

# Restructuring Nippon Telegraph and Telephone

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## Abstract

In 1982, Japan's Administrative Reform Council recommended privatization and divestiture of Nippon Telegraph and Telephone, starting the process of restructuring Japan's one hundred-year public monopoly of telephony. After two years of deliberation, the government decided to privatize NTT but postpone divestiture. It took another three attempts and fifteen years before Japan finally settle the divestiture issue, adopting a holding company formula. How was NTT selected as a reform agenda despite oppositions from major actors including NTT and MPT? Why was privatization possible, while it took so long to settle the divestiture issue in such a vague fashion? Why was the holding company formula adopted, which was never considered as an option for NTT? This paper demonstrates that the Garbage Can Model can provide some consistent interpretation of the NTT reform process.

## Keyword

일본, 정보통신, NTT, 민영화, Garbage Can Model

## I. Introduction

This paper is about the policymaking process of restructuring the Nippon Telegraph and Telephone (NTT). Upon launching the Second Provisional Council for Administrative Reoform (PCAR) in 1981, the Japanese government set out to restructure the nation's one hundred-year public monopoly of telephony. PCAR in its 1982 report proposed privatization and divestiture of NTT. After deliberating on the proposal, which was initially met by opposition from most concerned parties, the government in 1984 decided to privatize NTT while postponing divestiture. After two more attempts at breaking up NTT, the government finally decided in 1997 to divide it into three companies according to a 'holding company formula.'

Typical in any case of reforming public corporations, or state owned enterprises, restructuring NTT was highly politicized issue, as a number of actors with diverse interests and high political-economic stakes interacted throughout the decision process. The NTT case was all the more complicated because there were a host of related issues critical to Japan's communications infrastructure: "deregulation, the future business mission of telecommunications carriers, interconnection, industrial policy, R & D and innovation, universal service and the long-run

consequences of convergence of computing, communications and entertainment industries” (Bohlin, 1997, 79-84).

The process leading to the decisions on NTT raises a number of questions. How was NTT reform selected as a policy agenda in spite of oppositions from most of the major actors including NTT and the Ministry of Posts and Telecommunications (MPT)? Why was privatization possible, while it took 15 years and three attempts to settle the issue of divestiture in such a vague fashion? What was the reason behind adopting the holding company formula, which was never considered as an option for NTT? Why were decisions made at the particular times but not at others?

Different aspects of NTT restructuring process could be explained with various perspectives of policymaking or political economy. A technology/market-driven change perspective may see NTT reform as an inevitable consequence of technological innovation and ensuing changes in the market environment. According to this view, NTT decision was influenced by rapid development of technology, trend towards market liberalization, and global diffusion of neo-conservative ideology in the early 1980s. There is certainly some tendency towards convergence in policies across nations due to diffusion of technology, competitive forces and policy ideas.<sup>1</sup> Statist model could explain an important aspect of the NTT case. The restructuring of the telecommunications sector could be seen not so much a process of market liberalization as a result of ‘strategic reregulation’ (Vogel, 1996) by MPT which sought to become the ‘first class policy ministry’ in the so-called information age. One can say that the ministry had had some success in strengthening its position. The process of NTT divestiture clearly demonstrated the situation in which a bureaucratic agency controls policy agenda in order to achieve the goals it consistently maintained.

Bureaucratic politics model could highlight the rivalry between MPT and NTT. Given the fact that NTT and MPT was split from the Ministry of Communication, and that two-thirds of NTT shares were still owned by the government, the policy process can be interpreted as a typical inter-agency turf battle (Suzuki, 1996). A pluralist perspective would interpret changes in the regulatory regime resulting from interest group politics. From this point of view, NTT reform could be seen as a result of competition between new entrants in the market and telecom users demanding better access and services, on the one hand, and NTT and its major suppliers, on the other, both sides being allied with *zoku* politicians.

The above-mentioned interpretations, however, provide only partial pictures of NTT restructuring process. State-dominant model cannot explain the fact that restructuring of NTT was included as a policy agenda despite MPT’s opposition, or that, despite MPT’s persistent attempt to divide NTT,

the final policy outcome was the adoption of a 'holding company formula,' which the ministry had never considered as a policy alternative prior to the decision. Bureaucratic politics model does not cover the involvement of major actors such as PCAR, Nakasone, and the union. Pluralist model cannot explain that NTT privatization was included in the reform agenda despite the fact that it was opposed by most concerned parties such as MPT, NTT, the main equipment manufacturers and politicians. None of them can consistently explain the whole process of NTT decision-making and the final outcome.

This paper argues that the Garbage Can Model (GCM) adapted by John Kingdon can provide some consistent interpretation of the NTT reform process. According to the GCM, three separate and largely independent streams run in the policy system. In the problems stream, various problems are recognized and capture the attention of policymakers. Policy specialists generate proposals and policy alternatives in the policy stream. Elections, change of governments, shift in public mood and other political events happen in the political stream. Policy changes occur when the problems stream, the policy stream and the political stream are coupled at critical junctures, that is, when the window of opportunity opens (Kingdon, 1995, 19, 86-89). The window, or what Cohen and his colleagues call 'choice opportunity' is like a garbage can into which problems and solutions are dumped by participants. The GCM posits problematic preferences, uncertain technology, vague connection between problems and solutions, and fluid participation (Cohen, March, and Olsen, 1972, 1-2). The model sees contingencies, timing and contiguity rather than consequential logic as the main features of policymaking process (Warglien and Masuch, 1996, 3-7, 58).

Cohen, March and Olsen's original GCM was about decision-making process at US universities, which they called 'organized anarchies.' Kingdon extended the scope of the model to analyze the process of agenda setting and alternative specifications at the national level in the US. Then Zahariadis demonstrated that the logic of the model can be further extended to the entire policy process beyond agenda setting to include final decisions, and can be applicable to cross-national analysis (Zahariadis, 1992). This paper draws upon their approaches and findings to examine the policymaking process of Japan's telecommunications reform.

Historically, telephony was regarded a public service, of which unified technical standard and operation was considered important. It was even considered a matter of national security. Due to the technological and capital requirements to enter into the business, it was also considered as a natural monopoly. Therefore, in most countries, telephone services were developed as public monopolies under strict state control and regulation. Later, telecommunications became one of

the major high technology industries and important infrastructure for the entire economy. Thus, telecommunications is an area with high probability of state intervention. Since the late 1970s, however, public monopoly of telecommunications started to disintegrate with rapid technological advances and increasing demands for better and newer services. Subsequent shift in market conditions, globalization of competition, and the ensuing need to upgrade and modernize networks undermined the fundamental assumptions of the existing telecommunications sector, and countries around the world started reforms. Japan was no exception.

Not all countries, however, responded to the pressures for change in the same way. In restructuring public telephone monopoly, there were several options available, alone or in combination: liberalization, deregulation, commercialization of state-owned carriers, divestiture, privatization, and change of regulatory regime by creating independent regulatory body. Why the outcomes of reforms in different countries diverge in the long run may be explained by their divergence in domestic political economic structure (Duch, 1991). Obviously, where one started the reform is an important factor. The US restructured an already private monopoly carrier. Britain, France and Germany started reforms with state-owned and operated national carriers. Japan had a public corporation that was also a national monopoly.

