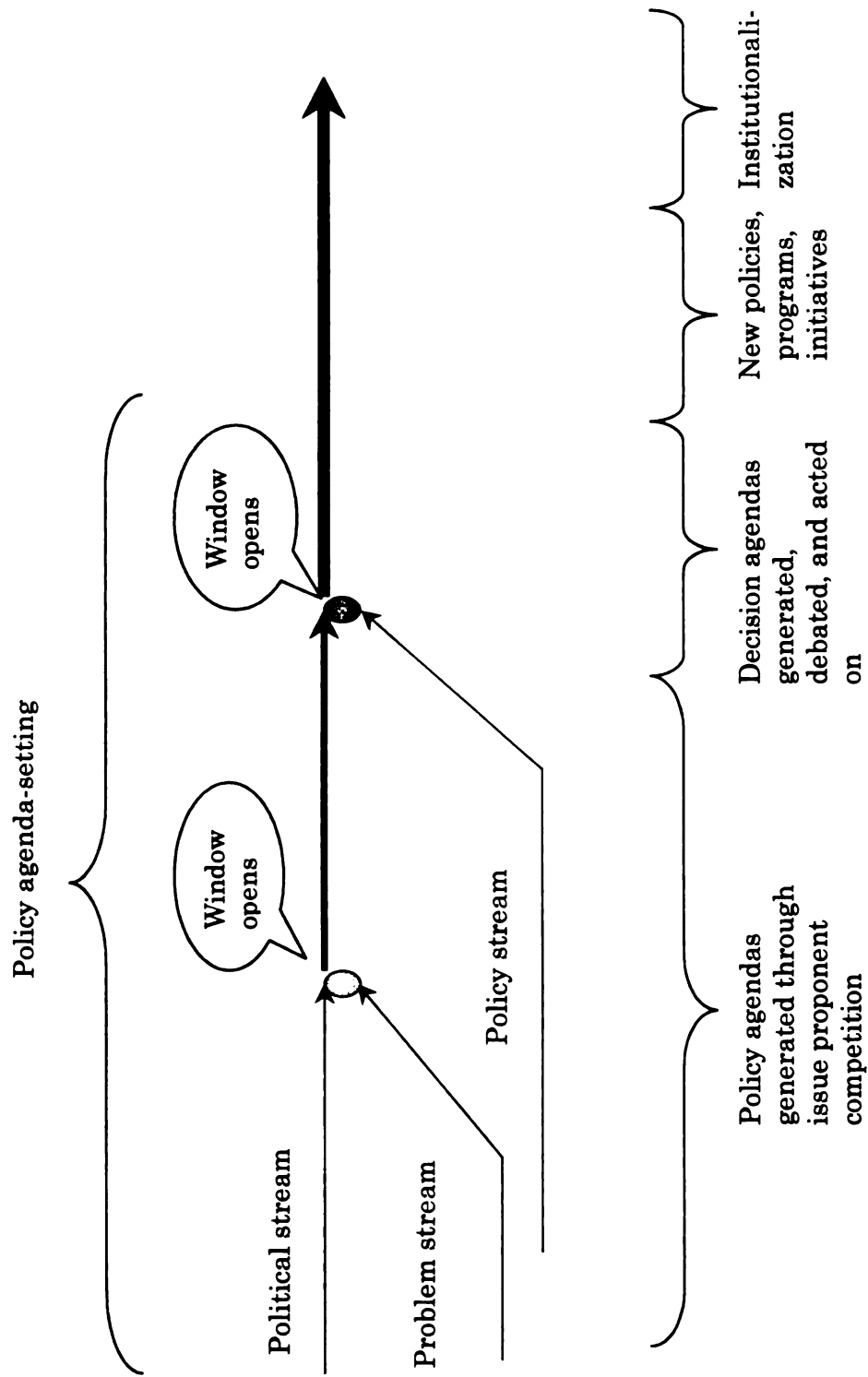


Figure 1. Agenda-setting in policy making process

means is formal and informal “feedback about the operation of existing programs.”³⁴

Conditions become problems only when they are defined as problems. Problem definition is, therefore, a fundamental part of policy agenda-setting in which a certain condition is perceived, interpreted, and described as a problem. Because the problem definition involves subjective translation of conditions, it is affected by three factors: values of the person who defines, comparisons with some comparable others, and categories into which problems are classified.³⁵ As “policy problems are socially constructed” by beliefs and values,³⁶ there are always possibilities for multiple definitions of a problem.³⁷ Blumer connected policy making with the concept of “collective definition,” in which social problems are formed, approached, and considered for the solution.³⁸

Recent investigators looked for one or more of the four major themes in problem definition: causality, image, solutions, and people who define the problem.³⁹ Causality concerns what produced the problem or who/what is responsible for the problem.⁴⁰ Image deals with symbols attached to the

³⁴ Kingdon, 90-103.

³⁵ Ibid., 109-113.

³⁶ Cobb and Elder, 172-173.

³⁷ Ibid, 173; Aaron, Wildavsky, Speaking Truth to Power: The Art and Craft of Policy Analysis (Boston: Little Brown, 1979), 57.

³⁸ H. Blumer, “Social Problems as Collective Behavior,” Social Problems 18, (1971): 301.

³⁹ Rochefort and Cobb, 58.

⁴⁰ See D.A. Stone, “Causal Stories and the Formation of Policy Agendas,” Political Science Quarterly 104, (1989): 281-300.

problem and the policy alternatives. The image itself, as well as the change in image, affects the subsequent policy process.⁴¹ Studies with the theme of solutions have focused on how solutions determine the way a problem is defined. Problems are defined in terms of solutions; in other words, problems without a solution will not be given serious consideration.⁴² The theme of people who define the problem concerns the relationship between problem definition and the attributes of the people.

Among the themes that characterize problem definition,⁴³ problem causation, nature of the problem, and nature of the solution are particularly useful in distinguishing differences in definitions of primarily economic problems among participants. Causation characterizes a problem in terms of whether the cause of that problem is personal or impersonal, intended or accidental, blame allocated or blame avoided, and simple or complex. Nature of the problem has five subcategories: severity, incidence, novelty, proximity, and crisis. Severity denotes the degree of severity of the problem. Incidence defines the problem by determining whether it is growing, stable, or declining. Novelty defines the problem according to whether it is unprecedented or familiar. Proximity defines the problem based on whether it is personally relevant or a general social concern. Crisis defines whether the problem is a crisis or non-crisis, an emergency or a non-emergency. Last, nature of the solution defines the problem according to availability, acceptability, and affordability.⁴⁴

⁴¹ Frank R. Baumgartner and Bryan D. Jones, Agendas and Instability in American Politics (Chicago: University of Chicago Press, 1993), 27.

⁴² Wildavsky, Speaking Truth to Power..., 42.

⁴³ Rochefort and Cobb, 59.

⁴⁴ *Ibid.*, 61-68.

As Kingdon noted, “there are great political stakes in problem definition.” Some gain benefits whereas others suffer losses, depending on how problems are defined.⁴⁵ Some agree with others on one dimension but disagree about other dimensions. Thus, the gap between policy participants in problem definition can generate conflict and controversy. The wider the gap, the greater the conflict and controversy.

The policy stream: The policy stream is the process by which proposals about problems and issues are generated, debated, redrafted, and accepted for serious consideration.⁴⁶ The process often takes a long time and involves reiterating a sequence of activities—generating and exchanging ideas, drafting proposals, debating the proposals, and revising them in response to reactions—until final proposals are accepted for serious consideration. The policy stream eventually results in a short list of proposals to be put on the decision agenda.

Active participants in the policy stream include various policy specialists who have knowledge of and interest in a particular policy area. They are the members of the policy community for that policy area. The lineup of members varies, depending on the policy areas.⁴⁷ Staff members of various government agencies, academics, congressional committee members, industry representatives, and analysts and consultants for various organized groups are some of the members of policy communities.

Some policy communities are characterized as closed or tightly knit when the members of those communities hold narrowly defined ideas. Other

⁴⁵ Kingdon, 110.

⁴⁶ Ibid., 143.

⁴⁷ Ibid., 117.

communities are considered diverse and fragmented when members hold widely varied ideas. The extent of closeness or fragmentation among members of a policy community manifests itself in the cohesiveness and consistency of the policy making. Whereas a fragmented community is likely to lead to policy fragmentation and instability, a tightly knit policy community communicates better and “generates common outlooks, orientations, and ways of thinking.”⁴⁸

In addition to members of policy communities, there are people labeled policy entrepreneurs who are willing to invest their resources and advocate their ideas within and outside of the policy communities. Their incentives include promoting personal interests, promoting their values, affecting public policy formation, and enjoying participation in policy making.⁴⁹

Many policy alternatives or proposals can be generated and considered. Some survive and others do not. The selection process is “evolutionary.” The evolution takes place, not by mutating new inventions but rather by recombining familiar elements to create a new package of alternatives and proposals.⁵⁰

What makes certain ideas and proposals become prominent in the policy community? Policy entrepreneurs not only initiate discussions of their proposals but also try to promote their ideas, educating the members of policy communities, people inside and outside of government, and the public. They use various communication channels--for example, public speeches, lobbying, reports, and media interviews. It may take a while for a proposal to spread;

⁴⁸ Ibid., 119-120.

⁴⁹ Ibid., 122-124.

⁵⁰ Ibid., 124.

however, advocacy and education are essential before the proposal receives serious consideration.⁵¹

To survive, proposals must meet certain general criteria. First, proposals deserving serious consideration should work when implemented. In other word, they are feasible. Second, they are compatible with the values of the members of the policy community. Third, they satisfy some future constraints: budgetary cost, politicians' approval, and public acceptance.⁵² Eventually, the policy stream reduces the number of proposals to a few that meet the criteria. Having qualified proposals "dramatically increase[s] the chances for placement on a decision agenda."⁵³

The Political stream: The political stream flows separately from the problem and policy streams. It promotes or inhibits high agenda status.⁵⁴ It consists of the public mood, degree of consensus and power balance among organized groups outside the government, and events inside government such as election results, changes in power distribution in the legislature, changes in members of the administration, and changes in staff of government agencies.⁵⁵

Public mood is what a "rather large number of people out in the country are thinking along certain common lines."⁵⁶ It changes from one time to another. Not only public mood itself but also changes in public mood

⁵¹ Ibid., 127-131.

⁵² Ibid., 131-139.

⁵³ Ibid., 144.

⁵⁴ Ibid., 163.

⁵⁵ Ibid., 145.

⁵⁶ Ibid., 146.

significantly affect policy agenda-setting and outcomes as participants sense the public mood through communication channels and reflect their perceptions of that mood in their policy-making activities.⁵⁷

The degree of consensus among organized groups influences what government officials do in policy agenda-setting. They tend to support and accommodate proposals when organized groups share a high degree of consensus. On the other hand, when there is conflict, government officials judge the balance of power among organized groups primarily by the frequency and intensity of communications and the resources they have.

In the political stream, consensus is more likely to build through bargaining than through persuasion. Participants who rigidly held their positions in the early political processes join coalitions for particular proposals as an issue starts moving. They support a particular proposal either for promised benefits or out of fear that they might lose the opportunity to be benefited.⁵⁸ As they observe that a proposal is likely to be adopted, they jump in to support it in one way or another.⁵⁹ Even initial opponents of the proposal may compromise and introduce their own proposals, trying to find a middle ground or to integrate their interest into the proposal.⁶⁰ This sometimes causes a “sharp agenda change.”⁶¹

Opening policy windows and coupling. Opening a *policy window* presents an opportunity for advocates to push their favored solutions or to

⁵⁷ Ibid., 146-149.

⁵⁸ Ibid., 161.

⁵⁹ Ibid., 162.

⁶⁰ Ibid., 159-162.

⁶¹ Ibid., 163.

stimulate attention to their special problems.⁶² The window opens at a particular time and closes at another time. The timing of the policy window's opening and closing is sometimes predictable, such as when a policy has a regular schedule for review and renewal. The timing is quite unpredictable at other times.

The policy window opens when a change takes place in the problem stream or the political stream. In the problem stream, for example, the window opens when a problem grows more serious, or a crisis or an event takes place and captures the attention of government officials. In the political stream, the policy window may open when changes occur in the administration, legislature, or other political actors. The interaction between two separate streams "couples" problems with proposed solutions, problems with political actors, or proposals with political actors. When coupling occurs, the policy window opens and an issue may become a policy agenda. The policy window, however, does not stay open but closes after a short time without allowing advocates to push their proposals up to a decision agenda. The probability that a policy proposal will move up to a decision agenda increases if all three streams, problem, policy, and politics, converge at one point in time; that is, problems are recognized, policy proposals are available, and a favorable political climate exists.

Kingdon's greatest contribution to understanding the policy agenda-setting process is that his model provides at least three independent variables--problem, policy, and political climate--that significantly affect that process. The concepts and theories have been tested and supported in a

⁶² Ibid., 165, 203.

number of case studies.⁶³ Zahariadis confirmed the usefulness of the model in the privatization of telecommunications in the United Kingdom and France, and the privatization of British railways.⁶⁴

The model has given some people the impression that the policy agenda-setting process works at random. It has also disappointed those who seek more deterministic models that specify necessary and sufficient conditions for accurate predictions of the future.⁶⁵ Kingdon recognized that the policy agenda-setting process is highly “fluid” and “not tidy and tight,” and he argued that the model generally explains the process well and has “room for residual randomness” to meet the facts in the real world.⁶⁶

Mucciaroni pointed out that the model ignores structural and historical factors.⁶⁷ However, Kingdon argued that the model incorporates historical factors, assuming that “what happens at one time depends on what happened previously.”⁶⁸ He admitted that institutions are so important because they constitute constraints on policy making. Baumgartner and Jones stated that some policy issues are assigned to particular government levels or

⁶³ Kingdon presented seven cases in health, transportation, budget, and tax reform. See Kingdon for a description of each case.

⁶⁴ Nikolaos Zahariadis, “To Sell or Not to Sell? Telecommunications Policy in Britain and France,” *Journal of Public Policy* 12, no. 4, (1992): 355-376; Nikolaos Zahariadis and Christopher S. Allen, “Ideas, Networks, and Policy Streams: Privatization in Britain and Germany,” *Policy Studies Review* 14, no. 1/2, (Spring/Summer 1995): 71-98; Nikolaos Zahariadis, “Selling British Rail: An Idea Whose Time Has Come?” *Comparative Political Studies* 29, no. 4, (1996): 400-422.

⁶⁵ Kingdon, 222.

⁶⁶ Ibid.

⁶⁷ Gary Macciaroni, “The Garbage Can Model and the Study of Policy Making: A Critique,” *Polity* XXIV, no. 3, (Spring 1992): 465-472.

⁶⁸ Kingdon, 224.

institutions with jurisdictional authority.⁶⁹ Jurisdictional authority and change in jurisdiction affect the problem and policy streams. Policy institutions, therefore, should be included as an intervening variable.

The model can be visualized through an analogy. The policy agenda-setting and decision process consists of three streams of different ingredients. Each stream flows separately through a landscape shaped by the institution. The stream runs fast or slow at times. It gets turbulent or calm. It may dry up and disappear completely. It may join the other streams and become a river depending on the nature of ingredients or the landscape. When three streams merge in a certain landscape or under certain conditions, they form a river with a considerable current.

Empirical Test

The process by which a public policy is made is often dynamic and complex. Models that have the potential to generate theories need to survive empirical tests. Kingdon's policy agenda-setting model has been supported in case studies concerned with several policy areas in the United States.⁷⁰ In addition, the model was tested and supported in cases dealing with privatization of telecommunications in the United Kingdom, France, and Germany.⁷¹ This researcher attempted to expand the applicability of the model to telecommunications policy making in Japan. She investigated, retrospectively, the policy agenda-setting and decision process for

⁶⁹ Baumgartner and Jones, 32-35.

⁷⁰ See Kingdon, 209-221, "The Reagan Budget in 1981," "The Tax Reform Act of 1986," and "Health Care Reform During the Clinton Administration in 1993" for examples.

⁷¹ See Zahariadis, and Zahariadis and Allen.

restructuring NTT by breaking it up into one long-distance and two local companies.

The writer attempted to identify the participants in each stream and describe the process through which the policy agenda and later the decision agenda for the breakup of NTT were set, deliberated, and decided. In addition, she investigated the history that the breakup of NTT became an issue and the structure of Japanese policy institutions. History and institutional structure were assumed to specify the context and the condition in which the process moved.

CHAPTER III

METHOD

The Case Study Approach

This researcher used the qualitative single-case-study method to test the policy agenda-setting model. The case selected for study was the policy-making process for the restructuring of Nippon Telegraph and Telephone Company by breaking it up into three companies under a holding company.

The case study is “one of the more important methods of political science analysis”¹ because it “permits specific and systematic examination of each component”² of policy making. It also enables one to analyze the interrelations between components and to measure their effect on the policy decision.³

The case study approach is appropriate when a study has somewhat broad research questions covering contextual conditions along with the phenomenon under study. Multiple sources of evidence are used.⁴ This approach is also suitable when “the context is hypothesized to contain important explanatory variables about the phenomenon.”⁵ As the policy-

¹ Theodore Lowi, “American Business, Public Policy, Case-Studies, and Political Theory,” World Politics 16, no. 4, (July 1964), 677.

² Donald Hellmann, Japanese Foreign Policy and Domestic Politics: The Peace Agreement With the Soviet Union (Berkeley and Los Angeles: University of California Press, 1969), 4-5.

³ Quansheng Zhao, Japanese Policymaking: The Politics Behind Politics: Informal Mechanisms and the Making of China Policy (Westport, CT: Praeger Publishers, 1993), 11.

⁴ Robert K. Yin, Applications of Case Study Research (Newbury Park, CA: Sage Publications, 1993), xi.

⁵ Ibid., 31.

making process involves a series of events taking place over time, this study required the historical approach as well.

“Case studies are particularly useful in the theory-building process.”⁶ However, each case “can only contribute in part to theory building and will have its own limitations.”⁷ It is important for researchers using the single-case-study approach to recognize that the findings may be idiosyncratic and to avoid overgeneralizations.