With the reform cases of state-owned telephone services in Britain and France, Zahariadis demonstrated that the policy process could be explained with the GCM. He observed that privatization of the telephony was possible in the UK with the coupling of the three streams in critical moments in time. When the new Conservative government came into office in 1979, a window opened in the political stream, and restructuring of the post office and telephone was put on the policy agenda. The government saw the need to modernize its telecommunications network but was unwilling to use public funds to finance it. A solution emerged in the policy stream as there were other cases of successful privatization, with which the Treasury enjoyed substantial financial rewards. The coupling occurred. The government separated the postal service and created the British Telecom (BT) in 1981. BT's good financial status and strong growth prospects seemed right condition for privatization. In 1982, the government decided to sell BT (Zahariadis, 1992, 355, 362-67).

Unlike the UK, France had been able to rapidly modernize its telecommunications system while keeping it as a government agency (Direction Générale des Télécommunications: DGT). Because of the remarkable past achievement, the French were reluctant to make radical changes to DGT. Policymakers perceived that liberalization of the telecommunications market was possible without privatizing DGT. When Jacques Chirac won the 1986 election, a policy window opened

for restructuring. The problem stream was ripe because the government's borrowing needs were high. But alternative was not available in the policy stream: privatization was not attached to the problem due to strong opposition. BT was first turned into a public corporation in 1981, and privatization in 1982 was the next step forward. DGT remained government operation until 1991. Turning a state agency directly into private ownership was too difficult. The French case showed a partial coupling of the streams (Zahariadis, 1992, 367-72).

This paper is about what happened in Japan. The following will first provide a brief survey of the agenda setting and decision making process of restructuring NTT. Then the story is reconstructed using the framework of the GMC. In so doing, this paper shows that the GMC can explain with consistency the whole process of NTT privatization and divestiture.

## II. Policymaking Process of NTT Reform

### 1. Setting the Agenda: Administrative Reform and NTT

The initial process of restructuring NTT cannot be discussed without referring to the administrative reform spearheaded by PCAR under Prime Ministers Suzuki and Nakasone. The immediate cause of the administrative reform through PCAR was the fiscal crisis of the Japanese government. In 1975, the Japanese government for the first time issued deficit-covering bond to make up for the 3.9 trillion yen budget shortage. From that year on, tax revenues constituted only about 60% of total government expenditures and, by early 1980s, the ratio of outstanding government bonds to GNP topped 30%. However, it was politically difficult to raise tax due to resistance from the electorate and businesses, and, under heavy pressure, the government committed to 'Financial Rehabilitation without Tax Increase.' Thus, administrative reform emerged as a means to reduce government spending and debt, and a comprehensive overhaul of the entire public administration system was the declared objective.

PCAR was thus launched in 1981, and its First Report clearly stated that the so-called 'three public corporations' (sankōsha: NTT, Japan National Railways and Japan Tobacco) were among the reform agenda. PCAR's Fourth Committee was in charge of deliberating on public corporations reform and its first priority was the Japan National Railways (JNR) which was reeling under astronomical amount of debt. Compared to JNR, NTT was in a good shape. NTT recorded a net profit of 390 billion yen in 1981, and it was regarded as a leader in high technology industry. During the Fourth Committee's deliberation, however, the committee came to conclude that NTT

as a government monopoly was fraught with inefficiency and waste, and that fundamental reforms, including privatization and divestiture was necessary (Katō and Sandō, 1983a, Chapter 4; Katō and Sandō, 1983b, 162-76; Yayama, 1982, 122-35).

When the idea of restructuring NTT was raised, most concerned parties including NTT management and the union, MPT, LDP, major equipment manufacturers registered opposition. But they could not prevent PCAR to adopt NTT as a reform agenda. In March 1981, immediately after the establishment of PCAR, Yamauchi Ichiro, the MPT minister asked the Telecommunications Policy Meeting (TPM: *Tsūshinseisaku Kondankai*) to deliberate on NTT thereby formally starting internal debates within the ministry. The TPM's report issued in August suggested partial deregulation and management reform of NTT, but did not support privatization (*Asahi shimbun*, 12 October 1981). MPT maintained the position that telecommunication should be a publicly provided service. The ministry was also motivated by the desire to defend its jurisdiction. MPT perceived that privatization of NTT meant loss of supervisory control over the telecommunications business, which would seriously undermine its vision to become a 'first class policy ministry' by leading Japan to 'the information society.'

The All Telecommunications Union (*Zendentsū*), the largest telecommunications sector union, opposed privatization of NTT. So did the Socialist Party whose major support base was the labor union. The union was concerned that privatization would result in rationalization, re-organization and labor reduction. The union was dead set against divestiture. As a countermeasure to PCAR's reform initiatives, the union in January 1982 proposed a 'subscription certificate formula' for NTT, turning it into a special corporation, to be partly owned by the government and partly by phone subscribers (*Asahi shimbun*, 21 January 1982).<sup>2</sup> PCAR members saw this as union's attempt to block reforms by proposing an unacceptable alternative (Katō and Sandō, 1983b, 209-10).

LDP was relatively passive in NTT debate, and its postal policy tribe members (*yūseizoku*) were subject to intense lobbying by MPT, NTT, PCAR and the union. The majority of the postal tribe politicians supported MPT's position and led LDP's anti-privatization forces within the party. Tanaka faction members, which formed the core of the postal tribe, were particularly influential. They also talked of telecommunications as 'a matter of sovereignty' or 'public service,' and opposed privatization or divestiture of NTT. Their ulterior motive was to protect the lucrative source of political funds from the 'NTT family' firms.<sup>3</sup> These firms were concerned about the loss of their privileged position as main suppliers to NTT and recipients of its research and development projects. Postal tribe politicians supported them. NTT was afraid of losing its

privileged position as a public monopoly and resisted reform. NTT, as its nickname 'technology kingdom' symbolized, was at the forefront of Japan's communications technology development. At that time, the technology-intensive NTT was dominated by engineers under the leadership of Vice President Kitahara Yasuda, and they warned privatization would in the long run reduce technology investment (Nomura, 1983, 130-34; Shimoda, 1987, 29-37).

The role of PCAR was decisive in putting the NTT issue on the government agenda. Restructuring NTT was not a stand-alone policy agenda but a part of a larger administrative reform, which was prompted by the fiscal crisis and government response that was politically constrained by opposition to tax increase. NTT was included in the policy agenda only when political dynamics for a comprehensive administrative reform emerged. Initially, none of the major actors immediately related to NTT supported reform. MPT responded belatedly after the discussion was initiated by PCAR, and the fact that MPT's Communications Policy Meeting report was issued after the presentation of PCAR Third Report showed MPT's limited role in setting the policy agenda. As the deliberation on NTT proceeded, however, the position of these actors started to shift, and MPT and NTT turned into major proponents of reform.

## 2. Decision: Privatizing NTT

Among the opponents of NTT reform, NTT itself was first to change. Shintō Hisashi, the first outsider who was appointed chairman of NTT upon PCAR chair Dokō's recommendation, implemented various reform measures with the ultimate aim of privatizing the public corporation. Reformers within NTT figured that a privatized NTT could be freed from interfering MPT and could dominate the telecommunications market. Of course, NTT most strongly opposed divestiture. On 27 February 1982, NTT submitted a report to PCAR Fourth Committee, presenting three alternatives for NTT's future: reform within the existing structure, special corporation owned by the government and subscribers, and complete privatization. Shintō preferred privatization, but, due to oppositions from MPT and LDP, had to juxtapose the three alternatives (*Nihonkeizai shimbun*, 27 February 1982; Katō and Sandō, 1983a, 106-112). MPT criticized NTT's report, stating that all other measures of reform should be discussed before considering privatization. Telecommunications Committee (*Tsūshin Bukai*) of LDP's Policy Affairs Research Council (PARC) and LDP's Research Committee on Basic Issue of Telegraph and Telephone (COTT: *Denden Gihonmondai Chōsakai*) also supported status quo (*Asahi shimbun*, 5 March, 7 April 1982).

PCAR's Fourth Committee considered that reform without privatization was meaningless, and had already decided, at the time of NTT report, to privatize the public corporation (Katō and Sandō, 1983a, 188-90). On 17 May 1982, the Fourth Committee presented its report to PCAR. The centerpiece of the report was privatization of the three public corporations. Concerning NTT, the report suggested that it be privatized within five years and be divided into one central and eight to ten regional companies (*Asahi shimbun*, 1 May, 7 May 1982).<sup>4</sup> LDP, MPT and the union in unison denounced the report. The prospects looked rather discouraging for reformers.

By the time of the Fourth Committee report was released, however, administrative reform was moving forward in full gear thanks to political support from Prime Minister Suzuki and Administrative Management Agency (AMA) Director General Nakasone. Under the surface, there were also some important changes within MPT, as reform-minded officials began to see the shortcomings of public monopoly system for the future of Japan's telecommunications sector (Ebato, 1987, 134-46). They also saw the privatization of NTT as a golden opportunity to enhance MPT's influence. NTT, as a quasi-government agency, had until that time enjoyed equal or even higher status vis-a-vis the supervisory agency MPT. If privatized, NTT would become only one of many companies in the business, and any doubts about who is in control would be settled. MPT's persistent desire to break up NTT can also be understood in this context. NTT divided into many smaller companies would be much easier to control than one big and powerful monopoly. Expansion of the telecommunications market following liberalization could also reinforce the ministry's influence (Kawakita, 1985, 79-81; Johnson, 1989; Shiose, 1986, 23; Vogel, 1996, 143). However, the top MPT officials were still strongly against changes. In its own opinion memo to PCAR, MPT officially expressed its opposition to privatization.

Despite the release of the Fourth Committee report, opposition to NTT reform continued within LDP. Nevertheless, LDP, being the ruling party, was compelled to come up with its own policy alternative. On 13 July 1982, several days before the scheduled presentation of PCAR Third Report, the boss of the postal tribe Kanemaru Shin announced his 'private proposal' (*Kanemaru Shian*), also known as 'Bank of Japan formula' or 'subscription certificate formula.' It proposed that NTT be turned into a fully government-owned special corporation.<sup>5</sup> This formula posed as a compromise between the status quo and privatization. In reality, however, what it suggested was not much different from the status quo (*Asahi shimbun*, 13 July 1982; *Nihonkeizai shimbun*, 10 January 1985). LDP later formally endorsed Kanemaru Proposal as the ruling party's position in response to PCAR.

In the meantime, there was a development which had a significant impact on the direction of the

policy debate within the government. During MPT's regular personnel changes in July 1982, a reform advocate Koyama Moriya was appointed as the Director General of the Telecommunications Policy Bureau (TPB), and Tomita Tetsurō his deputy. They had been arguing that government monopoly in telecommunications caused inefficiency, high-cost and poor service and privatization and divestiture of NTT was necessary to remedy the situation. Upon appointment, they completely abandoned MPT's existing policy and threw their support to PCAR.<sup>6</sup>

On 30 July 1982, PCAR presented the Third Report and demanded a comprehensive reform of public corporations and state-owned businesses. Concerning NTT, the report recommended that NTT be reorganized into a fully state-owned special corporation. Within five year, however, it would be broken up and gradually privatized (Provisional Commission for Administrative Reform, 1984, 42). This was in direct conflict with LDP's position. Although Prime Minister Suzuki expressed his wish to send a reform bill to the Diet at the earliest possible date, LDP continued to object PCAR recommendation, and declared that it would introduce its own bill (Katō and Sandō, 1983a, 225-26; *Asahi shimbun*, 28 September 1982). If the ruling LDP vetoed, the reform would stall.

At this point, the selection of Nakasone as prime minister in November had a catalytic effect on NTT reform process. Nakasone, as the director general of AMA, was instrumental in establishing PCAR. After his inauguration, Nakasone urged LDP a speedy settlement of NTT issue, and put Hashimoto Ryūtarō in charge (*Nihonkeizai shimbun*, 9 March 1983). It took another six months before the party could come up with a compromise in the form of 'Hashimoto Private Proposal' (*Hashimoto Shian*), presented in September 1983. It proposed that NTT should be turned into a special corporation of which the stocks would be held by the government for the time being and would be gradually sold to the public over five to ten year period. Divestiture was shelved with a provision that the issue would be reviewed within ten years (*Nihonkeizai shimbun*, 27 August 1983, 10 January 1985; *Asahi shimbun*, 4 September 1983; Ebato, 1987, 167-69).

PCAR and MPT contended that divestiture was essential for NTT reform, but the idea faced even stronger resistance than privatization. NTT and the union were absolutely against divestiture, which would inevitably reduce their power and status. The Socialist Party supported the union's position as usual. Despite the initial opposition to privatization, the union later accepted it because a privatized NTT could, among many benefits, bring autonomy, promise higher wages and secure the right to strike. Equipment manufacturers, who had also initially been fearful of

privatization, later came to see the windfall of tremendously expanded business opportunities in a liberalized telecommunications market and supported privatization. But they supported NTT in campaigning against divestiture for fear of losing lucrative business, arguing that NTT's research and development was a national asset and should be protected. There were many LDP politicians who were not fully persuaded with the wisdom of NTT reform. Some raised concerns about the loss of NTT's competitive edge in the international market, if it was to be divided.

The Ministry of Finance (MOF) strongly supported the privatization of NTT but was just as strong in its opposition to divestiture. Privatizing NTT was a particularly attractive prospect for MOF as it would generate enormous revenues. From the outset, however, MOF opposed the divestiture as it would have adverse effect on NTT's share price. Sale of NTT stocks would have been a much longer and more complicated process if NTT had been divided as well as privatized. For MOF, it was better to sell shares of NTT as one company, and to do so sooner rather than later. Given MOF's enormous influence and its crucial role behind the whole process of administrative reform, the ministry became a formidable obstacle to PCAR and MPT (Arakawa, 1999, 18-19; Suzuki, 1996, 62-63). In these circumstances, it seemed politically difficult for PCAR recommendations to be implemented as they were. If MPT or PCAR had insisted on breaking up NTT, it could have jeopardized the whole reform project. The top priority for the reform of public corporation was JNR. Regarding NTT, Dokō and Shintō's priority was privatization. Facing fierce opposition to divestiture, they were willing to compromise.<sup>7</sup>

In the end, Hashimoto's proposal was acceptable to all concerned parties. LDP officially endorsed the Hashimoto Proposal on 6 September 1983. Due to the intense conflict between MPT and the Ministry of International Trade and Industry (MITI) over the deregulation of the value added network service, which was another important policy agenda in the telecommunications reform, it took another six month before the 'Three Telecommunications Laws' (*Denden Sampō*) were introduced to the Diet in May 1984. The bill gained the final Diet approval on 20 December 1984, and NTT as a special corporation was inaugurated in 1 April 1985. It was the beginning of the end of the one-hundred-year public monopoly of Japan's telephony. In the Laws was the stipulation that two thirds of NTT's shares would be gradually sold to the public, and the issue of divestiture would be reviewed within five years.<sup>8</sup> Historic the decision might have been, the restructuring of NTT was "unfinished" in the sense that it remained as a special corporation under tight regulatory grips of MPT (Fuke, 2000, 3) and that the decision on divestiture was simply avoided.