Data Collection

First, the researcher conducted a search for relevant public documents and literature to answer the questions about the general characteristics of the problems, the policy institutions, a history of the restructuring of NTT, and the final policy-making process leading to the decision.

Obtaining information related to Japan’s public policies often is difficult. Government agencies are involved in most research projects on public policy issues but keep almost all documents only for internal use. Only a few documents are published and distributed for public use. Japanese vertical social linkage, maintained by trust and loyalty of group members, allows information to be shared only within a specific group, whether it is a ministry, an agency, a department, or an academic circle. Intense horizontal rivalries often exist between groups. Thus, members of different groups are reluctant to share information with each other.⁸ However, due to a growing awareness

⁶ Zhao, 11.

⁷ Ibid.

⁸ Ichiko T. Morita, “The Promise of Cyberinformation,” in Ichiko T. Morita ed., Symposium: CyberJapan: Technology, Policy, and Society (Washington, DC: Library of Congress, 1996), 1-2.

among the Japanese concerning their right to public information, the government enacted Joho Kokaiho (Information Disclosure Act) in 1997. Nonetheless, the act leaves the government agency considerable discretion in selecting the categories of information to release; some information is still not open to public.⁹

After the above mentioned difficulties were overcome, the search effort yielded a number of documents published by government offices throughout the course of the policy making in question, from 1995 to 1997. They included reports on the status of NTT, minutes of the Telecommunications Council's hearings, the final report of the Telecommunications Council's Special Subcommittee on the Status of NTT, policy guidelines for the reform, the draft bill to revise the NTT Corporation Law, and the Basic Policy for Restructuring NTT. Selected proceedings of the General Assembly of the House of Representatives and those of the House of Councilors were also obtained. Information on NTT was obtained from various reports and documents published by NTT. Selected economic statistics and indicators concerning about the telecommunications industry in Japan and the status of NTT were collected from Tsushin Hakusho (Telecommunications White Paper), Denki Tsushin Tokei and Joho Tsushin Tokei (Telecommunications Statistics),¹⁰ NTT's business reports, and a few other sources.

Articles from newspapers and periodicals also were collected for analysis. One hundred sixty-seven newspaper articles from Nihon Keizai Shinbun were collected, based on a search of headlines and key words in all morning and evening issues from April 6, 1995 to the end of June 1997.

⁹ Ibid., 4-5.

¹⁰ The title changed from Denki Tsushin Tokei to Joho Tsushin Tokei in 1996.

Additional articles from Asahi Shinbun and Yomiuri Shinbun were collected through a search of headlines and key words for the same period to supplement Nihon Keizai's coverage. Ninety articles from Asahi and 59 articles from Yomiuri were gathered.

There are theoretical and practical reasons for using articles from a few newspapers. First, few scholars would deny the media's substantial involvement in policy agenda-setting. Baumgartner and others found that media attention and legislative attention are positively related, although causality has not been clearly established.¹¹ Some researchers found that the media play an active role in policy agenda-setting. Linsky argued that the media's influence on problem definition and solution formation is relatively large.¹² The media draw public attention to policy-related issues by "highlighting some events, activities, groups, personalities, and so forth," claiming conditions as problems or concerns, and linking events with issues.¹³ Further, the media mobilize ideas among people, especially the participants, without making direct contacts. Iyengar argued that the media do framing and priming. The media frames give an issue a particular meaning and

¹¹ Frank R. Baumgartner, Bryan D. Jones, and Beth L. Leech, "Media Attention and Congressional Agendas," in Shanto Iyengar and Richard Reeves, eds., Do the Media Govern? Politicians, Voters, and Reporters in America (Thousand Oaks, CA: Sage, 1997), 349-363.

¹² Linsky, Martin, Impact: How the Press Affects Federal Policymaking (New York: W. W. Norton & Company, 1986), 87-118.

¹³ Engel Gladys Lang and Kurt Lang, "Watergate: An Exploration of the Agenda-Building Process," in G. Cleveland Wilhoit and Harold Beck, eds., Mass Communication Review Yearbook Vol. 2, (Beverly Hills, CA: Sage, 1981), 465. Hall, S. and others saw that the media reproduce the definitions of those who have power rather than form their own definitions. Refer to Stuart Hall, C. Critche, T. Jefferson, J. Clarke, and B. Roberts, Policing the Crisis: Mugging, the State, and Law and Order (New York: Holmes & Meier, 1978), 57.

increase its importance by emphasizing selected aspects of the issue.¹⁴ By priming, the media affect the criteria with which audience members judge issues.¹⁵

Second, news-media reporters obtain information related to policy through press clubs located in every important government agency, political party, and faction headquarters in Japan. Such information takes the form of briefings, lectures, and press releases. In addition, reporters gather a tremendous amount of information through direct contacts with individuals in each government unit.¹⁶ As NTT originated from a public corporation run by the MPT, until 1999 it allowed a press club to continue to station reporters in its head office, hold regular interviews with the president and other executives, obtain press releases, and gather other news.¹⁷

When reporters determine the value of information and select a news item for a particular story, they often discuss it with colleagues from other news media. They also do not want readers to judge their capabilities based on the contents of news items. "As a result there is a tendency among reporters to pack together and to monitor each other and to share the news with other media representatives." The ultimate result of such a tendency is relatively conservative and uniform coverage across the news media.¹⁸ In

¹⁴ Shanto Iyengar, Is Anyone Responsible? How Television Frames Political Issues (Chicago: University of Chicago Press, 1991), 11.

¹⁵ Ibid., 133.

¹⁶ Ofer Feldman, Politics and the News Media in Japan (Ann Arbor: University of Michigan Press, 1993), 194.

¹⁷ Toshihide Kanda, "Masukomi no Shoten: Aoi-Kurabu no Rekishi ni Maku, (Focus in Mass Communication: the End of the Historical Aoi Club)," Shinbun Kenkyu, 575, (June 1999), 82-84.

¹⁸ Feldman, 194-195.

addition, news stories are less likely to be extremely biased. Considering these unique characteristics of Japanese political news reporting practice, the newspapers that carried comprehensive coverage of the policy making for the restructuring of NTT were sufficient for the purpose of this research.

Nihon Keizai Shinbun is the “most influential business newspaper” in Japan, the Japanese equivalent of the Wall Street Journal. Although Nihon Keizai’s share of nationwide distribution is 11.1 percent, it is viewed as essential reading by most Japanese business executives. Asahi’s nationwide share is 30.4 percent; the paper has kept its “leftist flavor” and maintained the image of an “intellectual paper” characterized by serious tone and somber makeup. Yomiuri has the largest share (36.2 percent) among Japanese daily newspapers and is “more conservative and pro-government.”¹⁹ As the breakup of NTT was an issue that affected both the business community and general consumers, this selection of newspapers was deemed appropriate.

Scant literature and few public documents supplied information about what was going on from September 1996 to December 1996, when the MPT and NTT engaged in dialogue to reach consensus. To fill in the missing information, the researcher conducted and tape-recorded an interview with the then-director of NTT’s legal department, who was actively involved in the entire process. Later, the researcher reviewed the tape and extracted the factual responses for analysis.

¹⁹ Ibid., 11.

Method of Analysis

First, the researcher reviewed the pertinent literature to understand the economic theories, policy institutions, and history of the restructuring of NTT before the 1995 Telecommunications Advisory Council's deliberations. Then, the collected data were systematically analyzed to answer the research questions concerning the policy-making process surrounding the breakup of NTT. The analysis was done in four steps. During the first step, the government documents were examined to develop a chronology of major institutional events. Only the events that had direct relevance to the analysis were marked and put in chronological order. The chronology provided the researcher with the overall development of the policy-making process. Then the process was divided into three stages separated by the critical events. The critical events were determined based on whether they shifted the process to a different phase. In the second step the collected data was sorted and organized chronologically according to the three stages.

The unit of analysis for participants was primarily organized groups. The organized groups included, business firms, trade associations, trade unions, political parties, government institutions, and research institutes. The individuals who participated in one or more stages were identified with the organized groups that they belonged to and represented in the policy-making process. Each organized group was assumed to have some distinct and exclusive interests that should manifest themselves in the definition of problems and the specification or preference of alternatives. The distinctive interests of the participating groups were identified by analyzing published statements and discourse of group members in the data.

The interests of an organized group might be dynamic throughout the course of policy making. Individual participants, therefore, needed special

attention when the behavior of an organized group changed along with internal personnel affairs, for example, appointments of new executives of a firm or new leaders of a political party, the election of a new Prime Minister, and reshuffling of cabinet members. Individuals whose roles were significant in the process were analyzed at the personal level.

During the third step, the data from each stage were examined to identify participants, their publicly expressed ideas and opinions, and their reported actions and communication behavior. In examining journalistic articles, factual descriptions were carefully distinguished and extracted. Factual descriptions concerned who did or said what, how, where, and when, or what happened and how, where, and when it occurred. In the final step, the findings from the third step were synthesized to answer the research questions.

CHAPTER IV

TELECOMMUNICATIONS POLICY INSTITUTIONS IN JAPAN

Introduction

The laws and regulations that govern the telecommunications industry are the products of policy making. Just like any manufacturing process, the policy-making process has multiple stages. It involves generating ideas for developing a set of policy proposals to make things work, solve existing problems, or improve the systems and functions of existing policies. The ideas follow many layers of processes to be shaped, fabricated, refined, examined, and approved before they become a formal proposal to be discussed at a legislative body. It often takes a long time for the ideas to go through the processes to be developed into policy proposals and to be finally adopted. Some parts of the particular policy-making process are highly structured, whereas others have few formal structures. The telecommunications policy-making institutions in Japan are described in this chapter.

Institutions of Telecommunications Policy Making

Policy making in a democratic country involves multiple institutions. In the United States, for example, there are plural regulatory bodies, at both the federal and state government levels, each of which has its own legislative, judicial, and administrative systems that govern telecommunications policies. In Japan, telecommunications policy making is completely under the national government's jurisdiction. Japanese government branches comparable to those of the United States are the Diet as the legislative branch, the Ministry of Justice as the judicial authority, and the Cabinet and various ministries as the main administrative organs for their respective jurisdictions.

The structure of the Japanese government is shown in Figure 2. The Diet consists of the House of Representatives and the House of Councilors. The House of Representatives is comparable to the Congress and the House of Councilors is comparable to the Senate in the United States.

The Cabinet consists of the Prime Minister's Office and 12 ministries that have jurisdiction over specific administrative issues. Telecommunications is generally under the control of the Ministry of Posts and Telecommunications (MPT). Other administrative departments that are frequently involved in telecommunications are the Ministry of International Trade and Industries (MITI), the Ministry of Finance (MOF), and the Fair Trade Commission (FTC). The MITI has jurisdiction over manufacturing industries and international trade of services and procurement. The MOF has been the largest shareholder of NTT stock. It held 100 percent of NTT shares as a national asset when NTT was privatized. The shares were periodically released to the public, and the proceeds were put into the government budget. Due to the unfavorable stock prices since 1988, the MOF postponed further release and still held more than 60 percent of NTT shares in 1995. The FTC monitors unfair practice in business and takes necessary actions when it detects activities in violation of the antitrust laws and regulations. Unlike the FTC in the United States, the Japanese FTC interprets antitrust laws "rather loosely" and treats cases generously.¹

¹ Megumi Komiya "Japan's Changing Telecommunications Industry: Analysis of Competition, Market Power, and Regulation" (Ph.D. Diss., Michigan State University, 1990), 83-89.

The criteria for antitrust decisions include “international competitiveness, production efficiency, world market share, industrial orderliness, technological virtuosity, and adaptation to shifting comparative advantage” in addition to “firm size, price, and market concentration.”²

Unlike in the United States, Japan’s Ministry of Justice seldom gets involved in telecommunications policy making. Telecommunications is not an exception but an indication of the fact that the Japanese Supreme Court tends to be reluctant to go against the political decisions of the Diet and a willingness to “defer to what the Diet majority has voted.”³

Four organizational divisions in the Ministry of Posts and Telecommunications are presented in Figure 3. The departments that handle matters related to telecommunications policies are the Minister’s Secretariat, the Communications Policy Bureau, the Telecommunications Bureau, and the Telecommunications Council.

The Minister's Secretariat conducts a wide range of activities aimed at taking responsibility for telecommunications and broadcasting administration. Their functions include preparing and distributing official documents, generally coordinating important matters, formulating general policies, supervising studies, providing secretarial functions for various councils, investigating crimes under their jurisdiction, handling personnel affairs, overseeing budget management and settlements, doing supply-and-demand planning for materials and contracting construction of facilities,

² Daniel I. Okimoto, Sugano, T. and Weinstein, F. B., eds., Competitive Edge: The Semiconductor Industry in the U.S. and Japan (Stanford, CA: Stanford University Press, 1984), 111, cited in Komiya, 85.

³ Edwin O. Reischauer, The Japanese (Tokyo: Charles E. Tuttle, 1977), 263.

acquiring and disposing of real estate, and formulating general policies for international affairs.

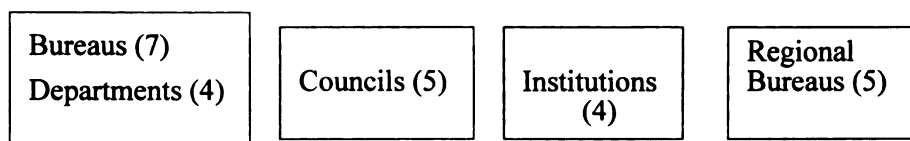


Figure 3. Organizational structure of the Ministry of Posts and Telecommunications (as of July 1, 1995)

Source: Management and Coordination Agency, ed., Gyosei Kikozu (Organizational Structure of Government) (Tokyo:Gyosei-Kanri Center, 1996), 207-208.

The Communications Policy Bureau is in charge of planning, formulating, and promoting basic and general telecommunications policies. It covers a broad area of information and communications infrastructure development. The Bureau takes the initiative in guiding the nation's future telecommunications as well as in coordinating various efforts with global telecommunications environments.

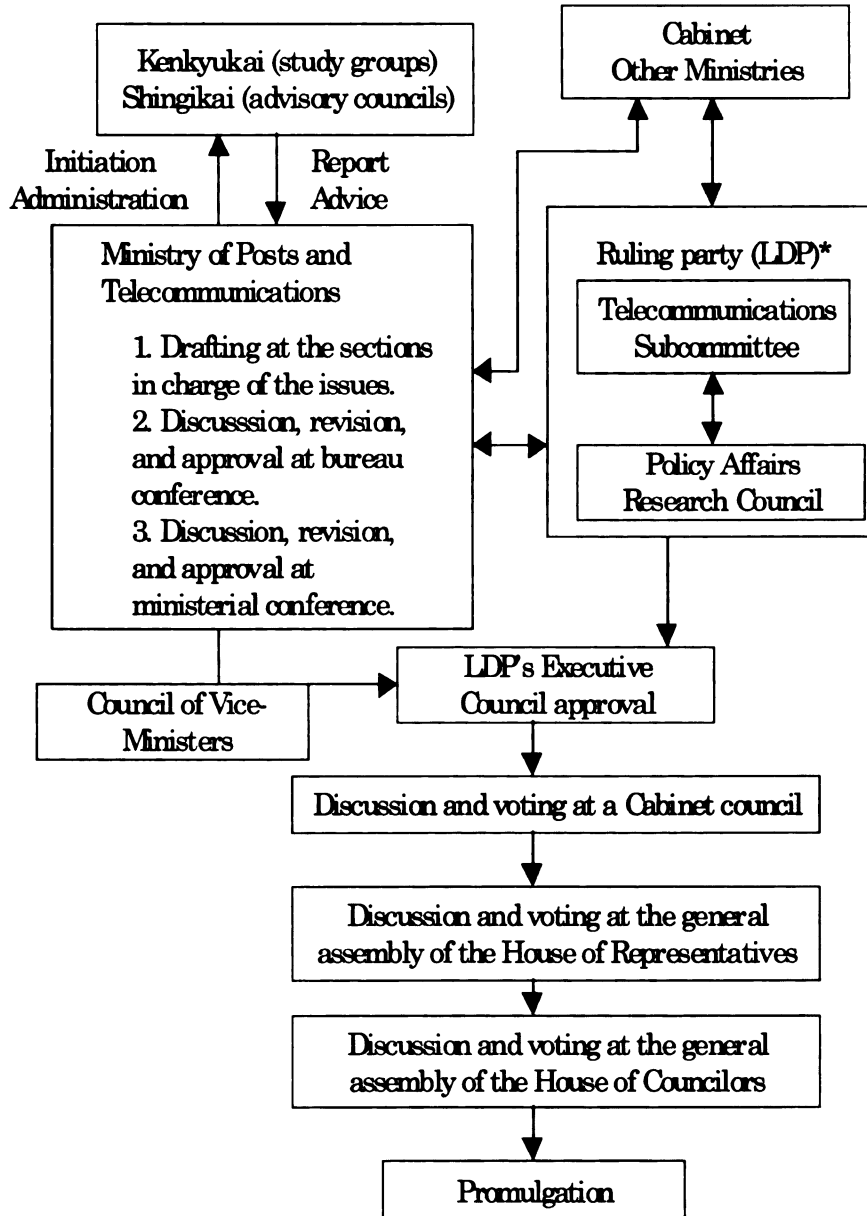
The Telecommunications Bureau is responsible for developing and executing various measures to foster and promote the telecommunications business in particular. The Bureau is also responsible for planning and formulating telecommunications policies, regulating the telecommunications business in accordance with the applicable laws, and guiding and supervising the activities of telecommunications operators and radio operators.

The Telecommunications Council is an advisory council (Shingikai) that plays one of the most important roles in telecommunications policy making. Members of the Council are selected from academics, specialists, and representatives of various organizations and appointed by the Minister's Secretariat. The Council holds hearings and discussions on the issues at hand and produces reports and makes recommendations to the Minister. Although the Council does not have any legal authority, it is believed that its objective and reliable input should prevent the ministry's one-sided and arbitrary policy making.

In Figure 4, Japan's telecommunications legislative process is diagramed, based on the 1985 policy making for NTT privatization. In addition to the standing council, the MPT forms special Kenkyukai (study groups) and Shingikai (advisory councils)⁴ consisting of government officials, academics, company executives, representatives from trade associations, consumer groups, journalists, and others to obtain input for particular policy issues.

A Kenkyukai studies an issue and produces various types of report. A Shingikai plays a more significant role than a Kenkyukai in terms of policy making. It collects information and ideas from various sources, holds hearings, develops and discusses the policy alternatives, builds consensus among the members, and finally submits a unanimous report with recommendations to the ministry and the cabinet. The report of a Shingikai, however, is not legally binding.

⁴ Shingikai is translated either as Advisory Council, Consultative Council, or Council. In this study, Advisory Council and Council are used interchangeably.



*Arrows pointing to both ends indicate bilateral negotiations.

Figure 4. Legislative process for the 1985 telecommunications reform.

Drawn based on Megumi Komiya, "Japan's Changing Telecommunications Industry: Analysis of Competition, Market Power, and Regulation" (Ph.D. Diss., Michigan State University, 1990), Figure 3.

The original rationale for having the Shingikai system was to introduce new ideas and to increase participation of diverse parties in policy making. However, the provision of outsiders' special insights has been less valuable than originally conceived because expert knowledge is concentrated in the administration through the conduct of the office and the collection and storage of relevant information.⁵ Diversity and plurality of participation depends on the parent ministry's or agency's selection of members. Those who hold prestige but have limited expertise often are selected. This is why critics have portrayed Shingikai as "supporting devices for the government"⁶ that rarely go against the parent ministry. Suspicious of neutrality of the telecommunications advisory council's recommendations in the early 1980s, Komiya found that it was, in fact, just serving the MPT's ultimate objectives by committing itself to rationalize the MPT's intentions.⁷ When a Shingikai is formed by members on the side of the parent ministry, "the referral of a problem . . . may be no more than a stratagem to authorize a predetermined policy with the imprimatur of seemingly disinterested citizens, in the process lending a semblance of democracy to the decision."⁸

A Shingikai supports the government in other ways. The Shingikai's deliberation and reports are some of the important preliminary steps leading to subsequent policy making.⁹ The Shingikai mediates the conflicts among

⁵ Frank J. Schwartz, Advice and Consent: The Politics of Consultation in Japan (Cambridge: Cambridge University Press, 1998), 52-53.

⁶ Yung Ho Park, "The Government Advisory Commission System in Japan," Journal of Comparative Administration 3, no. 4, (1972): 455.

⁷ Komiya, 79.

⁸ Schwartz, 54.

⁹ Park, 454-455.

various stakeholders by providing forums, listening to opinions, balancing interests, and inducing them to form consensus.¹⁰ A Shingikai plays a public relations role for the government. A Shingikai consisting of members with prestige and mass-media background attracts media attention and increases coverage.¹¹ A valuable contribution of Shingikai to policy making is the enhancement of communication among the government, the private, and the public.

Once the advisory council submits its recommendation, officials at the Telecommunications Bureau prepare a draft bill integrating internal and external input. When the draft bill is completed, the Minister submits it to the Cabinet for discussion and approval. When there are conflicting views and opinions about the draft within the Cabinet or the ruling party, an effort is made to coordinate and build consensus. The draft is then sent back to the MPT to review and revise if necessary.

When the Council of Vice-Ministers (the actual heads of the various ministries' operations) approves the draft, the Minister of Post and Telecommunications proposes the bill to the ruling party's Executive Council for approval. The ruling party's Executive Council, with the Cabinet's approval determines whether the bill is ready for discussion at the Diet. Upon approval, the bill is on its way to the Diet.

The Diet consists of two houses: the House of Representatives and the House of Councilors. There are three kinds of Diet sessions: ordinary,

¹⁰ Schwartz, 57-58; Mitsunobu Sugiyama and Won Gyu Ha, "De- and Re-construction of Telecom-System of 1980-ies Japan (2): A Verification on the Process of Policy-Making and Consensus-Building Through "Shingikai System," The Bulletin of the Institute of Socio-information and Communication Studies no. 46, (1993): 1-60.

¹¹ Schwartz, 54.

extraordinary, and special. An ordinary session usually is convoked once a year, in January, with a term of 150 days. The Cabinet convokes an extraordinary session when unexpected bills need urgent deliberation. A special session is opened immediately after the general election to appoint new members of the Cabinet and other important posts in the Diet.¹²

Either the Cabinet or a member of the Diet can propose a bill to the Diet at any time during the session. In general, either the Prime Minister on behalf of the Cabinet or one of the members of the ruling party submits telecommunications bills. Important bills usually are submitted first in the General Assembly of the House of Representatives. Most of these bills are immediately referred to one of the specialized committees consisting of Diet members for initial deliberation. The Communications Committee (Teishin-iinkai), for example, takes telecommunications bills. The Committee examines and discusses the bill thoroughly so that further examination and deliberation are not necessary at a plenary meeting of the Houses. The fate of a bill may be in the hands of the committee because the committee may amend, shelve, or reject the bill's submission to the plenary meeting.¹³ Upon the committee's approval, the bill is presented at the plenary meeting for examination, discussion, and decision by voting. When the House of Representatives passes the bill, it is referred to the General Assembly of the House of Councilors for examination, discussion, and decision. If the bill

¹² House of Representatives, Session of the Diet [Online] Available <http://www.shugiin.go.jp/guide/sessions.html>, July 26, 2000.

¹³ House of Representatives, Legislative Proceedings [Online] Available <http://www.shugiin.go.jp/guide/legislat.html>, July 26, 2000.

receives a majority of votes, it is presented to the Throne through the Cabinet for promulgation.¹⁴

¹⁴ House of Representatives, Diagram of Legislative Procedure [Online] Available <http://www.shugiin.go.jp/guide/diagram.html>, July 26, 2000.

CHAPTER V

HISTORY OF THE RESTRUCTURING OF NTT

Introduction

The idea to break up the dominant telecommunications carrier had been on and off a policy agenda for almost a decade and a half before it was placed on a decision agenda. In this section the writer traces the history of the restructuring of NTT before the 1995 review, during which the idea of breaking up NTT was born, nurtured, supported, rejected, shelved, revived, and rejected. The analytical description focuses on, first, the period before privatization in 1985; second, the changes in the telecommunications industry as a result of the laws enacted in 1985; and third, the period from the late 1980s to the early 1990s.

Emergence of the Breakup

Two telecommunications laws promulgated in 1952 established the structure and operation of the telephone and telegraph services in postwar Japan. The Public Telecommunications Law prescribed that the telecommunications services should be provided by a 100 percent government-owned organization, Nippon Denshin Denwa Kosha (Nippon Telegraph and Telephone Public Corporation [NTTPC]¹), separate from the Ministry of Telecommunication. Subsequently, in 1953, Kokusai Denshin Denwa Kaisha (International Telegraph and Telephone Company Limited [KDD]) was split off from NTTPC as a special joint-stock company to provide

¹ Nippon Denshin Denwa Kosha, a public corporation, is abbreviated as NTTPC to distinguish it from NTT, which the company was renamed after privatization.

international telecommunications services.² The clear boundary between domestic and international services and the rigorous regulations ensured a monopoly for more than three decades.³ During this period, Japan's telecommunications network expanded to serve the entire nation.

The Public Telecommunications Law had no provision to preclude entries by other carriers into either the domestic or the international telecommunications market. However, there was a tacit agreement between the Diet and the Ministry of Posts and Telecommunications that NTTPC and KDD were exclusively authorized to own telecommunications facilities and offer public telecommunications services.⁴ The Public Telecommunications Law also stipulated that NTTPC had to submit its annual business plan including changes in tariffs to the Diet for approval. The law had stipulated that tariffs should be kept reasonable; however, it did not specify how to ensure that a particular rate was reasonable or what "reasonable" meant. NTTPC interpreted the provision to mean setting rates based on costs.

NTTPC put priority on expanding facilities and meeting the rapidly growing demand for the coming three decades. The availability of secured funds supplied by issuing compulsive telephone bonds to subscribers upon installation and the absence of competition enabled NTTPC to achieve its goals. The backlog of telephone installation orders was eliminated in 1983. NTTPC grew and continuously supplied revenue to the national budget as it expanded and increased subscribers.

² Yoshiro Takano, Nippon Telegraph and Telephone Privatization Study: Experience of Japan and Lessons for Developing Countries (Washington, D.C.: World Bank, 1992), 3.

³ Komiya, 34-35.

⁴ Tatsuro Tomita, "Japan's Policy on Monopoly and Competition in Telecommunications," Telecommunications Policy (March 1984): 45.

Besides the smooth growth of NTTPC, the government had been suffering a large debt caused by the economic slowdown since the mid-1970s. In March 1981, then-Prime Minister Suzuki and then-Chief of the Administrative Management Agency Nakasone appointed nine committee members from government, private businesses, and academic circles to form the Second Ad Hoc Committee for Administrative Reform, called "Second Rincho" to discuss measures to bring the government's finances back in order. The mission of the Rincho was to recommend policies for a balanced budget without increasing taxes, which would involve a large reduction in annual expenditures by cutting the number of government employees, improving managerial and operational efficiency, and reforming the structure of various government offices and public organizations.

The Second Rincho submitted its first recommendation in July 1981. It asked the government to consider a drastic managerial restructuring, including privatization of three public corporations, NTTPC, Japan National Railways, and Tobacco and Salt Monopoly Corporation, where poor efficiency associated with the monopoly structure had been recognized for quite a while.⁵

In response to the Second Rincho's recommendation, NTTPC formed an internal study group to consider how to improve its operational and managerial efficiency. In February 1982, NTTPC reported that lack of managerial flexibility as a public corporation had been preventing the company from undertaking drastic measures to improve its efficiency. NTTPC proposed three alternative structures that it would accept: (a) a public corporation with less government regulation, (b) a special corporation

⁵ Nihon Keizai Shinbun, 7 July 1981, p. 1.

with public and private joint ownership, and (c) a completely private company. NTTPC was looking into the opportunity to be independent from the MPT and to carry on business with greater freedom.

The MPT, on the other hand, called for NTTPC to increase efficiency without changing its managerial structure.⁶ The MPT objected to the privatization of NTTPC, arguing that public telecommunications should be regulated to ensure the maintenance of technical standards and the provision of universal service, to prevent NTT from abusing monopoly power, and to maintain communication capabilities for the nation's security.⁷ The MPT's approach was conservative and incremental.

In May 1982, the idea of breaking up the public corporations was presented officially for the first time in the Forth Rincho report. Based on intensive study and deliberation about what to do with public corporations in the administrative management reform, the Rincho concluded that NTTPC, together with Japanese National Railways, should be privatized and broken up. The reform plan prescribed that NTTPC would first start as a special corporation owned by the government, and subsequently the special corporation would be privatized and broken up into a central company for long-distance services and several local companies for local services in five years. It was further recommended that the telecommunications market should allow entries and that local operators should interconnect to the entrants.⁸

⁶ Nippon Telegraph and Telephone Corporation, NTT Keiei-keitai Rongi Shiryo-shu (Collections of Debates on the Status of NTT) (Tokyo: Nippon Telegraph and Telephone Corporation, 1998), 22, 24.

⁷ Yomiuri Shinbun, 6 March 1982, p. 1.

⁸ Asahi Shinbun, 18 May 1982, p. 1; Nihon Keizai Shinbun, 18 May 1982, p. 1.

The Rincho's proposal generated controversy within and outside of the government. In mid-July 1982, Kanamaru, a member of the House of Representatives and one of the leaders of the Liberal Democratic Party (LDP) developed an alternative proposal to mediate the conflicts inside the dominantly ruling LDP. Kanamaru's proposal was that NTTPC would remain intact as a special corporation but would be given greater managerial autonomy.

A few months later, still reluctant to privatize NTTPC, the MPT insisted that measures to introduce competition should be given priority over structural reform of NTTPC.⁹ The MPT was afraid of losing its power over NTTPC in the event of privatization. To many people, the idea of breaking up NTTPC was inconceivable, simply because it was incompatible with the prevailing belief that telecommunications was a natural monopoly and that a breakup would reduce NTTPC's efficiency.

In March 1983, Rincho submitted the final recommendation to then-Prime Minister Nakasone. The proposal to reform NTTPC still included both privatization and breakup. NTTPC, on the other hand, advocated privatization while it remained inconclusive about a breakup. It decided to put off the breakup and study its feasibility in terms of the progress in improved efficiency, network development, competition, and other related issues.

Based on the Rincho's final recommendation, the Cabinet requested the LDP's Administrative and Financial Research Committee, headed by Hashimoto, to prepare the basic framework to liberalize the telecommunications market and reform NTTPC. Trying to find the middle

⁹ Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 8.

ground between the MPT and NTTPC, Hashimoto developed the basic reform plan of making NTTPC a special corporation in which the government would hold 100 percent of the shares at the beginning but would gradually release its shares to the public. The decision whether to break up or not would be scheduled for review in 10 years.¹⁰ Subsequently, the bill was drafted based on Hashimoto's framework.

After going through many political twists and turns inside the LDP and generating additional conflicts among the LDP, other political parties, the ministries, NTTPC, and the Japan Telecommunications Workers' Union, the bill was finally submitted to the Diet in April 1984. The Diet passed it in December 1984. Eventually, Nippon Telegraph and Telephone Corporation, a new special corporation, was established--on April 1, 1985.

The 1985 Telecommunications Reform

The stated policy goal for the structural reform of telecommunications was to promote more effective telecommunications services for consumers. The government chose the privatization of NTTPC, opening the market to allow new entries, and the promotion of competition as the means of achieving that goal.

The Telecommunications Business Law was the core legislation of the reform. The purposes of the law are "to ensure the proper and reasonable operation of such business, to secure the consistent provision of telecommunications service, and to protect the interests of its users, and thereby guarantee the sound development of telecommunications for the

¹⁰ Ibid., 46.

convenience of people, and promotion of public welfare.”¹¹ The law specifies the framework for allowing new entrants into the telecommunications market. It stipulates the classification of carriers, the provisions for entry and withdrawal, and the various measures required of telecommunications business operators.

Article 6 places telecommunications carriers into two categories, Type I or Type II. A Type I telecommunications business is defined as "a business that provides telecommunications services by establishing telecommunications circuit facilities." A Type II telecommunications business refers to any telecommunications business other than a Type I business.¹² Typical Type II business operators are those who lease facilities from Type I carriers and provide value-added services. The classification based on facility ownership organizes Japan's telecommunications industry structure vertically, with Type I carriers above Type II carriers.

Type II businesses are classified further into General Type II and Special Type II firms. The criterion for classifying a Type II carrier as either General Type II or Special Type II is the size of the carrier. Special Type II firms provide communications services for "many and unspecified persons," using more than 500 leased trunk lines, or international communications services. General Type II firms are those other than Special Type II.¹³

The vertical categorization of telecommunications carriers indicates the MPT's conceptions of the telecommunications industry structure and the degree of government regulation. Table 1 indicates how carriers in each

¹¹Telecommunications Business Law, Article 1, (1984).

¹² Ibid., Article 6.

¹³ Ibid., Article 21.

category differ in terms of facility ownership, line of business, size, entry and withdrawal procedures, and rates according to the Telecommunications Business Law.

Article 10 stipulates means of entry into a Type I business. Any person who intends to operate a Type I telecommunications business must file an application for permission with the MPT. The MPT then examines the application based on a set of standards. A license is granted when the application meets all of the following conditions: It responds to user demand within the specified market, it does not create an unacceptable excess of facilities, the applicant has a sound financial basis and technical capability; and it is appropriate for the sound development of telecommunications.¹⁴ The MPT has legal authority to determine how many Type I carriers should be allowed in a particular market. The level of competition is, therefore, under the complete control of the MPT. The law does not specify how to maintain a supply-demand balance in a particular market or what constitutes an excess of facilities.

Anyone who intends to start a general Type II business does not have to go through the MPT's extensive examination process as in Type I applications, but has to submit a notification.¹⁵ Special Type II carriers are requested to apply for registration to the MPT. Then, the MPT examines the application for truthfulness of information, financial basis, and technical capability. Applicants are notified of the results.¹⁶

¹⁴ Ibid., Article 10.

¹⁵ Ibid., Article 22.

¹⁶ Ibid., Article 24.

TABLE 1
Classification of Telecommunications Businesses and
Regulatory Frameworks

Classification	Facility ownership	Line of business	Entry	Withdrawal	Rates
Type I business	Yes	No restriction	Approval	Approval	Authorization
Special Type II	No	No restriction	Registration	Notification	Notification
General Type II	No	No restriction	Notification	Notification	No regulation

Source: The Ministry of Posts and Telecommunications, Joho Tsushin Roppo: Heisei 6 Nen Ban (The Information and Communications Statutes Book: 1994) (Tokyo: Daiichi Hoki, 1994); The Ministry of Posts and Telecommunications, Report on Present State of Communications in Japan: Fiscal 1985 (Tokyo: The Japan Times, 1986), 2.

Different standards and procedures are used for entering carriers in each category because the magnitude of social and economic consequences significantly varies depending on the number of users. Type I carriers serve more users than Type II carriers, and special Type II carriers serve more users than Type II general carriers. Such differences might have influenced the subsequent formation of the telecommunications industry structure by either encouraging entries into one category or discouraging them from entering another category.