### 3. Decision: Breaking up NTT

The second attempt by MPT to break up NTT came in March 1988 when the ministry reopened, as stipulated in the supplementary provision of the 'NTT Corporation Law,' the issue of NTT divestiture by referring it to the Telecommunications Advisory Council (TAC: *Denkitsūshin shingikai*). TAC's interim report released in October pointed out that it was difficult to ensure 'fair and effective competition' given NTT's total domination of the telecommunications market and its monopoly of the local networks. Then the council put forward three alternatives: divide NTT into a number of regional companies; into long distance and local services; and into functional lines (*Denkitsūshin shingikai*, "Chūkan tōshin: kongō no tsūshinsangyō no arikata," 2 October 1989). On 2 March 1990, TAC in its final report proposed to divide NTT's long distance and mobile services, while maintaining one local service company for the time being.

MPT declared that it would go ahead and implement TAC report. New entrants in the telecommunications business competing NTT welcomed the news, as well as large institutional users of NTT's services. However, MPT again faced strong opposition from NTT, the union and the Socialist Party. NTT argued that local rates would increase with divestiture and that NTT needed to stay integrated since its research and development was a national asset. MITI raised concerns about the possible adverse effect of NTT divestiture on Japan's telecommunications manufacturing sector and infrastructure. Equipment manufacturers also opposed MPT's plan. Big businesses urged caution in tinkering with the existing system (Obi, 1996, 144; Fransman, *Japan's Computer and Communications Industry*, 387). Intent on selling more NTT shares owned by the government for highest possible price, MOF tried to block any move to divide NTT. MOF argued that divestiture would lead to share price drops, adversely affecting government finances. In fact, NTT share price made its largest single dip ever when the TAC interim report was announced (Arakawa, 1999, 20; Bohlin, 1997, 81).

With no agreement in sight among the concerned parties, the issue was moved to LDP for further deliberation. However, after the 1990 Upper House election defeat, LDP leaders felt that it would be difficult to move the NTT issue through the Diet and decided to postpone the discussion. Subsequently, the MPT minister on 30 March 1990 announced 'the Measures Based on the Section 2 of the Supplementary Provision of NTT Corporation Law.' It was a compromise among LDP, MPT, MOF and NTT. The measure included a number of recommendations made by TAC: divide NTT's long-distance and local services into separate business section within the corporation; rationalize NTT's management; improve access to NTT's local networks; separate its mobile business; and implement deregulation measures. The issue of NTT divestiture, however, was to be reviewed five years later (Fransman, 1996, 2; Itō, 1998, 104-112). The second attempt

to break up NTT thus failed.

The third attempt at NTT divestiture began in 6 April 1995 as the MPT minister again sought the opinion of TAC concerning the future of NTT. On the same day, TAC set up ‘the Special Committee on the Status of NTT.’ In a number of public meetings and hearings throughout the year, the committee examined various policy agendas (Ministry of Posts and Telecommunications, “Status of Nippon Telegraph and Telephone Corporation: Towards the Creation of Dynamism in the Info-Communications Industry,” 6 April 1995), and the issue of divestiture was again hotly debated (Itō, 1998, 132-34). On 21 February 1996, TAC’s special committee unanimously agreed on NTT’s divestiture, and presented its report to MPT minister. The report proposed that: NTT be divided into one long-distance and two regional service companies; the long-distance company be fully privatized and be allowed to enter international services and cable TV business; the regional companies be first turned into special corporations and be fully privatized in time; regional companies be allowed into each other’s market. TAC concluded that the measures announced in 1990 by MPT to enhance competition in telecommunications market had not been implemented, and the cause for such inaction was NTT’s monopolistic control of the market (*Asahi shimbun*, 1 March 1996). The new common carriers (NCCs) that were competing with NTT strongly demanded NTT divestiture and eagerly supported MPT.

As in 1990, however, MPT faced fierce opposition led by NTT and the union. On the very same day that the TAC report was made public, NTT made a statement criticizing MPT policy, citing various ill-effects of divestiture: regional disparity in services and fees, decrease in research and development capacity, erosion of NTT’s competitive edge, breach of shareholder rights, loss of resources in the process of divestiture, improbability of competition between the two separated regional services (Arakawa, 1999, 21). Equipment manufacturers again registered its opposition, arguing that NTT should remain intact to promote Japan’s communications equipment industry. *Keidanren* was not particularly supportive of divestiture route while suggesting further deregulation (Bohlin, 1997, 82).

Political circumstances did not favor the prospects for divestiture. When the First Hashimoto cabinet was inaugurated in January 1996, there was a policy agreement among the coalition partners concerning NTT. The Social Democratic Party repeated its absolute opposition to NTT breakup. *Sakigake* was also against it. LDP, returning to power after its fall in 1993, had to be mindful of the position of coalition partners (Itō, 1998, 135; *Asahi shimbun*, 20 January, 22 February, 1 March 1996). Expecting a general election, the coalition government did not want friction with the union, and LDP needed to maintain the coalition with the Socialists. The result

was another political maneuvering by politicians. In the end, LDP declared that TAC report should be respected, and urged MPT and NTT to work out a compromise, but decided to postpone the decision on divestiture. On 26 March, the three coalition partners LDP, Sakigake, Socialists agreed to urge the government to settle the issue by ‘the next ordinary Diet session’ opening in January 1997, and the cabinet decided to extend NTT debate for another year.<sup>9</sup> It was the third time that MPT’s attempt to break up NTT ended in frustration (*Asahi shimbun*, 20, 27 March 1996). Conditions were not favorable for politicians to settle the NTT issue at the time, given the complicated power configuration of the coalition government and sharply divided opinions concerning the issue.