Type I carriers have to establish service charges and obtain authorization of those charges from the MPT. Any change in service charges

also needs to be authorized. The MPT grants authorization if it is determined that an application conforms to each of the following conditions:

1. Charges shall be fair and reasonable in consideration of proper costs under efficient management.

2. Calculating methods of charges shall be properly and clearly stipulated.

3. Charges shall not include any provision that unfairly discriminates against any person.¹⁷

The NTT Corporation Law of 1984 replaced NTTPC, a government-owned public corporation, with NTT, a joint stock company owned partially by the government and partially by public shareholders. The first provision of Article 1 limits the NTT's business to domestic telecommunications.¹⁸ NTT can provide both domestic local and long-distance services but cannot enter the international market. The law set geographical boundaries but leaves lines of services out of regulation. No provision precludes NTT's participating in other related businesses. The second provision of Article 1 allows NTT to "engage in subsidiary businesses and/or other business activities necessary for execution of its objective," subject to the MPT's approval.¹⁹ Moreover, the law does not restrict NTT's investment activities. Therefore, NTT can make any investment other than in its principal business and establish subsidiaries, either to start new ventures or to enter joint

¹⁷ Ibid., Article 31.

¹⁸ NTT Corporation Law, (1984), Article 1.

¹⁹ Ibid.

ventures with other companies.²⁰

Universal service was not a policy issue in Japan when the telecommunications business was monopolized by the public corporation. It was rather an issue of network plan.²¹ By taking over the nationwide networks owned by NTTPC, the privatized NTT is now required to continue providing "universal service."²² The NTT Corporation Law states that NTT is obligated to ensure the stable supply of telephone services throughout the nation under appropriate and nondiscriminatory conditions.²³

The NTT Corporation Law requires the government always to hold at least one-third of the corporations' stocks.²⁴ Setting this strict ratio of shareholding was motivated by the Commercial Code, which would allow shareholders to exercise veto power over the decisions made in shareholders' meetings. Maintaining such crucial government control over the privatized NTT was considered imperative for securing the nation's communications infrastructure. However, that deprived NTT of the advantages of being a semi-private company.²⁵

The law originally prohibited individuals of foreign nationality, foreign governments and representatives, and foreign corporations and organizations

²⁰ In Japan it is an acceptable business practice for a company, especially a big company, to form a keiretsu (a group of affiliated companies) to increase efficiency and mutual benefit by collaborating with each other.

²¹ Minoru Sugaya, "Advanced Universal Service in Japan," Telecommunications Policy 21, no. 2, (1997): 177.

²² Although a concept comparable to "universal service" exists, the term has rarely been used in Japan until recently.

²³ NTT Corporation Law, Article 2.

²⁴ Ibid., Article 4.

²⁵ Takano, 126.

from being registered as NTT shareholders. In 1992, the law was revised to allow them to be registered as long as the aggregate of stocks held by foreign nationals did not reach or exceed 20 percent of the outstanding shares. Imposing such a limitation on foreign ownership was the government's precaution against foreign threat to the domestic communication infrastructure.

NTT must submit an annual business plan before each fiscal year to obtain approval from the Minister²⁶ and present a financial plan within three months after the end of the fiscal year to the MPT.²⁷ The MPT's involvement in the NTT's management extends to the selection of executives, as well. All directors and auditors are elected by the shareholders; however, every appointment and dismissal is subject to final approval by the MPT.²⁸ Requiring the shareholders' decisions to be validated by the MPT reinforced the MPT's bureaucratic control over NTT. In fact, increasing numbers of retired MPT officials have gone to NTT as managing directors.

Article 2 of the Supplementary Provisions of the NTT Corporation Law ordered the government to reexamine the organizational structure of NTT in terms of the progress made by the reform and the change in other telecommunications environments and to take necessary measures within five years after the day of establishment. This provision did not eradicate but preserved the possibility of the breakup of NTT in the near future.

The relationship between the MPT and NTTPC before privatization was relatively independent, yet collaborative. NTTPC demonstrated its

²⁶ NTT Corporation Law, Article 11.

²⁷ Ibid., Article 12.

²⁸ Ibid., Article 9.

expertise in every aspect of telecommunications operations, whereas the MPT was specialized in postal operations. Retired MPT officials, so-called *amakudari* (descended from heaven), often occupied the NTTPC's top managerial positions.²⁹ The NTTPC sent personnel on loan to work for the MPT, whose employees lacked business and technical knowledge. Such personnel exchanges created and reinforced a favorable political and operational environment for NTTPC with minimum intervention from the MPT. In contrast to the MITI, which always maintained its overwhelming power over private firms under its control, the MPT had little authority over NTTPC, and some of the career officials often found their powerlessness to be irritating and humiliating.³⁰

The Telecommunications Business Law and the NTT Corporation Law changed the relationship between the MPT and NTT. The laws granted the MPT substantial power and authority necessary for bureaucratic control over NTT and other private telecommunications businesses. The relationship between business corporations and the bureaucracy in control is not normally antagonistic in Japan. The companies, however, have no option but to comply with bureaucratic wishes when a conflict between the two parties arises. One of the tools that Japanese bureaucrats use to implement a particular policy based on their interpretation of the law is "administrative

²⁹ Accepting *amakudari* is still common in many private companies. Each year some 300 bureaucrats enter the private sector as directors or senior advisers of corporations they monitored during their government careers. Such bureaucrats are expected to work for another 20 years after their retirement at age 55 to help ensure smooth communication between the company and the ministry. See Karel van Wolferen, The Enigma of Japanese Power: People and Politics in a Stateless Nation (New York: Vintage Books, 1990), 45.

³⁰ Hajime Fujii, Bunkatsu: NTT vs. Yuseisho (Breakup: NTT vs. the Ministry of Posts and Telecommunications) (Tokyo: Diamond, 1996), 6-7.

guidance." Although no administrative guidance has legally binding power over corporations, its subtle "coercion by intimidation" induces voluntary cooperation.³¹ The MPT had often been disparaged as the ministry in name only with telecommunications administration until it gained unprecedented discretionary power over NTT. The MPT became responsible for approval for every one of NTT's essential business activities. The relationship between the MPT and NTT was transformed to "an inimical one"³² as the Ministry often had to tighten the reins on the NTT's conduct to accomplish its mission to create competition.

The MPT's functions range over administrative and technical regulation, control, supervision, and verification to ensure continuity, regularity, equality, and broad availability of services; to promote universal basic telephone service at a fair and reasonable price; and to foster development of a competitive market. The MPT grants, revokes, or cancels licenses. It can limit entries or require existing companies to obtain authorization before installing or operating new facilities. In addition, the MPT reviews and approves prices, quality of service, technical compatibility, interconnection of networks, and investment plans. Licensees are required to supply accounting information, traffic data, and other required statistical data at the end of each fiscal year. By exclusively collecting such information, the MPT stands as the only authority that has jurisdiction over the telecommunications industry.

The MPT's approach to creating competition was focused on controlling the number of entries into the market and regulating prices. Since 1985, the

³¹ Wolferen, 344.

³² Komiya, 61.

MPT has maintained the principle of allowing a small number of Type I carriers to operate. Within a few years, three new common carriers (NCCs) entered the domestic-long distance market, whereas two NCCs entered the international market. In the regional telephone markets, at most one operator was allowed to enter to compete with NTT.

The MPT provided NCCs with extraordinary assistance for their smooth and rapid growth. Price regulation seemed to be designed to assist the growth of NCCs. Oniki explained:

Since 1985, the price of long-distance transmission provided by the three NCCs has been set, on average, at a level lower by 10 to 20 percent than the price of the same service provided by NTT. (In October 1989, when international NCCs were started, the MPT determined that the price of services given by the NCCs must be set 20 percent lower than that given by KDD.)³³

The MPT informally ordered NTT to send some of its engineers to NCCs to help construct their long-distance network. It also provided necessary permissions much faster than usual, with the cooperation of the Ministry of Transportation, the Ministry of Construction, and local governments.³⁴

Although NTT's dominance in the Type I business continued, a slow but steady sign of NCCs' growth was observed between 1987 and 1990. Daini Denden Inc. (DDI), Japan Telecom Co., Ltd. (JT), and Teleway Japan Corporation (TWJ) entered the long-distance market. Their combined market share of total sales from telephone services increased to 4.7 percent in

³³ Hajime Oniki, "Impacts of the 1985 Reform of Japan's Telecommunications Industry on NTT," in Meheroo Jussawalla, ed. Global Telecommunications Policies: The Challenge of Change. (Westport, CT: Greenwood Press, 1993), 72.

³⁴ Oniki, 72-73.

1990.³⁵ Their market share of long-distance calls between Tokyo, Osaka, and Aichi, the high-traffic metropolitan markets where they started up their businesses, grew rapidly to 45.8 percent in 1990.³⁶ The NCCs' unified price for long-distance services, substantially lower than NTT's, caused NTT's long-distance price to fall 30 percent between 1987 and 1990.³⁷ On the other hand, the local market had only one Type I entry. Tokyo Telecommunications Network (TTNet) started providing local telephone services to the Kanto region in 1988. TTNet's growth was sluggish, and the number of subscribers was minimal.³⁸ Nippon Ido Tsushin Co., Ltd., the first provider of cellular telephone service, started its operation in December 1988. It took several years for other mobile communications providers to enter the market, capturing an unexpectedly high share.

Resurgence of the Breakup as a Policy Agenda

In March 1988, the Minister of Posts and Telecommunications requested the Telecommunications Advisory Council [Shingikai] to identify the appropriate roles of the telecommunications industry in the coming advanced information society and to review what NTT's status ought to be as a provider of the essential infrastructure. The inquiry was the first step in

³⁵ The share was obtained based on the total sales found in Ministry of Posts and Telecommunications ed., Denki Tsushin Tokei (Telecommunications Statistics), (Tokyo: Nippon Data Tsushin Kyokai, 1992), 16.

³⁶ Ministry of Posts and Telecommunications, ed., Tsushin Hakusho (Telecommunications White Paper), (Tokyo: Ministry of Finance Printing Bureau, 1993), 8.

³⁷ Ministry of Posts and Telecommunications, ed., Denki Tsushin Tokei, (1992), 156.

³⁸ According to Ministry of Posts and Telecommunications ed., Tsushin Hakusho, (1993) the number of subscriptions was 8,172 in September 1992.

the MPT's carrying out the Supplementary Provisions of the NTT Corporation Law.

After a year and a half of deliberation, the Council submitted an interim report to the Minister of Posts and Telecommunications on October 2 1989. The report disclosed the Council's firm position in support of the breakup. The Council admitted some of the positive effects of privatization and liberalization, as evidenced in lower prices, more and diversified services, expansion of digital networks, and contribution to the domestic economy. However, it was believed that the benefit of the reform could have been greater if the structural obstacles to fair and effective competition were duly removed. The Council pointed out that NTT accounted for some of the greatest obstacles, for example, the persistent inefficiency associated with its gigantic size of more than a quarter million employee, the extremely strong market power with its overwhelming customers, and the integration of local and long-distance businesses with substantial cross-subsidies.

The Council proposed that removing these obstacles by breaking up NTT was essential for the promotion of fair and effective competition. There were three alternatives for the breakup: (a) break up NTT into 11 regional companies providing both local and long-distance services, (b) break up NTT into a local company and a long-distance company, and (c) break up NTT into a long-distance company and 11 local companies.³⁹ The Council favored the last alternative. It was also recommended to seriously consider separating NTT's mobile communications, maintenance, and equipment sales divisions, as well as setting guidelines for NTT's subsidiary establishments..

³⁹ Nihon Keizai Shinbun, 3 October 1989, p.1.

Meanwhile, other government bodies separately reported on the status and structure of NTT. The Economic Planning Agency recommended the separation of the NTT business in April 1989. The Sangyo Kenkyusho [Institute of Industrial Studies], a fringe organization to the MITI, compiled their studies into a report advocating that the breakup should be considered as the last measure after all other alternatives including extensive deregulation, were explored.⁴⁰ Later, in September 1989, the telecommunications policy study group of the FTC concluded that it would be too early to carry out the breakup. The FTC study group acknowledged the possibility that NTT would abuse its monopoly power through rejecting interconnection with other operators, exercising predatory pricing enabled by cross-subsidy, or driving other operators out of the market with its technical advantages. However, the study group did not find the necessary evidence necessary to justify a breakup. Then the FTC pointed out that the breakup would jeopardize the economies of scale and operational efficiency and proposed that the alternative measures should rather force NTT to interconnect with NCCs on the same terms as with NTT's long-distance division, separate long-distance accounts from local accounts to prevent cross-subsidies, and provide NCCs with information about its local networks and customers.

From the consumers' point of view, on December 4, 1989, the Keizai Dantai Rengokai or Keidanren (Japan Federation of Economic Organizations) published a report on what the structure of NTT and the telecommunications policy should be. The Keidanren is one of Japan's top associations, with a membership of more than 100 trade associations and about 800 large

⁴⁰ Nihon Keizai Shinbun, 27 September 1989. In Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 66-69.

companies. It has 30 basic committees that deal with various policy issues. The Keidanren has considerable power, influence, and authority, as demonstrated in its ability to mediate conflicts and build consensus among member industries and businesses. Because of its large financial contribution made to the ruling political party, the Keidanren has significant power and influence in the political community, as well.⁴¹

The Keidanren contended that the role of government should be limited to the development of a basic framework to promote competition in the market, and that excessive government intervention should be avoided as much as possible. The report evaluated the development of the telecommunications market since 1985 in comparison with other industries and found it to be unsatisfactory in terms of level of competition, price reduction, and diversity and quality of services. One of the reasons was the NTT's integrated structure owning and operating both local and long-distance networks. To remove the obstacles arising from the bottleneck, the report suggested that the NTT's local business should be separated from its long-distance business, that NTT should provide equal access and interconnection to its local network, and that entries to the local market should be encouraged. However, the Keidanren was reluctant to draw a rash conclusion about the breakup. Instead, the report proposed that the effect of the breakup should be carefully and thoroughly estimated by collecting sufficient financial and technical information. As well, such issues as the nationwide digital network under construction, the research-and-

⁴¹ Richard Boyd, "Government-Industry Relations in Japan: Access, Communications, and Competitive Collaboration," in Stephen Wilks and Maurice Wright, eds., Comparative Government-Industry Relations: Western Europe, the United States, and Japan (Oxford: Oxford University Press, 1987), 72-74.

development (R&D) capability, consistent network operation, the obligation to provide universal service, and the rights of NTT shareholders needed to be considered. Taking a cautious approach, the report concluded that further deliberation was warranted and that a decision on restructuring of NTT should be made in about three years. The Keidanren added a few measures on which both NTT and the MPT needed to take immediate action. For NTT, the measures included separating the local business and accounting, opening a local network, publicizing various information, and completing the nationwide digital network as soon as possible. The MPT was expected to disclose and relax the criteria for approval of entries, to simplify various application and approval procedures, to develop rules to make interconnection obligatory and simplify the interconnection agreement and approval procedures, and to set up fair access charges.

On March 2, 1990, the Telecommunications Advisory Council submitted its final recommendation. The Council followed the logic for the breakup of NTT presented in the interim recommendation and selected one of the alternatives that would split NTT up into a local company and a long-distance company in five years.⁴² In addition, NTT would split off the mobile communications business as soon as possible, within a year or so. The local company would continue to be a special corporation subject to government control. The local company would take over all equities of the separated companies and subsidiaries, as well as the R&D departments. The recommendation set forth the positive effects of the split. The benefits for the telecommunications industry and its consumers would include development of a market structure that would enable fairer and more effective competition,

⁴² The MPT used the term “split” when the breakup was to separate the local business from the long-distance business.

improvement in the managerial efficiency of NTT, and a consequent decrease in price, and increase in quality and diversity of services. The benefit for the new long-distance company would be its increased autonomy as a pure private company free from government approval and regulations.⁴³

Upset about the final recommendation of the Telecommunications Advisory Council, NTT expressed strong opposition to the split into a local company and a long-distance company. Several negative effects of the split were pointed out. First, division of the network would make operational coordination difficult and cause delays in repair services. Second, the local company would have to raise prices because it would not be able to reach a break-even point. Third, the R&D capability would decline due to scattered investments and incentives; consequently, NTT would lose its technological competitiveness. Fourth, the loss of unified network operations would harm network security, reliability, and traffic control, creating serious problems especially in case of emergency. Fifth, the stockholders' rights would not be guaranteed in the absence of concrete protective measures. Sixth, no countries other than the United States had ever divided their nationwide public telecommunications operators into local and long-distance companies, and the breakup would pull NTT back from the world trend of network convergence.

Underestimating the potential growth of the mobile division, NTT did not resist splitting off the mobile communications business. NTT also announced that it would contribute to the development of fair competition by separating accounts, opening its network, and making more information available to the public. Other measures included reducing long-distance

⁴³ Asahi Shinbun, 3 March 1990, p. 1, 3, 8; Nihon Keizai Shinbun, 3 March 1990, p.1, 3; Yomiuri Shinbun, 3 March 1990, p.1, 6, 7.

prices, cutting the number of employees, and investing in digital and fiber-optic network expansion.⁴⁴

The threat of the breakup made people uncertain about NTT's future performance. Anxiety diffused quickly among individual shareholders, as well. Within two weeks following the submission of the Council's final recommendation, NTT's stock price plunged to record lows, even below the price at its initial release in 1987. The Ministry of Finance, the largest NTT shareholder, became very upset about the negative impact of the Council's recommendation on NTT stock prices. The MOF promptly requested that the MPT should freeze the proposal of splitting NTT until it could develop concrete measures to protect shareholders' interest based on reliable projections of NTT's financial situation in the event of a breakup.⁴⁵

Contrary to the MPT's expectation, the proposal to break up NTT encountered strong opposition not only from NTT but also from the MOF. In fact, the MPT had not anticipated such a sharp decline in NTT stock prices and was not ready to provide any countermeasure to protect the value of NTT equities. Instead of moving the proposal forward to a Cabinet meeting, the LDP, the then-dominant ruling party, had to seek a compromise that both the MPT and the MOF could accept. Through the intensive mediation of the LDP, the Cabinet abandoned the proposal of breaking up NTT and instead had to work out a few alternative measures to execute the Supplementary Provisions of the NTT Corporation Law. One measure was to force NTT to internally separate the local business department from the long-distance department. NTT was also ordered to disclose the account information for

⁴⁴ Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 186.