So the negotiation continued between the two opposing side led by MPT and NTT. However, as long as MPT and NTT remained “sworn enemies,” (Arakawa, 1999, 20) compromise was difficult. NTT continued to highlight the uncertainty created by the NTT divestiture debate, while presenting the vision for the future of NTT as a global multimedia company with integrated services. It also vowed to open its networks to promote competition. All these were to reinforce the argument that NTT should remain as a single entity.<sup>10</sup> MPT viewed that NTT’s local network monopoly and the abuse of such power was the main obstacle to fair and effective competition, resulting in poor and expensive services. At the heart of the problem was the issue of interconnection. MPT’s declared goal was to promote globally competitive info-communications industry and it argued that the goal could not be realized without restructuring NTT.<sup>11</sup>

Amid months of intense negotiations, the decision-makers, influenced by some important domestic and external circumstances, finally started to find some clues to resolve the NTT issue. In the early 1980s, NTT reform had been influenced by the reforms of AT&T and BT, where privatization and divestiture were the main themes. In the late 1990s, Japan faced a different world. There was growing concern that Japan’s telecommunications business was bogged down in the increasingly outdated issue of NTT divestiture while truly important issues stemming from IT revolution, convergence of media and global competition were neglected. For instance, the announcement in November 1996 of the merger between BT and MCI stirred a sense of urgency among Japan’s policymakers. Some observers argued that deregulation was more urgent than NTT divestiture and that deregulation would ensure effective and fair competition and promotion of the industry. Prime Minister Hashimoto himself was more interested in the competitive ability of Japan’s telecommunications industry than in restructuring NTT. There was a tremendous pressure for a speedy resolution of the NTT issue (Fuke, 2000, Chapter 3; Fransman, 1997, 185–91; *The Economist*, 14 December 1996, 72; *Asahi shimbun*, 7 December 1996).

A decisive lead to the resolution of the NTT issue came from the discussion concerning the revision of the Anti-trust law to lift the ban on holding company, which had nothing to do with the NTT debate. At that time in Japan, whether to lift the ban on holding company was widely debated as a part of economic reform agenda. Holding companies had been prohibited in post-war Japan by the Article 9 of the Anti-trust Law. Since the 1970s, however, businesses started to demand the government to remove the ban, which would facilitate diversification or restructuring of business groups by making mergers and acquisitions easier (*Asahi shimbun*, 22 February 1997). Anti-trust Law had been relaxed over the years and pre-war zaibatsu groups were reorganized into keiretsu business groups. But holding company was still banned by the law. Business leaders tried at every opportunity to get the Article 9 repealed. Since the 1980s, for instance, Japan's financial institutions, facing rapid market liberalization, became eager to cross the strictly compartmentalized business segments and enter into each other's turfs. One of the relatively simple ways of doing it was by setting up holding companies. At one point, MOF's advisory council charged with financial sector reform had suggested lifting the ban on holding company. However, the idea was buried because the government could not allow holding companies only in the banking sector and was not ready to repeal the Article 9 (Arakawa, 1999, 29-32).

The bursting of the bubble economy in the 1990s gave added impetus to the holding company debate. Japanese economy was experiencing severe recession, a near breakdown of the financial sector, and pressure for further market liberalization. The economy was in dire need for a sweeping structural reform. In this context, businesses turned up the pressure on the government to allow holding companies. For instance, in February 1995, a private study group for MITI's Industrial Policy Bureau Director put forward a proposal to lift the ban. In March the government decided to start a serious deliberation on the issue. The Fair Trade Commission softened its position on the issue. In January 1996, the three parties of the coalition government agreed to lift the ban on holding companies. But the coalition partners failed to reach a consensus on the extent to which holding companies would be permitted. LDP preferred partial ban while the Socialists wanted partial liberalization. The government decided in June 1996 to postpone the legislation (Itō, 1998, 149-53).

As the long-term recession reached to a new level of crisis with the banking sector reform emerging as the most urgent issue, however, removing the ban on holding company remained high on the policy agenda and some considered it a way to save Japan's financial institutions on the verge of collapse. Corporations in other sectors also saw that holding companies would facilitate corporate restructuring (Arakawa, 1999, 32-33). Another significant push came when Prime

Minister Hashimoto declared in November 1996 ‘the Five Major Reforms’ which included administrative, fiscal, welfare, economic structural and financial sector reforms. The reforms were supposed to define the Second Hashimoto Cabinet’s mandate, which was inaugurated on 7 November 1996. Allowing holding company became a necessary condition for structural reforms and the financial sector reform, known as ‘the Japanese version Big Bang.’ ‘The Program for Structural Reform of the Economy,’ decided by the cabinet at the end of 1996, designated the removal of the ban on holding company as a task to be carried out immediately (*Asahi shimbun*, 21 January, 26 February 1997).

This on-going debate on holding company provided a decisive clue to MPT and NTT to resolve the divestiture issue. To break the impasse, MPT proposed to adopt a holding company formula for NTT divestiture and NTT accepted it. The formula made it possible for the two sides to compromise. MPT could save its face by dividing NTT into subsidiaries, while NTT could keep them integrated under a holding company.<sup>12</sup> Based on their agreement, MPT announced on 6 December 1996 a nine-point NTT reorganization program. NTT would be divided into a long-distance company and two regional service companies each covering eastern and western Japan. They would be wholly owned by NTT, a holding company. NTT was also freed to enter into international telecommunications services (Yūseishō, “NTT no saihensei ni tsuite no hōshin,” 6 December 1996; Ministry of Posts and Telecommunications, “The Policy on the Restructuring of NTT.” 6 December 1996; *Asahi shimbun*, 7 December 1996).

The agreement between MPT and NTT to adopt holding company formula for NTT divestiture did not mean the end of the debate, however. The holding company issue had to be settled separately in a different arena by other players, and there were a number of details to be worked out. MOF and MITI were only glad to have holding company allowed. But opposition from labor unions and the Socialist Party was strong. At one point, the idea of allowing holding company only with NTT was discussed, but making an exception just for NTT was legally and politically infeasible. Moreover, there was much scepticism about using the formula to settle NTT issue. Many viewed the holding company formula as nothing but a face saving measure for MPT. Although media called the measure a break-up of NTT, divestiture with a holding company formula is not exactly a break-up. Without strict regulation that would prevent NTT group behaving as one company, it would remain and operate as a one company. NTT’s competitors asserted that the formula prescribes NTT divestiture only in name, but that in reality the existing system was kept intact. They demanded a clear-cut break-up of NTT. International service provider KDD contended that if NTT was allowed into their turf, it would have unfair advantage (Takigawa, 1999, 191; *Asahi shimbun*, 7, 18 December 1996).

But when the All Telecommunications Union announced its intention to accept NTT divestiture on condition that the holding company formula and certain tax break measures be adapted, the Japanese Trade Union Confederation (*Rengō*) also turned more flexible on the holding company issue. And finally the Anti-trust Review Committee of the three coalition parties agreed on 25 February 1997 to revise the Article 9 of the Anti-trust Law. Subsequently, the Three NTT Bills (Telecommunications Business Law, NTT Corporation Law, KDD Corporation Law) were approved by the Diet in June 1997, ending the fifteen-year saga of restructuring NTT. The revised Anti-trust Law was approved in May 1998.

The revised NTT Corporation Law stipulated that by 1999 the corporation would be divided into a long-distance company and east and west regional companies, all under a holding company. The holding company, the first in postwar Japan, would be a special corporation charged with basic research and would own all shares of the companies under its umbrella. NTT-East and NTT-West would be special corporations responsible for services in each region, while the long-distance-cum-international carrier NTT Communications would be a fully private corporation of which the shares would be held by the holding company for the time being.<sup>13</sup> In July 1999, NTT was born again with the new corporate structure.