⁴⁵ Nihon Keizai Shinbun, 20 March 1990, in Nippon Telegraph and Telephone Corporation, NTT Keiei-keitai Rongi..., 101.

each division separately, so that problems associated with cross-subsidy and suspicion of unfair interconnection could be resolved.⁴⁶

NTT experienced a constant decline in profits because of the nation's long economic depression and the loss of revenue in the long-distance business due to substantial price reductions between 1990 and 1995.⁴⁷ NTT tried to reduce costs through extensive downsizing. Twenty-seven regional offices were combined into 11, and 252 local branch offices were either closed or combined into 157 between 1990 and 1994. The number of employees was reduced from 257,000 in 1990 to 194,700 in 1994.⁴⁸ NTT split off its mobile communications business and established NTT DoComo, an independent subsidiary, in July 1992. Separate account statements for local and long-distance businesses were prepared and released for the first time in June 1993.⁴⁹ The question still remained as to whether NTT could eradicate the potential breakup by doing as much as what they could to increase efficiency.

Some MPT officials felt that they lost the battle against NTT when they had to give up the breakup of NTT in 1990. The breakup of NTT, alone, was becoming their long-term goal that would satisfy their desire to conquer the enemy NTT, rather than one of the policy alternatives available to solve particular problems. Those tough MPT warriors were trying to make themselves well prepared for the next round of the battle.

⁴⁶ Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 103-105.

⁴⁷ Nippon Telegraph and Telephone, Information NTT 1998, (Tokyo: NTT Public Relations Department, 1998), 15.

⁴⁸ Ibid., 30.

⁴⁹ Ibid., 274.

In fact, a few MPT bureaucrats were reportedly active in creating a positive attitude toward the breakup among NTT's shareholders, in preparation for the next round of discussion scheduled for 1995. These individuals were Mitsuo Igarashi, then-Director of Telecommunications Bureau, and Koji Hamada, one of Igarashi's subordinates as head of the Telecommunications Business Department, who had a reputation for being well prepared and good at making strong arguments.⁵⁰ They did not want to repeat the bitter experience of the last-minute failure to move the breakup of NTT up to a decision agenda in 1990 due to shareholders' negative reaction.⁵¹ As early as mid-1994, the MPT visited the security analysts and persuaded them to support the breakup.⁵² Many security analysts shared the generally favorable view that the breakup would pull up the stagnant stock market. The MPT's reinforcement and encouragement generated a number of articles by the analysts, who made positive estimation about the impact of the breakup on NTT stock price.⁵³ The theory was quickly diffused among the shareholders. Upset by the reports, NTT complained to the security firms and forced them to keep quiet about the relationship between the breakup and stock prices.⁵⁴ Yet, the theory survived and the price of NTT stocks maintained the normal range of volatility.⁵⁵

⁵⁰ Fujii, 1.

⁵¹ Ibid., 2, 20-21.

⁵² Ibid., 21.

⁵³ Ibid., 22

⁵⁴ Ibid., 23-24

⁵⁵ Ibid., 22.

CHAPTER VI

THE POLICY AGENDA-SETTING AND DECISION PROCESS

The Minister of Posts and Telecommunications consulted the Telecommunications Advisory Council about the structure of NTT on April 6, 1995. By that time, the issue of whether to break up NTT had been a policy agenda on and off for more than 10 years. Frozen for the last five years, the issue was officially revisited on schedule, called for serious attention, and brought up onto a policy agenda. The issue, involving the complex, deep, and prolonged conflict between the MPT and NTT, inevitably took a long time to reach the House of Councilors, Japan's final legislative organ, where the revised NTT Corporation Law was passed. In this chapter, the writer present the results of the analysis for the period during which the breakup of NTT finally reached a decision agenda.

Figure 9 shows the major events that took place in the agenda-setting process and the three stages divided by the critical events. The chronology indicated that the entire agenda-setting and decision process took two years and two months--from April 6, 1995, to June 13, 1997. The period was then divided into three stages by the critical events that shifted the process to a new phase. The first stage started on April 6, 1995, with the Minister's request to the Telecommunications Advisory Council for an inquiry into the status of NTT and ended on March 29, 1996, with the Cabinet's approval of postponing the decision about the breakup. The subsequent second stage ended on December 6, 1996 when the MPT and NTT agreed on the breakup under certain conditions. The last stage began on December 7, 1996, and ended on June 13, 1997, with the final legislative approval of the revised NTT Corporation Law. The problem, policy, and political streams and their

<u>Stages</u>	<u>Dates</u>	<u>Events</u>
1	4-6-95	Minister of Posts and Telecommunications asked the Telecommunications Advisory Council for review and suggestions concerning the status of NTT. The Council formed the Special Subcommittee.
	9-28-95	NTT announced to open its local network.
	1-6-96	Prime Minister Murayama resigned and Hashimoto was elected as Prime Minister of the coalition government.
	2-29-96	The Telecommunications Advisory Council submitted the final report recommending the breakup of NTT.
	3-29-96	The Cabinet decided to postpone the deliberation and conclusion on the breakup of NTT to the next regular session of the Diet.
	9-4-96	MPT and NTT started direct and exclusive dialogues.
	10-20-96	LDP regained dominant power as the result of the House of Representative general election.
	12-6-96	NTT and MPT reached the agreement on the proposal that would break up NTT under a holding company.
	2-13-97	The bill that would revise the Anti-Trust Law to allow the formation of holding companies was disclosed.
	2-23-97	MPT announced the draft bill of revising NTT Corporation Law.
2	2-25-97	The cabinet and the leading parties supported the revision of the Anti-Trust Law.
	5-8-97	The bill to restructure NTT was up on the decision agenda in the Diet.
	6-12-97	The revision of NTT Corporation Law was enacted.

Figure 5. Major events and three stages of the policy process toward the breakup of NTT.

relationships in each stage of the process are discussed in the following sections.

Stage 1 (April 6, 1995, to March 29, 1996)

In this stage, the problem stream and the policy stream flowed parallel with each other. Some participants were directly involved in one or more streams. Others participated indirectly, expressing their opinions and ideas in various reports and public announcements. Almost all participants acknowledged the history of the long-pending issue and examined whether the breakup of NTT would be the best way to resolve the conflict. Some participants tried to identify and define problems first and then seek solutions. However, the majority looked for benefits and defects of a breakup and tried to predict its outcome.

The Participants

Inside government, the MPT was the most important participant, initiating and managing both the problem stream and the policy stream at this stage. In April 1995, in response to the Minister's request, the Telecommunications Advisory Council, headed by Chairman Nasu, Chairman of Tokyo Electric, formed the Special Subcommittee on the Status of NTT to study and discuss the present and future status of NTT. The 12 regular and one ad-hoc members of the Special Subcommittee were appointed by the MPT; they included five academics, five business executives, a chairman of a newspaper, a vice-president of an association of labor unions, a

representative of a consumer group.¹ In addition, fourteen faculties from various universities were appointed as special members.² The Special Subcommittee held 25 meetings in total which typically meeting were attended by the regular and special members of the Subcommittee, the Director of the Council's Secretariat Office, and the Director-General and other staff of the MPT Telecommunications Bureau. A number of people were invited to the hearings to present their views and opinions about various issues of interest to them. They included representatives of NTT, NCCs, content providers, cable TV and broadcasting operators, trade associations of equipment manufacturers and service providers, and an association of consumer groups.³

Other groups and organizations participated indirectly by submitting their reports and recommendations. The indirect participants inside government included the Fair Trade Commission and Gyosei Kaikaku Iinkai (the Administrative Reform Committee) established by Prime Minister Murayama to monitor implementation of various deregulation and reform programs and advise the Prime Minister and other administrative organs.⁴ The indirect participants outside government were the NTT affiliates and supporters, Keidanren (the Japan Federation of Economic Organization),

¹ Ministry of Posts and Telecommunications, "Special Subcommittee on the Status of NTT Members," [Online] Available <http://www.mpt.go.jp/policyreports/english/telecouncil/NTT/info-comm-industry/inquiry.html>, November 19, 1997.

² Ibid.

³ Ministry of Posts and Telecommunications, Summary of the Minutes of the Meeting of the Telecommunications Council's Special Subcommittee on the Status of NTT, [Online] Available <http://www.mpt.go.jp/policyreports/japanese/telecouncil/ntt/index.html>, September 20, 1999.

⁴ Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 117.

Joho-Tsushin Seisaku Kenkyukai (the Information Technology and Communications Policy Forum), Denki Tsushin Kikai-Kogyo Kai (the Communications Industry Association), and Zendentsu (the NTT Labor Union).

The Problem Stream

In defining the problem, the participants blamed NTT's dominance of the local network, which allowed few entries in the local market, prevented fair interconnection with NCCs, and impeded the development of a competitive market. These problem definitions generated controversies between those who were on the side of the MPT and those who were on the side of NTT.

The number of Type 1 carriers in the subscriber telephone service category, by service territory, is shown in Table 2. NTT was the only company that had been providing both local and long-distance services. DDI, JT, and TWJ were allowed to enter the long-distance market in 1987. TNet was designated as the only local carrier. The number of mobile telephone operators rapidly increased between 1988 to 1995.

Market shares of NTT and NCCs in local and long-distance calls are shown in Figures 5, 6, and 7. NTT's market share steadily declined in long-distance calls. In particular, NTT's share in the high-density metropolitan market (both households and business offices) dropped to less than 50 percent in 1991 and kept declining thereafter. However, NTT maintained its monopoly in the local market, with more than a 99 percent share.

TABLE 2

Number of Type 1 Carriers of Subscriber Telephone Service Categories
(Unit = companies)

Type of Service	Fiscal Year										
	85	86	87	88	89	90	91	92	93	94	95
Local + Long-d (D)	1	1	1	1	1	1	1	1	1	1	1
Long-d (D)			3	3	3	3	3	3	3	3	3
Local (D)				1	1	1	1	1	1	1	1
Mobile (D)				1	5	11	11	13	25	32	55
International	1	1	1	1	3	3	3	3	3	3	3

- a. (D) = Operates within the domestic market.
- b. Mobile includes cellular telephone, personal handy phone(PHS), and other wireless telephone services.

Data from Ministry of Posts and Telecommunications, ed., Joho Tsushin Tokei (Telecommunications Statistics) (Tokyo: Nihon Data Tsushin Kyokai, 1997) 2-3, 141-145.

The changes in the rates for three-minute long-distance calls between Tokyo and Osaka on weekdays are shown in Figure 8. NTT reduced its long-distance rate every year from 1987 to 1993. NCCs responded to each of NTT's price reductions by filing rates 10 to 20 percent lower than NTT. The price gap was 10 yen (9.5 cents) in 1995.

The local telephone rate remained low because local service had been treated as one of the public utilities vital to people's daily lives. Because of the low rate and high fixed costs, the provision of local telephone services had never been profitable for NTT in most regions. To compensate for the loss, NTT had been relying on cross-subsidies in which the revenue from local services in urban areas and from profit-making long-distance services subsidized unprofitable services. Due to the substantial reductions in long-distance charges and the separation of the local account from the long-distance account since 1990, NTT could no longer maintain the practice. Consequently, in 1994, NTT had to raise access charges 10 to 20 percent for business users and 13 to 26 percent for residential users; the local call rate for pay phones had been increased 200 percent the year before. NTT also started charging for directory services in 1990 and raised the rate for such services 50 percent in 1994.⁵

⁵ Nippon Telegraph and Telephone, Information NTT 1998, 100, 104-106, 108.

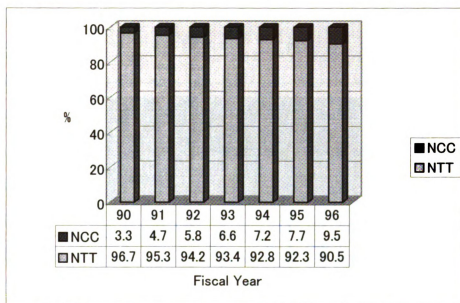


Figure 6. Market shares of local and long-distance calls.

Data from Ministry of Posts and Telecommunications, Tsushin Hakusho (Telecommunications White Paper), (Tokyo: Ministry of Finance Printing Bureau, 1993-1997).

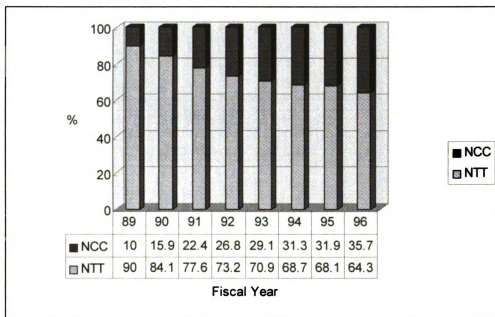


Figure 7. Market shares of long-distance calls.

Data from Ministry of Posts and Telecommunications, Tsushin Hakusho (Telecommunications White Paper), (Tokyo: Ministry of Finance Printing Bureau, 1993-1997).

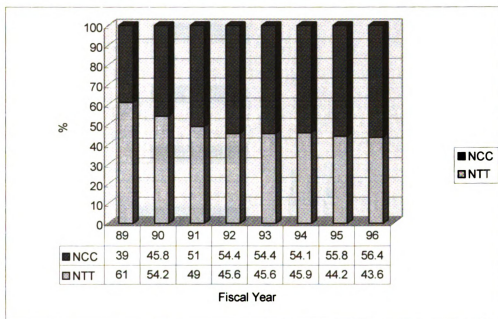


Figure 8. Market shares of long-distance calls between Tokyo, Osaka, and Aichi.

Data from Ministry of Posts and Telecommunications, Tsushin Hakusho (Telecommunications White Paper), (Tokyo: Ministry of Finance Printing Bureau, 1993-1997).

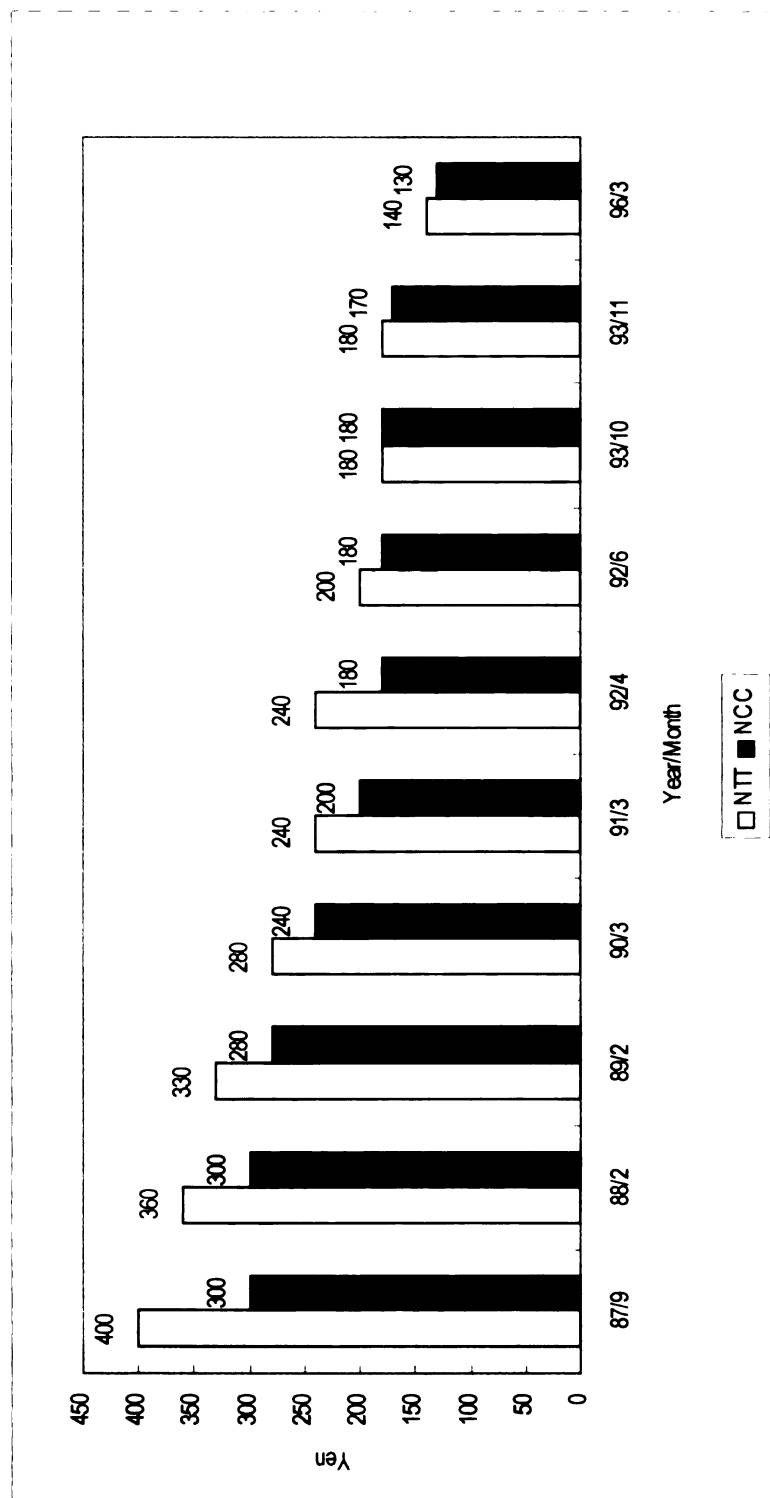


Figure 9. Changes in the rates of three-minute calls between Tokyo and Osaka on weekdays.
 Data from Ministry of Posts and Telecommunications, Denki Tsushin Tokei (Telecommunications Statistics), (Tokyo: Denki Tsushin Sogo Seisaku Kenkyusho, 1994) and Ministry of Posts and Telecommunications, Tsushin Hakusho (Telecommunications White Paper), (Tokyo: Ministry of Finance Printing Bureau, 1998).