The holding company formula was a compromise that all the actors could live with. MPT, which had pursued with great determination to break up NTT, could claim a partial victory. The formula was acceptable to NTT and the union, as it would allow the corporation to be managed essentially as one entity. MOF, NTT's majority shareholder, was happy to avoid sharp depreciation of its share price.<sup>14</sup> Concerning NTT, the holding company idea became a catalyst for the resolution of the divestiture issue. At the same time, the issue of lifting the ban holding company had been an important factor in pursuing much needed economic reform, and NTT debate became a catalyst to resolve the holding company issue. The two issues became linked and reinforced each other for a simultaneous resolution of both.

### III. Coupling of Streams

In the following, we will have another look at the policy process of restructuring NTT using the framework put forward by the Garbage Can Model. We will highlight how problems, policies and politics flowed in separate streams and joined at critical junctures for decisions. The GCM treats policy participants as an important factor. Moving in and out of the problems, policy and

political streams, participants notice and define policy problems, present policy alternatives, provide political opportunities and energy, and help link the three streams. Policy entrepreneurs or sponsors play a particularly important role in selecting policy agenda and providing windows for decision (Kingdon, 1995, 179-82).

#### 1. Problems Stream

Important policy changes are often precipitated by major problems, incidents or crises that pose threat to the stability of the political system. When such policy problems are identified and defined by actors within the system, it would influence the selection of policy agenda and policy output, and provide a window of opportunity (problem window) to stir up the policymakers to make a decision (Kingdon, 1995, 90-115, 197-98).

In the early 1980s, the financial crisis caused by enormous public debt and deficit was perceived as a most serious policy problems facing Japan. As steady increase of social security expenditures was expected due to rapidly aging population, and raising taxes being politically difficult, there was a prevailing sense of crisis in the government and the business community that existing system could not continue any longer. Three successive cabinets of Ohira, Suzuki, Nakasone took great pains to deal with the public debt problem, and the Suzuki cabinet declared 'Financial Rehabilitation without Tax Increase' as its top priority task. In the meantime, the oversized and inefficient state was an issue that was frequently raised in many governments in postwar Japan. Wasteful management and increasing number of public corporations and state-run businesses was always subject to censure. JNR was regarded as the main culprit for driving the government into bankruptcy. Thus, reforming public and state enterprises emerged as an urgent policy issue that the government could not avoid for long.

On another front, revolutionary developments in computer and communications technology since the 1970s brought some fundamental changes in telecommunications business, and Japan's policymakers felt compelled to improve efficiency and competitive ability of NTT to cope with liberalization and globalization of the telecommunications market. In fact, the problem of NTT's inefficient management as a public corporation was raised even before the deliberation by PCAR deliberation. And after the partial privatization in mid-1980s, the problem of NTT's monopolistic hold over the market emerged as a hotly debated issue in Japan's telecommunications policy. In the late 1990s, rapid pace globalization of competition in telecommunications business, mega mergers of major national carriers, convergence of services towards multimedia emerged as profound challenges to the survival and growth of Japan's

telecommunications sector. Restructuring of NTT became a critical task, upon which the future of Japan's telecommunications sector depended.

While NTT divestiture issue was being debated throughout the 1990s, Japan was again engulfed in a state of crisis with the worst recession in the postwar years and there was a wide-spread perception that the economy had a structural problem. Thus, structural reform emerged as an urgent task to revive the economy and to spur growth of high value-added industries. Japan's financial sector in particular faced a dire situation: a series of corruption scandals in banking and securities industries, stemming from the cozy business-politician-official triangle; the problem of mortgage loan companies (*jūsen*) which were loaded with astronomical amount of non-performing loans; and constant external pressure to open up the market. Foreign and Japanese opinion leaders observed that only a far-reaching structural reform of the entire financial sector could save the troubled industry and the entire economy.

## 2. Policy Stream

In a policymaking system, a variety of ideas and policies are generated in various policy communities. According to the GCM, policy alternatives or solutions exist in a separate stream from problems. They could be solutions definitely linked to certain policy problems, may become attached to unrelated problems, or exit from the policy stream when not enough attention was given to them. Criteria for competing policy options' survival in the policy stream include technical feasibility and value acceptability. Technical feasibility means that an option that appears easier to implement stands a better chance of survival and being adopted. The same could be said about policy ideas congenial to policymakers (Kingdon, 1995, 116-44). For instance, public corporations would be easier to privatize than government agencies as there would be fewer steps and obstacles. Profitability and strong demand growth of the service would make it easier to privatize (Zahariadis, 1992, 360). In our case study, numerous policy alternatives floated around in the policy stream, some of which presented themselves as solutions to problems and challenges such as government financial crisis, inefficient and wasteful administrative organizations, the abuse of NTT's monopoly power, global competition in the telecommunications sector, financial sector crisis, and the structural problem of the economy.

Administrative reform, as a means to maintain reasonable size and efficiency of public sector organizations, was a policy alternative that was almost constantly present in the policy stream throughout post-war Japan. In Japan, the Administrative Management Agency, which was a permanent government body, was charged with the task of routine administrative renovations and

adjustments. Cabinets of Ikeda, Suzuki, Nakasone, and Hashimoto made attempts for large-scale comprehensive administrative reforms. Reforming special legal entities, including public corporations, was almost always a part of the administrative reform packages. Typically available options for public corporations reform included: current practice, recapitalization without privatization, liberalization, internal reorganization without privatization, and privatization.

Concerning NTT, status quo, privatization, divestiture, establishment of an independent regulatory body were policy alternatives present in the policy stream. In particular, the idea of privatizing NTT had been around as a policy alternative ever since the public corporation's inception in 1952, well before the inauguration of PCAR (*Yomiuri shimbun*, 28 September 1956; *Asahi shimbun*, 14 September 1957, 22 January 1962, 20 September 1968). Within MPT, restructuring NTT, including privatization, had been suggested in August 1981 by the Telecommunications Policy Meeting. Breaking up NTT was also considered since the 1970s in the context of structural adjustment and deregulation of telecommunications market.<sup>15</sup> These policy options stayed in the policy stream despite repeated rejection as a solution to whatever perceived problems of NTT. In terms of feasibility, however, divestiture had too many obstacles. For instance, 'shareholder rights' featured prominently in the argument against divestiture. Once NTT shares were traded in the market, it became quite problematic to carry out divestiture (Fuke, 2000, 75). The idea of setting up an independent regulatory agency had also been raised but never made it to the decision agenda.

Meanwhile, a variety of measures for liberalization and deregulation of Japan's financial market had been implemented since the 1970s, and, be it domestic needs or foreign pressure, such policy alternative had always been present in the policy stream. As a solution to the problem of Japan's troubled financial sector, the so-called 'Japanese Version Big Bang' was pursued in mid-1990s for a comprehensive overhaul of the regulatory system. Revision of the Anti-trust Law to lift the ban on holding company had been debated as a means to facilitate structural reforms of Japan's economy. This policy option had also been in existence in the policy stream since 1970s, and was occasionally brought up. But until 1997, it never garnered enough support.

### 3. Political Stream

In policymaking process, what happens in the political stream--such as changes of government, shifts in public opinion, domestic or international events--unfolds with separate dynamics from the problems stream or the policy stream, but have significant influence on selection of policy agenda or alternatives (Kingdon, 1995, 145-64). Ideology of a party in power or attitude of political leaders towards certain policy issues would make a big difference in what problems are taken up

as policy agenda and which alternatives draw policymakers' attention as potential solutions.