Connection to NTT's local network was essential for any NCC to provide services. Without standard interconnection rules, each NCC had to negotiate individually the terms for interconnection with NTT. NTT could take advantage of holding the bottleneck in the negotiations with NCCs for interconnection. For example, NTT might be able to set relatively high access charges or restrict certain types of interconnections. In fact, 49.4 percent of the NCC's total long-distance revenue consisted of access charges paid to NTT. NTT was reluctant to provide access for the NCC's new services, the Virtual Private Network (VPN)⁶ and the Frame Relay,⁷ which the NCCs planned to start ahead of NTT. When the negotiations was delayed, NTT started the same service ahead of the NCCs.⁸

The participants were divided into three groups, based on their positions regarding the breakup of NTT: proponents, opponents, and neutrals. The proponents and opponents presented distinct interpretations of the market condition and the problems. The proponents, representing the MPT and NCCs, attributed the cause of the weak and unfair competition exclusively to NTT's integrated structure of nationwide local and long-distant networks. NTT's abuse of its dominant power was perceived as severe and persistent. A drastic restructuring of NTT was believed to be the only

⁶ The VPN service allows corporate users to use the public network as if it were a private network.

⁷ Frame Relay is a switching and transmission system between Local Area Networks (LAN) much faster than the packet switching system.

⁸ Telecommunications Council, Status of Nippon Telegraph and Telephone Corporation: Towards the Creation of Dynamism in the Info-Communications Industry, [Online] Available <http://www.mpt.go.jp/policyreports/japanese/telecouncil/ntt/Council-NTT-j.html>, (February 29, 1996).

effective alternative to eliminate the problems.⁹ On the other hand, the opponents, representing NTT's position, argued that the present market structure had emerged along the measures implemented by the MPT. Because the MPT did not rebalance long-distance and local rates nor did it develop rules for interconnection, new entries and competition in the local market were not encouraged. Rigid categorization within geographical and service boundaries, unsubstantiated control over supply, and tedious application procedures limited entries. The condition of the local market was expected to change with the rapid entry and growth of mobile communications providers and cable-TV operators. Therefore, the MPT should first undertake deregulation.¹⁰

The Policy Stream

Almost all of the participants in the problem stream were also participants in the policy stream. The proponents emphasized how the breakup of NTT would benefit the nation's telecommunications industry. Conversely, the opponents asserted that the breakup could not be rationalized and would produce an adverse outcome.

In July 1995, the Deregulation Subcommittee of the Administrative Reform Committee identified several controversial issues associated with the breakup. These issues pertained to the effect of the breakup on NTT, namely, interconnection, local monopoly, performance, price and universal service, future network development, research and development, and international competitiveness.

⁹ Ibid.

¹⁰ Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 122, 124.

Making interconnection fair and smooth was the strongest justification for moving forward with the breakup of NTT. Separation of the long-distance operation from the local operation would stop NTT from favoring its own long-distance operation over that of the NCCs. That would also prevent NTT from cross-subsidizing. Removing the monopoly bottleneck would give NTT an incentive to compete by improving efficiency. It was also expected that the breakup would stimulate competition among the broken NTT companies and NCCs and consequently benefit consumers with lower rates and diversified services. Competition also would help develop better management of resource utilization and mobilization. Being separated from the dominant local service provider, the new NTT long-distance company would be able to start providing international services. Accordingly, the nation's international competitiveness in telecommunication would be substantially reinforced.¹¹

Recognizing that the MPT would blame NTT for not opening its local network and use this to justify the breakup, NTT suddenly disclosed a plan: that it would completely open the local network and allow NCCs to connect at any level on September 28, 1995.¹² In addition, NTT convincingly refuted on several issues in the report submitted to the Deregulation Subcommittee in October 3, 1995. First, the breakup would result in gaps in prices and services across regions due to the difference in profitability. In a peripheral region, NTT might have to raise prices just to breakeven. NTT had maintained a standardized quality of services and unified introduction of new technologies and services nationwide; however, the breakup would hinder the established equality. Second, the breakup would hinder the competitiveness

¹¹ Telecommunications Council, Status of NTT...

¹² Nihon Keizai Shinbun, 29 September 1995, p. 1, 3.; Asahi Shinbun, 29 September 1995, p.1, 11; Yomiuri Shinbun, 29 September p. 1, 7.

of NTT by splitting its resources. The loss of NTT's competitiveness would mean the loss of the nation's competitiveness against transnational operators converging and strengthening their power in the global market. Third, the breakup would hurt NTT's research and development capability, which had greatly contributed to the development of advanced telecommunications technologies in Japan. That would also lead to a weakening of Japan's technological competitiveness in the global market. Fourth, the shareholders' rights would not be secured when NTT's assets were split and distributed, either by equities in new companies or by cash. For those who held only one or a few shares, the distribution of equities in case of breakup would result in holding fractions of each new company's stock that could not be circulated. The distribution of equities in cash would always involve volatility. Fifth, the breakup would jeopardize the role of public telecommunications, especially in a crisis or a disaster, which could have been handled properly only by NTT's comprehensive control and coordination. Sixth, the breakup would entail enormous costs. No matter who bore the costs, that would entail an unwarranted loss.¹³

The study group established by the Fair Trade Commission submitted a report on November 24, 1995. It emphasized putting priority on carrying out extensive deregulation, including removal of demand/supply control, partition between domestic and international or local and long-distance services, and an approval system for prices and services. Establishing measures to foster competition also was required, for example, setting up rules for fair interconnection and splitting NTT's local business into wholesale and retail businesses. The report added that the breakup of NTT

¹³ Nippon Telegraph and Telephone, NTT Keiei-keitai Rongi..., 126.

could be an effective measure to promote competition if was carried out with the implementation of essential deregulatory measures.¹⁴

On December 8, 1995, the Deregulation Subcommittee of the Administrative Reform Committee submitted its final report concerning the deregulation, covering all areas in both the public and private sectors. It recommended removing demand/supply control and approval of prices, redefining Type II carriers, and considering the immediate abolishment of the KDD Corporation Law and the future abolishment of the NTT Corporation Law. The report suggested that NTT should be transformed to a competitive entity by the breakup and that deliberation over specific measures should take place openly and thoroughly at the Telecommunications Council.¹⁵

Keidanren's position toward the breakup swung like a pendulum, reflecting the mixed membership. The members who were affiliated or had business with NTT, called "ex-NTT family companies," strongly opposed the breakup. On the other hand, the increased number of NCC members, together with their investors, formed a powerful proponent group.¹⁶ The line-up of top managerial positions suggested a fierce battle between the pros and cons. Chairman Toyota was president of Toyota, the parent company of TWJ. Vice-Chairman Nasu, chairman of Tokyo Electric, the parent company of TTNNet, was also chairman of the Telecommunications Advisory Council.

¹⁴ Nihon Keizai Shinbun, 25 November 1995, p. 7; Yomiuri Shinbun, 25 November 1995, p. 1, 9.

¹⁵ Yomiuri Shinbun, 6 December 1995, Evening issue, p. 1, 2.; Nihon Keizai Shinbun, 8 December 1995, p.1, 3.

¹⁶ Nihon Keizai Shinbun, 29 November 1995, p. 1; Nihon Keizai Shinbun, 9 December 1995, p. 1; Nihon Keizai Shinbun, 9 January 1996, p. 3; Yomiuri Shinbun, 9 January 1996, p. 6.

Vice-Chairman Sekimoto was president of NEC, the largest supplier of equipment to NTT. Keidanren avoided taking either position in its final report on the future information and telecommunications market, issued on January 8, 1996. The report urged that telecommunications policies focusing on deregulation be reviewed as soon as possible.¹⁷

Two additional reports opposed the breakup. One was issued on January 20, 1996, by the National Institute for Research Advancement, attached to the Economic Planning Bureau.¹⁸ The other was issued on January 22, 1996, by Zendentsu (NTT Labor Union).¹⁹

On January 24, 1996, the MPT announced that it would deregulate several areas of the existing regulation, including removing supply control, removing geographical and line-of-services regulation, making interconnection rules, and removing price control of mobile services.²⁰ This policy change was aimed at softening the increasing appeals for deregulation instead of breakup.

The Telecommunications Council Special Subcommittee submitted the final report "Status of Nippon Telegraph and Telephone Corporation" recommending the breakup in which NTT was to be restructured into a long-distance communications company and two regional communications companies on February 29. The long-distance company was to be a complete

¹⁷ Asahi Shinbun, 9 January 1996, p. 3; Nihon Keizai Shinbun, 9 January 1996, p. 3; Yomiuri Shinbun, 9 January 1996, p. 6.

¹⁸ Asahi Shinbun, 20 January 1996, p. 13; Nihon Keizai Shinbun, 20 January 1996, p. 5; Yomiuri Shinbun, 6 January 1996, p. 9; Yomiuri Shinbun, 20 January 1996, p. 9.

¹⁹ Nihon Keizai Shinbun, 23 January 1996, p. 7; Yomiuri Shinbun, 23 January 1996, p. 7.

²⁰ Nihon Keizai Shinbun, 24 January 1996, p. 4.

private company that would be allowed to enter international market. The regional communications companies were to be treated as special companies for the time being. They would be privatized once sufficient competition was generated. Cross entries to each others business and entries into other businesses outside their operational areas were also to be allowed, however, entries into long-distance communications, international communications, cable TV, content, and other businesses in their operational areas would be restricted.²¹

The Political Stream

The political parties and members who held offices in the government were significant actors in the policy-making process. In addition to them, the MPT's top bureaucrats and the executives among the stakeholders participated, visibly or invisibly, in the political stream.

The Japanese witnessed a dramatic change in the political environment during the summer of 1993. Dissatisfied with the leadership, a considerable number of the members of the Liberal Democratic Party (LDP) left the party and formed their own parties: Shinseito (the Japan Renewal Party) and Sakigake (the Harbinger Party). After the subsequent general election, the LDP found that it was still the largest party but fell 33 seats short of a majority in the Diet. The formation of a coalition of seven non-LDP parties ended and replaced the LDP's 38 years of stable dominance. The weak unity among non-LDP parties resulted in instability of the succeeding Hosokawa and Hata administrations. Furious at the coalition leadership, the Japan Socialists Party (JSP), the second largest party after the LDP, left the then-

²¹ Telecommunications Council, Status of NTT...

ruling coalition and tied up with the LDP and the Sakigake on June 23, 1994.²² The LDP returned to power and stabilized the coalition government by offering Socialists Chairman Murayama the post of prime minister. In return, the LDP dominated the Cabinet.²³

Right after the inauguration of the Murayama administration, the coalition parties adopted a policy agreement for transparent and democratic policy-making procedures and established inter-party decision-making bodies consisting of representatives of the coalition parties. They were, from the top, Seifu-yoto shuno renraku kaigi (the liaison council), Yoto sekinisha kaigi (the ruling parties' leaders' committee), and Innai yoto somukai (the ruling parties' parliamentary executive board). The LDP Policy Affairs Research Council brought a bill to the ruling parties' parliamentary executive board before it recommended to introduce it to the Diet. This procedure maintained unity and stability of the coalition government. LDP leaders determined to "let nothing drive a wedge" between themselves and the JSP as long as they needed the JSP's alliance to stay in power.²⁴ The JSP was cooperated with the LDP because the party had a strong interest in holding political power as a ruling party, which it had acquired for the first time in the party's history.²⁵ The remaining parties consolidated and formed Shinshinto, the New Frontier Party (NFP), in December 1994. The NFP was the opposition party when the issue of breaking up NTT was reinstated on the political agenda.

²² See Gerald L. Curtis, The Logic of Japanese Politics: Leaders, Institutions, and the Limits of Change, (New York: Columbia University Press, 1999), 65-125 for details of the power shifts and the politics of coalition formation.

²³ Ibid., 196.

²⁴ Ibid., 202.

²⁵ Ibid., 199.

As of fall 1995, the JSP was the only party expressing opposition to the breakup arguing that the breakup would neither secure universal service, especially on remote islands and in depopulated areas, nor change NCC's interest only in cream skimming. Supported by Zendentsu, NTT's labor union, whose members counted close to 200000, the JSP naturally concurred with the interest of Zendentsu.²⁶ Neither the LDP, the Sakigake, nor the NFP could commit itself to either position because the members had mixed backgrounds and conflicting opinions.²⁷

Prime Minister Murayama resigned on January 6, 1996 after one and a half years in office. Subsequently, Minister of the MITI Ryutaro Hashimoto, the LDP leader since September 1995, succeeded the Prime Minister of the coalition government. Hashimoto, who had been reluctant to break up NTT since the early 1980s, maintained that deregulation instead of breakup was necessary to promote competition and growth of the info-communications industry.²⁸ The JSP requested, unofficially yet strongly, avoidance of the breakup of NTT to be included in the coalition's agreement on Hashimoto's takeover of the premier position.²⁹ The administration's course for avoiding the breakup seemed to have been shaped. The utterances and actions of the ruling parties' members revealed that the government would not pursue the breakup of NTT.

²⁶ Nihon Keizai Shinbun, 24 October 1995, p. 2; Nihon Keizai Shinbun, 3 January 1996, p. 2.

²⁷ Nihon Keizai Shinbun, 24 October 1995, p. 2; Nihon Keizai Shinbun, 20 November 1995, p. 42-43.

²⁸ Nihon Keizai Shinbun, 27 December 1995, p. 2.

²⁹ Yomiuri Shinbun, 9 January 1996, p. 6.

Minister of Posts and Telecommunications Hino, who was a member of the JSP and took office in the Hashimoto cabinet, suggested that the government might postpone the decision until after the deadline of the end of March.³⁰ The minister's public statement shocked the MPT officials as it could mean again abandoning the breakup at that time.³¹

In response to the speculation that the coalition parties might oppose the breakup, Telecommunications Council Special Subcommittee Chairman Ito expressed his determination that the subcommittee would continue its deliberations despite the shift in politics.³² Subsequently, Ito disclosed that the Subcommittee started working on the basic plan of splitting the long-distance division from the local division and breaking up the local division into two or more regional companies on January 20, 1996.³³ The MPT, on the other hand, turned its focus on consumers and announced a deregulation plan that would benefit consumers. The change in strategy was aimed at obtaining public support for the MPT.³⁴

On February 2, the probability that the breakup of NTT would be up on a decision agenda was reportedly becoming even slimmer. The members of the LDP were rapidly shifting their preference to delay their decision another year or so after the general election, which most likely would take place in

³⁰ Nihon Keizai Shinbun, 13 January 1996, p. 1, 5; Asahi Shinbun, 13 January 1996, p. 3.

³¹ Asahi Shinbun, 13 January 1996, p.11.

³² Nihon Keizai Shinbun, 10 January 1996, p. 5; Yomiuri Shinbun, 12 January 1996, p. 8.

³³ Asahi Shinbun, 20 January 1996, p. 13; Nihon Keizai Shinbun, 20 January 1996, p.1; Yomiuri Shinbun, 20 January 1996, p. 9.

³⁴ Nihon Keizai Shinbun, 24 January 1996, p. 4.

the fall or, at the latest, by the end of 1996.³⁵ They were concerned about the negative effect of the breakup decision on the coalition's unity, as well as on their individual constituencies.

On March 19, 1996, the LDP decided that it would not decide on the breakup of NTT because the discussion between the MPT and NTT had not been sufficient and not enough time remained for deliberation within the current terms of the Diet ordinary session. The decision would be made during the next Diet ordinary session, after January 1997.³⁶ The LDP announced that it would respect the final recommendation of the Telecommunications Advisory Council, and requested that the MPT and NTT would continue to seek a mutual agreement.³⁷ The other coalition parties, the Social Democratic Party (SDP)³⁸ and Sakigake, accepted the postponement on March 26,³⁹ and the cabinet approved it on March 29.⁴⁰

Stage 2 (March 30, 1996, to December 6, 1996)

Realignment of the participants and behind-the-scene negotiation and bargaining characterized this stage. A few focusing events took place during this period that had a significant influence on both the problem stream and the policy stream.

³⁵ Yomiuri Shinbun, 3 February 1996, p. 6.

³⁶ Nihon Keizai Shinbun, 20 March 1996, p. 1.

³⁷ Asahi Shinbun, 20 March 1996, p. 1, 13; Yomiuri Shinbun, 20 March 1996, p. 9.

³⁸ The JSP changed its name to the Social Democratic Party (SDP) in January 1996.

³⁹ Yomiuri Shinbun, 27 March 1996, p. 8.

⁴⁰ Nihon Keizai Shinbun, 29 March 1996, p. 1.

Changes in Participants

The term of NTT's top executives was due to expire in June 1996. President Kojima had been serving for the last three terms, since June 1990. Kojima was one of the first cohort of NTTPC who were originally from the MPT; they shared the pride of the elite for being selected to establish a growing public telecommunications corporation, and they had a strong held sense of superiority to those officials who stayed to take care of the national postal services. The overweening behavior of such an elite had bred animosity among MPT officials until 1985, when the MPT gained strong power over not only NTT but also the telecommunications industry as a whole; then the relationship between the MPT and NTT was reversed. The current conflict between NTT and the MPT was deeply rooted in the long-standing emotional confrontations at the individual level.⁴¹

Kojima had demonstrated strong leadership and mental toughness. NTT wanted him to stay and continue to serve as a leader in the battle against the MPT. Undoubtedly the MPT strongly opposed the reappointment of Kojima as president. Because the LDP wanted NTT and the MPT to resolve the breakup issue through mutual negotiation and compromise, the line-up of each camp was critical. Kojima himself, however, did not want to make any compromise with the MPT, and gave up his reappointment. Instead, he recommended Vice-President Miyazu for the new president expecting him to follow his strategies against the breakup.⁴²

In Japanese firms, it is customary for a resigning president to be appointed to a chairmanship. Kojima hoped to play an active role in the

⁴¹ Fujii, 6-10.

⁴² Ibid., 162-163.

management as a chairman. Due to the MPT's opposition, however, Kojima had to step down to a post as advisory director with a minor role.⁴³ The MPT recommended Vice-President Sawada, ex-Vice-Minister of Posts and Telecommunications, to the new chairman.⁴⁴ The Sawada-Miyazu tie-up was an indication that there would be some progress in reconciling NTT with the MPT.⁴⁵

At about the same time, personnel changes were made inside the MPT. Director of Telecommunications Bureau Igarashi was promoted to Vice-Minister of Posts and Telecommunications. Tani replaced Igarashi to become director of the Telecommunications Bureau. Hamada was replaced by Dan as head of Telecommunications Business Department. The Tani-Dan combination in the MPT camp significantly improved the relationship with NTT.⁴⁶

It seemed that the shuffle from extremely radical veterans to relatively moderate rookies helped both sides sit peacefully at the negotiating table. The strained adversarial relationship of the past was wiped away, and the new cooperative, consensus-seeking policy community was born.

Changes in the Problem Stream

Opponents to the breakup had been arguing that the breakup would harm the nation's international competitiveness as NTT would not be able to take advantage of its strength of holding a dominant position in both the

⁴³ Ibid., 164.

⁴⁴ Nihon Keizai Shinbun, 9 May 1996, p. 15; Nihon Keizai Shinbun, 10 May 1996, p. 11.

⁴⁵ Nihon Keizai Shinbun, 17 May 1996, p. 14.

⁴⁶ Yasuhiko Ide, interview by author, Tape recording, Tokyo, 25 January 2000.

domestic and long-distance markets and its comprehensive research and development. The fact that NTT was legally categorized as a domestic carrier and was ranked at the top of the list of the world's largest companies obscured the role of NTT in the nation's competitiveness. Putting too much focus on the breakup of NTT had diverted attention from what was happening in telecommunications markets outside of Japan.

There were three global telecommunications consortiums in the spring of 1996: World Partners, Concert, and Global One. World Partners was headed by AT&T. British Telecom (BT) and MCI formed Concert. Global One comprised Deutsche Telekom (DT), France Telecom (FT), and Sprint. The groups were competitively and strategically expanding into foreign countries, enclosing local carriers through partnerships.

In June 1996, Prime Minister Hashimoto was shocked at the summit meeting when he found himself isolated from the leaders of major advanced nations who were enthusiastically discussing how to extend global telecommunications networks and services.⁴⁷ Frustrated by being a laggard in the global competition and threatened by the growing alliance, Hashimoto called Vice-Minister Igarashi and asked him to take necessary deregulatory actions to allow NTT to start overseas operations.⁴⁸ On August 1, the MPT announced that it would set up joint conferences with NTT to discuss the matter.⁴⁹

⁴⁷ Asahi Shinbun, 7 December 1996, p.11.

⁴⁸ Yomiuri Shinbun, 1 August, 1996; Asahi Shinbun, 7 December 1996, p. 11.

⁴⁹ Yomiuri Shinbun, 2 August, 1996.

NTT had already disclosed its interest in participating in the global market in early October 1995.⁵⁰ For NTT, entering the international market meant that it would provide international telecommunications services just like any other international carriers, in addition to its overseas investment and assistance activities already allowed in the developing countries for their network construction. However, the MPT interpreted Hashimoto's request as reinforcing NTT's ongoing overseas involvement as an investor.⁵¹ Thus, the joint conference had to bridge the gap in their expectations.

The trend in the telecommunications industry outside of Japan was rapidly changing to an increased convergence of carriers. On November 4, 1996, BT announced that it had bought MCI. The merger indicated that BT had captured the broader market extending the services between the third countries, without involving the United Kingdom.⁵² As MCI had already established a solid base in Asia, the new company was expected to strengthen its operation worldwide. In fact, BT disclosed that it was interested in a partnership with NTT to reinforce its competitive advantage in Asia.⁵³ The competitive threat was strong and suddenly materialized with the BT-MCI merger. There was a sense of urgency among NTT's top executives, who feared that Japan would be left further behind and completely lose opportunities to take a leading part in the global telecommunications market if the breakup issue was not resolved in time.⁵⁴ In those circumstances, the

⁵⁰ Nihon Keizai Shinbun, 3 October 1995, p. 13.

⁵¹ Nihon Keizai Shinbun, 29 August 1996, p. 13.

⁵² Nihon Keizai Shinbun, 4 November 1996, p. 9.

⁵³ Nihon Keizai Shinbun, 4 November 1996, p. 9.

⁵⁴ Nihon Keizai Shinbun, 7 January 1997, p. 3.

NTT restructuring issue was elevated from an industrial policy issue concerning a solely domestic company to a policy issue critical to the national interest.

Changes in the Policy Stream

Because the Telecommunications Council had dismissed the Special Subcommittee on the status of NTT when its final recommendation was submitted, the MPT's role in the policy stream changed. In the previous stage, the MPT had played a dual role as the toughest advocate for the breakup and the coordinator of the Council. Now in this stage, the MPT was supposed to take a direct part in carrying on negotiations with NTT.

On September 4, 1996, the first dialogue between the MPT and NTT was held. The dialogue was carried on once or twice a week thereafter.⁵⁵ NTT explained its argument against a breakup, emphasizing that a breakup would be a regression from the trend toward convergence in world telecommunications and that it would negatively affect on shareholders' property right as well as its research and development capability. The MPT was tenacious about the breakup, consistent with the Council's final recommendation.⁵⁶

In the late fall there was a breakthrough that finally enabled the dialogue to escape the doldrums. The collaboration generated a new alternative: that NTT would be broken up under a holding company. For NTT, having a holding company would cancel out all the negative effects of a breakup. For the MPT, the alternative would accomplish the breakup and

⁵⁵ Nihon Keizai Shinbun, 7 December 1996, p. 3.

⁵⁶ Ide, Interview.

preserve the legitimacy of the advisory council. The remaining issues concerning the new structure of NTT, for example, how to divide the local business and what to do about NTT's international operation, were further negotiated. The development and refinement of new policy alternative was carried out exclusively in the small policy community consisting of selected MPT officials and the highest NTT executives. Confidentiality was maintained by having very few participants.⁵⁷

On December 6, 1996, the MPT and NTT announced that they had agreed to the policy to break up NTT into one long-distance company, two regional companies, and a holding company.⁵⁸ The new long-distance company would be able to provide both domestic and international long-distance services. The holding company would take over all of NTT's shares and conduct basic research and development.⁵⁹

The agreement was conditional on the revision of the Antimonopoly Act and the special treatment of tax payment. In Japan, since 1947, the Antimonopoly Act had prohibited "establishment of, or transformation of an existing company into a holding company."⁶⁰ Revision of the law to remove the ban on holding companies had been discussed as early as late 1995 as one

⁵⁷ Ibid.

⁵⁸ See Appendix A for the agreement in Ministry of Posts and Telecommunications, The Policy on the Restructuring of NTT, [Online] Available <http://www.mpt.jp/whatsnew/ntt-bunkatsu-e.html>, December 6, 1996.

⁵⁹ Japan: Ministry of Posts and Telecommunications, The Policy on the Restructuring of NTT, [Online] Available <http://www.mpt.jp/whatsnew/ntt-bunkatsu-e.html>, December 6, 1996; Nippon Telegraph and Telephone, NTT no Keiei-keitai ni tsuite (On the managerial structure of NTT), [Online] Available <http://www.ntt.co.jp/news/news96/961206a.html>, December 6, 1996.

⁶⁰ Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade (Antimonopoly Act), (1947), Sec. 9(1) and (2).

of the measures for deregulation in the administrative reform policy. The FTC prepared the bill, which was to be passed by the end of the 1996 ordinary session of the Diet. However, the SDP pulled it back and the decision was postponed to the following session, just like the NTT breakup, in April 1996.

Changes in the Political Stream

On October 20, 1996, the House of Representatives general election was held, and the results had a significant effect on the political stream. The LDP gained 16 seats occupying a total of 239 seats. It still fell short of a majority by itself in the House of 500 seats; however, it was almost sufficient to form a majority when the number of conservative nonpartisans was counted. The SDP, on the other hand, lost 55 seats and held 15 seats, including only one represented Zentsu, the NTT labor union.⁶¹ Sakigake lost 11 seats, barely surviving with two seats.⁶² The balance of power in the Hashimoto coalition administration dramatically tilted to the LDP. Reflecting the LDP's overwhelming power, Hashimoto appointed Horinouchi, a LDP member, to the Minister of Posts and Telecommunications. Thus, the legislature, the cabinet, and the ministry were consolidated under the LDP.

The LDP had been constrained to accommodate the SDP in its policy decisions because it could not have been held a ruling party with Hashimoto as the Prime Minister without the SDP's alliance. Because of differences in their policy orientations, the LDP's attempts to build consensus for various bills had frequently been deadlocked by the SDP's obstinate opposition.

⁶¹ Nihon Keizai Shinbun, 7 December 1996, p. 3.

⁶² See Curtis, 247-250, for the results of the 1993 and 1993 elections.

Neither the breakup of NTT nor the revision of the Anti-Monopoly Act was favored by the SDP. The new configuration of the coalition government substantially, if not entirely, eliminated the ambivalence from the coalition government.

The LDP and Sakigake held that they would consider the NTT issue in favor of breakup. However, Prime Minister Hashimoto wanted NTT to maintain its strength as a unified company and establish a competitive position in the international market.⁶³ The BT-MCI merger in early November might have encouraged Hashimoto and his supporters to seek a solution that would allow NTT to operate overseas and develop a fair and competitive domestic market.

Despite growing impatience with the passage of time without any fruit from the negotiations between the MPT and NTT, the LDP leaders made little intervention⁶⁴ except to urge the MPT to try harder to reach an agreement as soon as possible.⁶⁵ When the MPT and NTT finally agreed on the breakup with a holding company, Yamasaki, the LDP policy coordinator, explained the agreement to the leaders of the coalition parties for their support on December 3. The SDP opposed the breakup, no matter what form it would take. Sakigake opposed bundling the breakup and the revision of the Antimonopoly Act together.

Minister of Posts and Telecommunications Horinouchi accepted the proposal, saying that it “was reasonably compatible with what the

⁶³ Nihon Keizai Shinbun, 22 October 1996, p. 10.

⁶⁴ Nihon Keizai Shinbun, 5 December 1996, p. 11; Nihon Keizai Shinbun, 7 December, p. 3.

⁶⁵ Asahi Shinbun, 7 December 1996, p. 11.

Telecommunications Council's final recommendation aimed at."⁶⁶ Prime Minister Hashimoto said that he had no objection to the proposal if it would work out well for both sides. In addition, he requested that every effort be made to strengthen Japan's international telecommunications operation through the new NTT long-distance company.⁶⁷ The LDP also decided to support the proposal.⁶⁸

Stage 3 (December 7, 1996, to June 13, 1997)

The policy agenda of breaking up NTT jumped over the hurdle and started moving upward along the policy-making institutional structure to the final decision when the MPT and NTT found a mutually acceptable proposal. The proposal had to meet the criteria of feasibility, compatibility, and acceptability before it could be placed on a decision agenda. Evaluations of the proposal, adjustments to the existing restrictions to make the proposal workable, and drafting the bill were the major activities at this stage before it was placed on a decision agenda in the Diet.

Changes in the Participants

The MPT started drafting the bill, along with the agreement with NTT. NTT was consulted by the MPT about the practicality associated with the breakup and the establishment of new companies from time to time.⁶⁹

The Ministry of Finance joined the discussion as it had jurisdiction over taxation. The proposal of the breakup with a holding company was

⁶⁶ Nihon Keizai Shinbun, 6 December 1996, evening issue, p. 1.

⁶⁷ Nihon Keizai Shinbun, 6 December 1996, evening issue, p. 1.

⁶⁸ Nihon Keizai Shinbun, 6 December 1996, evening issue, p. 3.

⁶⁹ Ide, Interview.

conditional on the preferential treatment of NTT. The MOF, therefore, squeezed itself in the problem stream and the policy stream.

The other condition was that the breakup would be acceptable only with the establishment of a holding company. To allow NTT to establish a holding company, the Antimonopoly Act had to be revised. Taking charge of the antimonopoly regulation, the FTC entered the scene.

New Problems and Solutions

The new problems identified in this stage were both practical and hypothetical. The respective government bodies deliberated the problems and developed solutions to them. There were two problems associated with the breakup of NTT with a holding company. One was the establishment of a holding company over which the FTC would have jurisdiction. The other was NTT's tax payment at the time of the breakup and after the breakup, which would be taken care of at the MOF.

More than a year earlier, the FTC had proposed revising the Antimonopoly Act to allow a holding company as one of the deregulatory measures to boost the sluggish economy up. The proposal had been opposed by the SDP and shelved in spring 1996. This time, however, the revision became essential for the breakup of NTT to be realized. Moreover, the promulgation of the revision was necessary before the bill for restructuring NTT was submitted to the Diet. The FTC and the LDP deliberated the conditions under which a holding company would be allowed. By the end of February, the ruling coalition parties agreed to the basic proposal for revision and submission to the ongoing ordinary session of the Diet.⁷⁰

⁷⁰ Asahi Shinbun, 25 February 1997, p. 1; Nihon Keizai Shinbun, 25 February 1997, p. 1, 3, 5; Yomiuri Shinbun, 25 February, p. 1, 2.

The purposes of revision were “responding to international competition, promoting structural reform of the Japanese economy, making business activities more active, and so forth.”⁷¹ Holding companies constituting an excessive concentration of economic power would be prohibited and controlled by the respective regulations. The total assets to be considered as excessive were set at 15 trillion yen,⁷² which would be well above the total assets of the new NTT holding company.⁷³

Two areas of concern about taxation were associated with the breakup. First, according to the tax law at that time, when a company is broken up into two or more companies, when capital assets are transferred, the new companies incur various taxes such as real property acquisition taxes, special land-holding taxes, automobile acquisition taxes, and taxes on registration and recording of the acquired assets. Having been operating a capital-intensive business, NTT would owe about one trillion yen in taxes at the time of the breakup.⁷⁴

Second, it was estimated that NTT West, one of the regional companies, would go into the red, whereas the other two companies would generate a profit. When each company began to pay tax individually, the total tax would

⁷¹ Fair Trade Commission, “Outline of the Partial Amendment of the Antimonopoly Act Concerning the Holding Company Regulations, etc.” [Online] Available <http://www.jftc.admix.go.jp/e-page/press/1997/19970611.html>, June 11, 1997.

⁷² Asahi Shinbun, 25 February 1997, p. 1; Nihon Keizai Shinbun, 25 February 1997, p. 3.

⁷³ Nihon Keizai Shinbun, 21 February 1997, p. 5.

⁷⁴ Yomiuri Shinbun, 25 February 1997, p. 2.

be higher than when NTT had been paying and the shareholders would lose as a consequence of the breakup.⁷⁵

The ruling coalition parties agreed to treat NTT as an exception, exempting it from various taxes associated with transfers of assets as well as allowing it to file a corporate income tax return based on the aggregated income of three companies. The MOF, however, did not want to revise the tax law, which would reduce revenue. The MOF opposed both the introduction of tax exemptions associated with transfers of assets and the acceptance of consolidated financial statements for holding companies together with the FTC's revision of the antimonopoly law.⁷⁶ What the MOF was concerned about was that the exceptional treatment of NTT would establish a precedence in implementing holding companies and jeopardize the principle of fair and equal taxation.⁷⁷

Putting priority on the breakup of NTT,⁷⁸ the MPT and the MOF found their way out of the tax problem with special taxation measures applicable exclusively to NTT. The measures specified the exemption of all taxes associated with asset transfers and the acceptance of filing a consolidated financial statement, which allowed NTT East to reduce its tax payment by giving part of its profits to NTT West as expenses for three years after the breakup.⁷⁹ With these special measures, the total tax imposed on NTT after the breakup would be about the same as before the breakup.

⁷⁵ Yomiuri Shinbun, 27 February 1997, p. 6.

⁷⁶ Asahi Shinbun, 18 February 1997, p. 2; Nihon Keizai Shinbun, 18 February 1997, p. 1.

⁷⁷ Nihon Keizai Shinbun, 18 February 1997, p. 1.

⁷⁸ Asahi Shinbun, 19 February 1997, p. 2.

⁷⁹ Asahi Shinbun, 26 February 1997, evening issue, p. 1.

Meanwhile, on February 26, the MPT published a draft bill to revise part of the NTT Corporation Law.⁸⁰ The draft bill gave shape to the proposal agreed to by both the MPT and NTT. It also included the special tax provisions previously mentioned and specified that the implementation would occur within two and a half years after promulgation. The draft bill allowed NTT to start its international operation before the date of the actual breakup. Based on the draft bill, the final bill was prepared by the MPT, and the cabinet submitted it to the Diet under the name of Prime Minister Hashimoto on March 14, 1997.⁸¹

The Political Stream

In stage 3, the political stream promoted the smooth processing of the proposal agreed to by the MPT and NTT to be put on a decision agenda. Although minor coordination within the coalition parties was necessary to unify the different views concerning the revision of the antimonopoly law and the special measures to provide NTT with favorable taxation, it did not take long for the LDP to build consensus on the original proposal.

The Democratic Party (Minshuto) was one of the opposition parties, comprised mainly of former members of the Sakigake and the SDP who did not like their parties' alliance with the LDP and formed a new party in September 1996. It occupied 52 seats in the Lower House of the Diet after the general election in October 1996.⁸² Although the Democratic Party

⁸⁰ See Appendix B.

⁸¹ The Proceedings of the General Assembly of the House of Representatives, 37, 2, (Tokyo: Ministry of Finance Printing Bureau, May 22, 1997), 203-207, 209-210.

⁸² Curtis, 247.

identified itself as an opposition party, in mid-February 1997, Kan and Hatoyama, two leaders of the party, expressed that the party was more interested in joining the coalition with the LDP than remaining in the opposition alliance.⁸³ This made the political environment more favorable than ever before for the coalition administration to push any bill they wanted to promulgate.

Zendentsu represented the 180,000 NTT employees who had consistently opposed the breakup. However, Zendentsu lost its political backing due to the SDP's loss in the election. When NTT's management suddenly announced the breakup with a holding company, most union members were stunned, confused, and worried about their future.⁸⁴ Facing the reality of the breakup for the following two months, Zendentsu finally decided to accept the proposal and changed its direction to actively support the introduction of a holding company in late February.⁸⁵ The holding company would be the managing company with which they would negotiate their labor condition.