In the background of PCAR's deliberation on NTT, there was declining LDP popularity in the aftermath of Tanaka scandal, loss of the two consecutive general elections in 1976 and 1979, the financial crisis of the government in the 1970s, and efforts by Suzuki and Nakasone cabinets to deal with the situation. Nakasone in particular provided considerable political energy to drive NTT reform forward. After losing to Suzuki in a bid to succeed Prime Minister Ōhira, Nakasone fell from the prominence of a top prime ministerial contenders to the lowly post of AMA director general. He needed a high-profile policy program as a means to recapture his lost political ground, and PCAR and administrative reform was the answer. Then finally becoming the prime minister two years later, Nakasone enthusiastically carried out administrative reform as the top priority of his cabinet.

Against this backdrop, NTT reform was deliberated. However, privatizing NTT was not widely discussed before the launch of PCAR, and PCAR's main target was JNR. Rather, the policy option of privatizing public corporations was placed on the broader political agenda of administrative reform and then quickly spilled over to NTT. "This underscores the primary importance of the political stream not only in setting the agenda but also in facilitating the adoption of certain proposals" (Zahariadis, 1992, 366). Unlike the privatization of NTT, which carried out with Prime Minister Nakasone's full support and in the political context of the comprehensive administrative reform, there was lack of political champion for NTT divestiture when the issue was reviewed from the late 1980s on. If anything, Japan's political climate became extremely volatile with the weakening and subsequent breakup of Tanaka/Takeshita Faction following successive corruption scandals, and with LDP's loss of power in 1993 and the formation of a series of coalition governments. The retirement of Kanemaru Shin, the 'don' of the postal policy clan, and the participation of the Social Democratic Party in the coalition government further undermined the political leadership and MPT's support base in the telecommunications policy community. For instance, appointment of MPT minister had traditionally been dictated by Tanaka Faction. However, Ōide Jun and Hino Ichirō, the two MPT ministers who oversaw the NTT divestiture debate in 1995 and 1996 were Socialists. Since the Socialists joined the coalition government, the influence of the All Telecommunications Union was also boosted. Then there were series of cabinet changes--from Hosokawa, Hata, Murayama, and finally to Hashimoto. They all came from different parties. LDP eventually returned to the government as a coalition partner but with its power somewhat curtailed. Given that NTT issue took the form of an intense power struggle between MPT and NTT, the political climate was not advantageous for MPT to achieve its intended policy goals.

Around the time when NTT issue was being settled in the late 1990s, there was a wide-spread perception in Japan that the entire political economic system was heading for a breakdown: the worst recession in the postwar years continuing from the burst of the bubble economy earlier, corruption scandals involving government officials which shook the public confidence in the bureaucracy, near meltdown of the financial industry led by the mortgage loan company problem, among others. Against this backdrop, Hashimoto Ryūtarō was chosen in early 1996 as the prime minister in LDP-Sakigake-Socialist coalition cabinet. He had weak power base within LDP, but had strong popular image as a reformer. As a comprehensive measure not only to revitalize Japan's political economic system but also to consolidate his political power, Hashimoto launched 'the Five Major Reforms.' Among his ambitious reform programs, administrative reform and financial sector reform featured prominently. The former involved reducing the number of government ministries nearly in half, while the latter was dubbed as 'the Japanese Version Big Bang.' Debates on NTT and holding company were happened within this political context.

#### 4. Windows and Coupling

According to Kingdon, a policy decision is made when a window opens and coupling happens between problems, policy and political streams. In the policy stream, a number of policy alternatives float around. A decision is likely when an urgent problem is seeking for a solution (problems window) or when an important political event takes place, or when a political sponsor searches for policies (political window). The window could open or close as a result of an election, spillover from other policy case, or rise or fall of a champion (Kingdon, 1995, 165-78).

In NTT's case, policy alternatives such as privatization, divestiture, deregulation existed in the policy stream for long. But the decision in 1984 to privatize the public corporation was possible because the crisis of 'national bankruptcy' and the powerful political sponsor Nakasone opened the window of opportunity. When NTT Public Corporation was established in 1952, it was assumed that the corporation would ultimately be privatized, but NTT had not been perceived as a serious policy problem before PCAR deliberation, and privatization had never been a realistic policy agenda. As the inauguration of PCAR opened a window of opportunity, however, numerous problems and policy alternatives rushed to the window, and the policy of privatizing public corporations was linked with the problem of NTT's poor service and management. The importance of political windows and problems windows is confirmed in our case study. Kingdon also noted that "[t]he appearance of a window for one subject often increases the probability that a window will open for another similar subject" (Kingdon, 1995, 190). This notion of 'spillover' is

particularly pertinent in NTT case as the chance of a window opening for proposal to privatize the corporation was boosted by similar cases such with JNR or British Telecom.

Divestiture of NTT was a policy sought by MPT with such persistence and determination, and, after three abortive attempts, the issue was finally settled in a vague fashion thanks to the holding company formula. Before 1996, however, the government never considered the holding company formula as a solution for NTT issue. Lifting the ban on holding company was considered by other participants in the policy stream for reasons largely unrelated to NTT. The Diet Communications Committee members who were directly involved in NTT decision had never discussed the holding company option, and questioned in the Diet how the formula suddenly emerged.<sup>16</sup>

Importance of timing in a decision making process was noted by Kingdon. A policy proposal has to come at the right time. It “must surface and be pushed when the window is open. Missing that window results in a wait until it opens again” (Kingdon, 1995, 172). Or the proposal may never find an opening again. Divestiture of NTT could have happened only if it had been carried out simultaneously with privatization, when they were both placed on the decision agenda in the early 1980s. As the proponents of NTT divestiture missed that first window of opportunity, timing was lost. In subsequent attempts at NTT divestiture, not only opposition in the political stream was insurmountable but also conditions surrounding telecommunications sector changed with developments such as media convergence, cross entry, seamless services, and globalization. MPT pushed for divestiture as a way to remedy the problems of local network monopoly by NTT. But local-long distance market segmentation seemed to have become an increasingly outdated categorization. Perhaps more important was the complication involving breaking up the already (partially) privatized corporation including the risk of sharp share price drops. Once privatization was carried out without divestiture, the idea of breaking up NTT became progressively difficult.

The issue of lifting the ban on holding company was debated from the 1970s among the business community, MITI, and the Fair Trade Commission with a view to facilitate structural adjustment of the economy. In the mid-1990s, the need to allow holding company received more attention, as a means to support the implementation of ‘the Bing Bang’ in the financial sector, and to speed up the structural reform of the economy suffering from long-term recession. Along with the need for structural reform of the financial sector in particular and the economic system in general, however, the debate on NTT reorganization could break the old taboo about holding company and expedited the revision of the Anti-trust Law. Conversely, the NTT issue, which had to be resolved in one way or another, managed to find a solution thanks to the holding company formula

in the policy stream. Thus, when the window opened, a coupling took place between a problem and a solution. For those who pursued NTT divestiture, however, the shape of their originally intended proposal did not fit the shape of the window, and the coupling was possible only after the shape was adjusted.

#### IV. Conclusion

We have examined the policymaking process of restructuring NTT, with the following questions in mind: how, despite oppositions from most of the actors involved, the idea of privatizing and breaking up NTT was selected as policy agenda; why privatization was carried out at the first attempt, while divestiture needed three more attempts and ended up with the vague holding company formula which was never discussed before; why decisions were made at the particular moments. The previous sections demonstrated that the Garbage Can Model could explain the entire process of NTT reform with consistency. <Figure 1> schematically shows how the case fits the framework suggested by the GCM.