The political seedbed was ready for secure passages of the bill in both houses of the Diet. On May 8, 1997, the bill was brought up on a decision agenda, for the first time, at the plenary session of the House of Representatives in the ordinary session of the 140th Diet. On the same day, after a brief introduction and discussion, the bill was referred to the

⁸³ Asahi Shinbun, 14 February 1997, p. 2.

⁸⁴ Nihon Keizai Shinbun, 8 December 1996, p. 7.

⁸⁵ Asahi Shinbun, 22 February 1997, p. 11.

Telecommunications Committee for deliberation.⁸⁶ During the four-day hearing, representatives of the parties on both sides clarified the bill with representatives from the MPT, the FTC, the MOF, and NTT. As expected, the Committee passed the bill without amendment, supported by a sweeping majority except from the Japan Communist Party, on May 22, 1997.⁸⁷ On that same day, the majority of the House of Representatives passed the bill⁸⁸ and referred it to the House of Councilors. The bill went through the same procedures with little objection in the House of Councilors and was finally passed on June 12, 1997.⁸⁹

⁸⁶ The Proceedings of the General Assembly of the House of Representatives, 32, (Tokyo: Ministry of Finance Printing Bureau, May 8, 1997).

⁸⁷ The Proceedings of the Telecommunications Committee of the House of Representatives, 11, no. 9, May 14, 1997; 11, no. 10, May 15, 1997; 11, no. 12, May 21, 1997 (Tokyo: Ministry of Finance Printing Bureau).

⁸⁸ The Proceedings of the General Assembly of the House of Representatives, 37, no. 1, May 22, 1997 (Tokyo: Ministry of Finance Printing Bureau).

⁸⁹ The Proceedings of the Telecommunications Committee of the House of Councilors, 11, no. 12, June 5, 1997; 11, no. 13, June 10, 1997; 11, no. 15, June 12, 1997, (Tokyo: Ministry of Finance Printing Bureau).

CHAPTER VII

CONCLUSION

This study provided valuable insights into the public policy-making process and an opportunity to examine the Kingdom's theory of policy agenda-setting. In this final chapter, the researcher draws some conclusions regarding the general pattern prevalent in public policy making.

The chapter starts with the answers to the research questions based on the synthesis of findings discussed in the preceding chapters. Also discussed is the pattern of coupling and merging of the problem, policy, and political streams with regard to the applicability of the policy agenda-setting model to the process through which the breakup of NTT was instituted. The chapter ends with limitations of the study and recommendations for future research.

Synthesis of Findings

The first research question asked what were the general characteristics of the problem. Telecommunications once was considered a natural monopoly due to the requirement of a large investment in network construction and the inherent tendency of decreasing unit costs. This natural monopoly justified the various governmental regulations and prevented competition in telecommunications. Initially, therefore, the provision of telecommunications services was under the direct control of the government in most other countries in the world. The secured monopoly of public telecommunications operators, however, supposedly gave way to competition as the costs of operation substantially decreased due to the rapid advancement of information and communications technologies. The multiple operators were also justified to meet the increasing demand for diverse

services. The major policy question was how to transform the market from monopoly to competition. Japan chose privatization of the public telephone operator and liberalization of the market by allowing entries.

There were two major policy questions since the privatization and liberalization had been implemented. The first question was whether the market was competitive and fair among competitors. The condition of the market needed to be assessed by various indicators about the structure, conduct, and performance of the industry. Therefore, the availability of and the access to the indicators determined who took part in the problem stream. The second question was that if the market had been neither satisfactorily competitive nor fair, how alternative policies could facilitate the development of a fair and competitive market. The development of the proposal for policy alternatives required both economic and technical expertise. Therefore, the characteristics of the problem determined participants in the problem and policy streams.

The second research question was what institutions were involved in the policy making. The issues concerning telecommunications policies are under the jurisdiction of the national government in Japan. The study found that the Ministry of Posts and Telecommunications played the most prominent roles throughout the process. The institutional structure of telecommunication policy making allowed the MPT's substantial involvement. The MPT monitored and examined the telecommunications market structure by collecting various proprietary data, preparing statistical indicators, and reviewing information from various sources. Thus, the agenda-setting process began with the identification of problems by the MPT. It then proceeded to the definition of problems and the development of alternatives by the MPT's advisory council. The council's final report authorized the MPT

to draft the bill following the recommendation. Subsequently the bill went through the political institutions such as the Cabinet, the committees of ruling political parties, and the Diet for deliberation and decision. It was found that the established institutional structure and the effort to seek consensus in each institution made the agenda-setting and decision process move slow, halt at times, and take an extended time.

The third research question asked who were the participants in each stream and what were their goals and incentives. The participants of the problem and policy streams were limited to those who had economic and technical expertise and experience in telecommunications industry. The participants who were directly involved in the process were the members of the policy making institutions or those who were formally asked to participate by one of the institutions to present their reports or express their opinions.

The participants changed from one stage of the process to the other. At the first stage, the major direct participants were the MPT and the advisory council. The MPT demonstrated the incentive to increase, maintain, and execute authoritative power over the telecommunications operators, especially NTT by taking initiative in justifying the breakup. The members of the advisory committee selected by the MPT maintained the position consistent with that of the MPT. It is natural that the policy community was tightly knit.

Throughout the first stage, a number of indirect participants presented their reports and recommendations. The proponents of the breakup were the firms who had been competing with NTT and would be benefited by the breakup. The opponents were those who had business relationships with NTT and would be negatively affected by the breakup.

In the second stage, the policy agenda-setting took place mainly in the behind-the-scene meetings between the MPT and NTT. There was a significant change in the individual participants as the result of the internal personnel changes both at the MPT and NTT. The new participants had the common missions of resolving the conflict in the shortest time that facilitated collaboration.

In the third stage, the MPT drafted the bill consulting with NTT. As the implementation of the alternative policy involved some revisions of the laws other than the telecommunications laws, the government agencies in charge of such areas addressed their concerns over jurisdiction. However, the political mediation prevented the conflict over jurisdiction from becoming obstacles and guided the agencies to accept the necessary revisions of relevant laws.

The participants in the political stream were the political parties, the politicians who held offices in the government, and the top bureaucrats. The participants changed as well not so much by the policy process but along the changes in major political affairs. The coalition regime of the LDP and the JSP were in power until the late second stage. To maintain the ruling power, the LDP had to rely on the JSP who were supported by the NTT labor union, therefore, were strongly against the breakup during the first stage and the first half of the second stage. The JSP's presence weakened when it lost substantial seats in the election at the middle of the second stage. Other opposition parties took relatively insignificant roles for the breakup during the third stage, while the empowered LDP took initiative in the third stage.

In this study, the participants inside the government, especially the MPT and the LDP, took substantial initiatives in all three streams.

Therefore, the inside access model explains who are the most significant participants in the policy agenda-setting and decision process.

The forth research question asked what problems the participants identified and how they defined the problems. The fifth research question asked what alternative policies the participants generated, favored, or chose. As the problem and policy streams were closely related, this section answers both questions.

The participants shared the common perception about the structure of telecommunications market at the time. However, there were distinct differences between the proponents and the opponents regarding the breakup of NTT in their problem identifications and definitions. The proponents blamed the NTT for its dominance and abuse of its market power as the cause of the unfair and weak competition. They argued that the breakup was necessary to eliminate the problems. On the other hand, the opponents blamed the government for the poor implementation of policies, therefore, urged to develop and implement regulatory measures more effectively to encourage new entries instead of breaking NTT up. They predicted that the breakup would harm provision of universal service, comprehensive research and development capability, and international competitiveness; and that the NTT dominance in the local market would diminish before long by the rapidly growing mobile and cable operators. The world trend of increased convergence was recognized to justify speedy resolution by both sides later in the process. Because the problems and the policy alternatives were generally discussed together, the two streams were coupled.

The sixth research question asked what political environment the movement of policy agenda is related with? The political environment was unstable in the first stage. Because the Liberal Democratic Party had lost its

position as a single majority in the Diet in 1993, it had to rely on a coalition with the Japan Socialists Party to stay in the regime. The Prime Minister and the Minister of Posts and Telecommunications had been members of the JSP, who opposed the breakup in support of the NTT labor union. Later the premiership was moved back to a member of the LDP whose interest was in strengthening the Japan's international competitiveness rather than breaking NTT up. Apparently, the positions toward the breakup among the members inside the ruling coalition parties were mixed. In order to avoid conflicts within the coalition, the bill for breakup was set aside for the participants to reach a consensus. Thus, the opportunity for the policy agenda to be placed on a decision agenda was lost.

In the second stage, the LDP regain dominant power in the coalition as well as in the Diet as the result of the general election, and the LDP members occupied the major positions in the Cabinet. Thus, any bill submitted to the Diet by the Cabinet could expect smooth passage. The political stream was ready to merge into the problem and policy streams. Meanwhile the direct dialogue between the MPT and NTT made a breakthrough that would satisfy the MPT's wish for breaking NTT up and saving the advisory council's recommendation as well as the NTT's wish for maintaining the ability to manage comprehensively with a holding company and entering the international market. The breakthrough came in the stable political environment. It was a promising sign for the policy agenda to be transformed into a decision agenda.

The last research question asked about the applicability of the policy agenda-setting model to the case, and the condition in which the policy agenda transformed into the decision agenda. First, the findings confirmed that the model could explain the policy-agenda-setting and decision process.

Although the problem and policy streams always flew together in all stages, the historical development of the case indicated that they had separate origins. Second, the study confirmed the conditions under which a policy agenda transformed into a decision agenda. A policy agenda is put on a decision agenda when all three streams, problem, policy, and political, merge. In other words, (a) problems are identified and defined, (b) a feasible policy alternative that appears to solve at least parts of the problems is available, and (c) the political environment favors the policy alternative.

The definition of problems and the development of policy alternatives are not necessarily in regular order. Participants, problems, policy alternatives, and political environment change. At one point, a specific policy alternative generated in the coupled problem and policy streams has a great chance to be placed on a decision agenda under the favorable political environment in which the supporters of the alternative policy are in power.

Limitations and Recommendations

The foregoing conclusions must be interpreted with caution because this was a single case study; hence, the findings lack generalizability. In fact, the case had some unique aspects. Despite the known institutional and cultural differences between Japan and the United States, the probability of a policy agenda's becoming a decision agenda is determined by the joining of the problem, policy, and political streams. To increase the probability that this pattern prevails, more studies need to be conducted in other countries, as well as in other areas of policy-making in Japan.

In this study, organized groups were the units of analysis for participants because it was operationally infeasible to reach the individuals who had taken part in the policy-making process in the remote past. Another,

more theoretical reason is that subjectivity of individuals rarely appears in public arenas such as policy making due to their group orientation,¹ and the behavior of groups was assumed to be stable. However, the behavior of the groups participating in policy making changed during the course of the long process. Changes in individuals who were the components of the group affected the process. Individuals play important roles even in a group-oriented society. Therefore, the adequate treatment of both levels, individual and group, is necessary in selecting the method and unit of analysis.

This study included the policy institutions in order to establish the context for the policy-making process. The function of the policy institutions in the process was not the focus of the study. However, the institutions constrained the process by specifying and restricting the participants and scheduling, organizing, and structuring the deliberation of policy alternatives. In fact, the institutions did control participation in and length of the process. The policy alternative of breaking up NTT was legally kept as a policy agenda to be revisited at five-year intervals, in 1990 and 1995. The process was artificially prolonged and forced to move forward. The time of revisiting the policy agenda was institutionally set, rather than occurring naturally. In addition, the mechanism of coupling seemed to depend on the institutional structure, just as two streams join to form a river depending on the landscape. Subsequent research needs to be undertaken to explore the specific effect of policy institutions on the policy agenda-setting and decision process.

Now it has been discovered how the consensus was built and the decision was made in the policy making process with particular terms and arrangements. But does the process matter? Certainly, because it provides

¹ Reischauer, 127-137.

opportunities to identify the areas in which future policy making can be improved, resulting in better policies and their smooth adoption and implementation. Channels may be found for academics to effectively communicate with policy communities and decision-makers and contribute to policy making by providing them with the latest theories and applications. Policy institutions also can be improved for faster and smoother policy development and implementation. This is especially important as more dynamic and complex issues exist and may arise than ever before. Scholars in communications should remove their disciplinary bias and contribute not only to the development of theories but to the improvement of telecommunications policy making.

Some may say that the outcome is all that matters. The outcome of a policy decision is, of course, as important as the process. The chosen policy should be examined carefully and thoroughly as evaluation involves normative standards that depend considerably on the priorities set by the people who claims them. It may take a long time before the outcomes of some policies can be analyzed and evaluated. In particular, a policy such as the breakup of NTT, which is intended to accomplish many purposes, may take even longer before a decent evaluation can be made. Moreover, frequent incremental policy adjustments make it difficult to delineate a causal relationship between a specific policy choice and industry performance. Still constant investigation on the policy and its implementation and examination of their outcomes in terms of the policy goals are warranted.

On July 1, 1999, NTT was broken up into NTT, a holding company, NTT Communications, NTT East, and NTT West. The performance of these companies in the domestic and international telecommunications markets is yet to be seen.

APPENDICES

APPENDIX A

POLICY ON THE RESTRUCTURING OF NTT

6 December, 1996

Ministry of Posts and Telecommunications

1. NTT will be restructured into one long-distance communications company and two regional communications companies, under a purely holding company which is not involved in communications business operations.
2. The long-distance company will be a private company to provide basically inter-prefectural communications services. This company will also be able to go into the business of international communications services.
3. The regional communications companies will be special corporations to provide basically intra-prefectural communications services, and will be obliged to provide universal service of telephony in each business area. The business areas of the two regional communications companies will be within East Japan (Hokkaido, Tohoku, Kanto, Tokyo and Shinetsu) and West Japan (Tokai, Hokuriku, Kansai, Chugoku, Shikoku, Kyushu and Okinawa).
4. The holding company will hold all the shares of the regional companies and will be a special corporation to promote fundamental research and development (R&D). This holding company will also hold all the shares of the long-distance communications company.
5. Regarding R&D, the holding company will conduct whole fundamental R&D, while the long-distance company and the two regional companies will each conduct applied R&D closely relevant to their business.
6. NTT will actively tackle the issues, with a view to entering the markets abroad, such as entry and investment in communications business abroad and respond to the demand for global information interchange.
7. Necessary conditions between the long-distance company and the regional companies will be assured in order to ensure fair and effective competition.
8. MPT will make necessary arrangements within the government regarding the issues on related laws such as the anti-monopoly law ("the act concerning prohibition of private monopolization and maintenance of fair trade") and the commercial law, and on special tax considerations such as concessions for capital gains tax and consolidated tax payment system.
9. MPT will make necessary coordination, seeking the opinions of interested parties, on the restructuring-related issues not mentioned above, and will prepare the necessary draft Bill for submission to the next ordinary session of the Diet.

Japan: Ministry of Posts and Telecommunications, The Policy on the Restructuring of NTT, [Online] Available <http://www.mpt.jp/whatsnew/ntt-bunkatsu-e.html>, December 6, 1996.

APPENDIX B

DRAFT BILL TO REVISE PART OF THE NIPPON TELEGRAPH AND TELEPHONE CORPORATION LAW

March, 1997

Ministry of Posts and Telecommunications

1. Purpose of the bill

To implement restructuring of Nippon Telegraph and Telephone Corporation (NTT) and allow it to enter the business of international communications services, aiming to promote fair and effective competition in Japan's telecommunications market and to actively respond to the globalization of the info-communications business.

2. Outline of the draft

(1) Restructuring of NTT

1. NTT will be restructured into one long-distance communications company and two regional communications companies, under a purely holding company which will not be involved in communications business operations.
2. The holding company (Nippon Telegraph and Telephone Corporation) will be a special corporation to hold all the shares of the two regional companies, and it will use its voting right as a shareholder to ensure the continuing provision of regional telecommunications services by the regional communications companies. The holding company will also promote fundamental research and development (R&D).
3. The regional communications companies (NTT East and NTT West) will be special corporations to provide regional communications services, and each will be obliged to provide a universal service of telephony in its business area.
4. The long-distance company will be a private company and will be able to enter the business of international communications services. For the time being, all the shares of the long-distance communications company will be held by the holding company.
5. The holding company and the regional communications companies will be basically regulated as special corporations like the present NTT, but will be less regulated regarding the following points:
 - a. The regional communications companies will not be regulated concerning the appointment and discharging of their executives or concerning the distribution of their profits;

- b. The holding company and the regional communications companies will not be regulated concerning their incidental businesses.
(Currently NTT must submit a notification in advance of starting such businesses.)

(2) NTT's entry into the business of international communications services
Even before the implementation of the reform of NTT, the company will be able to enter the business of international communications services through its affiliates.

(3) The fundamental principles of the reform

The Minister of Posts and Telecommunications will determine the fundamental principles of the reform concerning the transfer of each business and their necessary rights and duties.

(4) The reform plan

According to the fundamental principles of the reform mentioned above, NTT will compile a plan for the transfer of each business and the undertaking of necessary rights and duties which incorporates the fundamental principles mentioned in (3) above, and submit it to the Minister of Posts and Telecommunications for approval.

(5) Special tax concessions

Special tax concessions will be made as follows

- a. NTT East will be permitted to transfer money to NTT West, and such money will be regarded as an expense of NTT East.
- b. Concessions for capital gain tax, etc. will be provided.

(6) The holding company system

The establishment of holding companies in Japan is permitted under the revised Anti-Monopoly Law, which was already submitted to the ordinary session of the Diet now taking place.

3. Date of implementation

This law will be implemented within two and a half years from the date of promulgation. (The date will be provided by the government ordinance.)
However, the provisions concerning procedures to establish new companies will be implemented as soon as the law is promulgated.

Japan: Ministry of Posts and Telecommunications, Draft Bill to revise part of the Nippon Telegraph and Telephone Corporation Law, [Online] Available www.mpt.go.jp/whatsnew/NTTlaw-e.html, March, 1997.

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