The process of restructuring NTT took nearly twenty years. In the 1970s and 80s, a number of important issues and problems of Japan's political economy including the future of NTT existed in the problems stream. In the separate policy stream, there were numerous policy proposals and alternatives, and privatization or divestiture of public corporations was in the stream not necessarily attached to any specific problems. The political stream had the life of its own. When the window of opportunity opened in the early 1980s thanks to the public debt crisis and the political maneuverings by Nakasone and others, the coupling of three streams occurred, and privatization was chosen as the policy alternative for NTT reform. In subsequent debates on NTT's future, coupling did not occur for any major decision. Then in mid-1990s, the window opened again for the fourth time for restructuring NTT and finally a coupling was made between the issue of NTT divestiture and the unrelated issue of lifting the ban on holding company, under the favorable political conditions of Hashimoto reforms.

There may be certain truth to the policy convergence theme: rapid development in technology causes shift in market conditions, ultimately leading to restructuring of telecommunications sector across nations towards similar directions. Not unlike its counterparts in other industrialized countries, Japan's telecommunications business has more or less treaded the path towards liberalization, privatization, deregulation and other restructuring measures. By the time NTT divestiture issue was settled in 1997, rate regulation has been eased, cross entry between different

service categories has been allowed, interconnection rules between NTT's local network and the new common carriers are more clearly established, foreign ownership restrictions on facility owning type I business has been lifted, to name a few. The series of deregulatory measures implemented in 1996 and 1997 are dubbed as 'the Telecom Big Bang' (Itō, 1998; Takahashi, 1999). Convergence seems to be a legitimate perspective in the long term. There is no denying that powerful forces are at work, be it technology or market, and they are putting pressures on telecommunications businesses around the world, forcing them eventually to adopt 'global standards.' But that is to a large extent truism: "Eventually, we all die." This paper shows that the GCM can provide some consistent interpretation of the process of restructuring NTT in the short- to medium-term perspective.

The 'pure' GCM postulates that problems, solutions and politics exist independently without inevitable causal links. The GCM sees that participants' preferences in policymaking are ambiguous, inconsistent and after the fact. Participants often lack the understanding of an organization's policymaking process, make decisions extemporaneously or by trial and error, and move in and out of policy process. One may wonder whether the fundamental logic of the GCM can be applied to the fairly structured policymaking system such as Japan's.<sup>17</sup> But we do not need to take the notion of the independent streams in its strictest sense. The GCM does not contend that problems, solutions and participants are completely independent of each other. The three streams can be "more or less independent, tightly or loosely coupled" (Olsen, 2001, 191-92). Neither does the GCM contend that policies are made randomly or by accident. What happens in the garbage can is constrained by structure and institutions, among other things. Kingdon emphasizes that despite highly fluid nature of policy process posited by the GCM, there is actually quite a bit of structure in it. There are "structures in each of the streams, structures by which the streams are joined, and general constraints on the system." The GCM captures the "residual randomness" within that structure (Kingdon, 1995, 222). The configurations of such structures could be the source of divergence in how the garbage can actually works in different settings.

The NTT reform case shows that the policy decisions were made within certain structures: lasting institutional memory, stable participation, closer links between participants and problems/solutions. Even though individual participants constantly change, organizational preferences are often maintained with remarkable consistency over a long period of time. Agenda setting is influenced by prominent politicians and government ministries, and the role of the governing or opposition parties seem limited as 'cheerleaders' for major interests. Policy process is still moved to a large extent within the parameters set along the jurisdictional boundaries of ministries. MPT pursued NTT divestiture for fifteen years with such persistence. NTT and other government agencies also

staked and maintained their position throughout the period. Nevertheless, an essential logic of policy decision that is highlighted in this paper conforms to the core argument of the GCM: when a decision is made, the relationship between problems, solutions and politics can be seen as that of contingencies, timing and contiguity, and a decision is prompted by the coupling of the three streams of problems, politics and policy when windows of opportunity opens. Perhaps in Japan, we could use a Recycling Garbage Can Model.

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## NOTES

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- <sup>1</sup> This perspective is applied to Japan's television broadcasting industry by Noble (2000).
- <sup>2</sup> For details about the Union's position, see Oikawa (1983); Yamagishi (1985).
- <sup>3</sup> Seventy or so companies including the electronics giants such as NEC, Fujitsu, Hitachi and Oki.
- <sup>4</sup> In the first phase, it will be transformed into a special corporation whose shares would be fully owned by the government. Within five years, the company would be divided, while its shares would be gradually sold to the public. Regional companies will be fully independent from the central company.
- <sup>5</sup> Bank of Japan, Japan Atomic Energy Research Institute are in this category of companies which are established based on special legislation. Investors with subscription certificates do not have voting rights.
- <sup>6</sup> Interview with Koyama Moriya and Tomita Tetsurō.
- <sup>7</sup> Interview with Katō Hiroshi, Koyama Moriya, and Yayama Tarō.
- <sup>8</sup> Based on the legislation, one third of the NTT shares (5.5 million units) were sold to the public on three occasions (in 1986, 1987 and 1988), and 65.51% of the shares remained government-owned. The sales were tremendous windfall for MOF, adding 1.827 trillion yen to the government coffer. See Arakawa (1999, 18-20).
- <sup>9</sup> Cabinet decision: "Kiseikanwa suishinkeikaku no kaitei ni tsuite," 29 March 1996.
- <sup>10</sup> About the views and plans presented by NTT, see Hayashi (1997, 108-110).
- <sup>11</sup> MPT's argument is well presented in Tanaka (1997, 93-95). For other arguments for or against divestiture, see Obi (1996, 150-51, 242), Suzuki (1996, 20-25, 126-58), and Fransman (1996, 4-6).
- <sup>12</sup> NTT accepted the formula with certain preconditions (Itō, 1998, 139-40).
- <sup>13</sup> For details, see *Nihon denshindenwa kabushikikaishahō no ichibu o kaiseisuru hōritsu*.
- <sup>14</sup> When the holding company formula was announced, the NTT share price jumped 12%, boosting the value of MOF-held shares by 1.1 trillion yen. In December 1998, MOF sold nearly one million NTT shares. The sale was the fourth public offering of NTT shares and was the first one in nine years. Some even argue that NTT could accept the holding company formula because it had MOF's blessing (Arakawa, 1999, 18-20, 24-26).
- <sup>15</sup> *Nihon Denshindenwa Kabushikikaisha* (1986, 620-21). Cited in Vogel (1996, 144).
- <sup>16</sup> Dai140ki kokkai shūgiin teishin iinkaigiroku, no.9, 14 May 1998, 9-10.
- <sup>17</sup> Bendor and his colleagues (Bendor, Moe, and Shotts, 2001, 172-73) argue that in reality the streams cannot be independent and that there is more structure and order in policymaking process than the original GCM postulates. They see the GCM's theoretical construct is flawed. Olsen (2001) thinks that their criticism is misguided. Kingdon seems to reconcile some of these issues in his work. The scope of this paper does not permit lengthy theoretical discussion on the GCM.