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## in *Keio Communication Review*

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# A Consideration of Media-Nationalism:
# A Case Study of Japan
# after the Second World War

## by Yutaka OISHI*

### Introduction: What is Media-Nationalism?

At present most people receive news via the media, which functions as a 'window' for looking out onto the world. However, people do not simply believe the news precisely as the media reports it. On this point, Walter Lippmann wrote 'For the most part we do not first see, and then define, we define and then see' (Lippmann, 1922:81). Audiences receive news filtered through preexisting definitions or images that already exist in their minds. Most of these preexisting elements are historically cultivated and shared with other persons in society. It must be remembered that journalists also operate in this situation.

So then, how are the definitions and images formed or made? This question can be rephrased; what is the 'window' for us when looking back upon historical affairs? Firstly, the answer to the question lies in the works of historians that describe and explain events while building on the basis of original data and documents. Secondly, it can be found in textbooks which offer edited and summarized syntheses of historical works for beginners and students. But the 'window' is not limited to these for most of people. Rather it would be more valid to say that people also generally learn and understand history through novels, films, TV dramas, and others which are involved in popular culture.

We need a new word or concept to frame our investigation into the impacts of media on the audience's views about history, and furthermore on the formation of nationalism. So I'd like to propose the key word, 'Media-Nationalism' to capture this meaning. In modern society mass media have always influenced the national consciousness and nationalism among people in different ways, independent of whether media has done so intentionally or not.

Of course mass media not only delivers news but also novels, films, dramas and other elements to audiences. National consciousness has been historically cultivated and accumulated in the context of each country or society. It has often been visible in newspaper, radio and television news and other mass media, and

more recently on the Internet which is often treated as 'participatory media'. We can call this situation Media-Nationalism. I would offer the following definition for the term: 'the situation of 'Media-Nationalism' is one in which the diffusion of mass media and new media such as the Internet increase national consciousness and nationalism in a nation-state'. Of course, 'Media-Nationalism' appears in societies where mass media and the Internet are relatively well diffused among the general public.

In relation to it I need to define the concept of 'Nationalism' as follows 'Nationalism is a set of ideas and movements in which people imagine a unit of a nation consisting of region, religion, language and other factors, their forces of cohesion increase, and people try to enlarge their interests'. So then 'Media-Nationalism' is a concept for reconsidering nationalism by placing critical emphasis on the linkage between media and nationalism.

## An Episode of Ryotaro SHIBA in relation to 'Media-Nationalism' in Japan

At Present Ryotaro Shiba is one of the most popular and famous authors in Japan. He wrote numerous books and frequently participated in seminars whose subjects were mainly Japanese history. His works have a considerable influence on Japanese society, which could be termed the 'Shiba-Boom'. In his writings, he provided substantial knowledge and lessons as well as images about Japan to the Japanese people. Next I will discuss the author in order to reexamine 'Media-Nationalism' in Japan, especially after the Second World War.

It should be emphasized that 'Shiba-boom' has increased significantly since his death in 1996. Why has this happened? One answer to the question is that Shiba was given an important status by mass media, not only as an acclaimed author of Japanese historical novel but also as a person capable of diagnosing the sicknesses of Japanese Society. Indeed he commented on many different kinds of political, social, and historical problems. Mass media frequently broadcast his opinion. As a result of this, his fame has been established and the image of Japanese history made by him has been widely diffused and gained popularity among Japanese.

Referring to Shiba's works, one author offered a very interesting opinion, which is summarized below; 'When the readers have come to believe more and more that the contents of Shiba's novels are 'true', they mistakenly believe that they have knowledge about Japanese history through his novels'(Sekikawa, 2003: 139). Certainly mass media has greatly contributed to it. The view of Japanese history suggested by Shiba has given a national identity to Japanese through novels and TV dramas. Mass media as a whole has held Shiba and his works in high esteem, and thus his view of Japanese history has both established a dominant position and become popular.

I'd like to focus on Shiba's perspective on the Second World War, especially

policies based on militarism. Despite the fact that he intensely criticized the policies made by the Japanese government and military and other political elites again and again, his opinion has been accepted not only by 'liberal' or 'progressive' groups but also by 'conservative' or 'reactionary' ones as well. The reason is that his opinion is rather different from the so-called 'masochism' that tends to criticize or condemn the whole of modern Japanese history. In fact he wrote 'The whole of Japanese history is beautiful in terms of physical and spiritual level' (Shiba,1993: 36) and insisted that the dark age of Japanese society, 1905-1945 (especially during The Second World War), was exceptional, and he even called it 'another country.' Some scholars and writers have criticized his view on Japanese history, claiming that it has contributed to the formation and diffusion of an invalid view of modern history among Japanese that has consequently allowed most of them not to worry about the 'Dark Age' and to avoid facing it directly. I think we can identify one dominant stream of this view of Japanese history that has been formed by mass media. It is typical of the trend of 'Media-Nationalism' in Japan after the Second World War.

I'd like to emphasize that while nationalism is most likely to strengthen the people's national self-awareness and encourage national cohesion, it can also make people critical or aggressive toward the exterior. When the nation-state is the primary basis for nationalism, mass media may encourage or support the aggressive attitude shared among the people.

It is usually said that the surveillance of the environment is the main function of mass media. But it is very difficult for mass media to draw a clear line that separates it from the rationale and interests dominating the nation-state where the media is headquartered, even if mass media claims to seek neutrality and objectivity. And it is very difficult for reporters, especially those belonging to mass media, to execute neutral and objective reporting. For example when the word 'national interest' is used, mass media reports, comments, and opinions are easily included within the rationale and interests of the nation-state. Through this channel, nationalism increases and Media-Nationalism should therefore be considered even more remarkable. In addition we should note that the rationale and interests are usually embedded as well as expressed in messages transmitted through mass media reports.

## The mechanism of linkage between media and nationalism

As described earlier, newspaper, radio, and TV, as well as Internet are intimately connected with national consciousness and nationalism. In modern history we can easily find lots of instances in which mass media has contributed to the integration of citizens into their respective nation-states and to the development of nationalism, because the people can typically obtain common information

through mass media. The social process of mass communication has developed in tandem with nation-state building. We can say that mass communication is a necessary condition for the development of nation-state and vice versa.

It should be emphasized that the diffusion and sharing of information influences people not only on a superficial level but also on a more profound one. Next I will examine a case of news reporting as it relates to this point. Firstly, we should notice that events are named by news reports in the form of words, sounds, or images delivered via mass media. The name given to an event must be connected with the meaning and value given to it. Consequently most people's values become more uniform, not more diverse. Because as noted before, most of people get information about social affairs by exposure to mass media, and mass media often tends to deliver uniformed news. Secondly, sharing values can lead to the 'We' feeling among the people. The feeling can form the national identity through which the people (re)discover their belongingness to the nation-state. Thirdly, news media can be very useful for sharing the national image that the people have and identify with. Fourthly, and related to the last point, the mass media can invent a 'They' which is contrasted with the 'We'. In the view of 'We' there are two opinions inherent to the relationship between 'We' and 'They'. One is normative, that 'We' people should coexist with 'They'. The other is that 'They' should be forcibly included in or assimilated to 'We', or that 'They' should be excluded from 'We'. War reporting represents one example of this situation.

When examining the interaction between media and nationalism, and the mechanism of Media-Nationalism as a whole, we should focus on the characters of the function of mass media. Mass media must cut off some components of the affairs of 'reality', and then report as news selected elements that fit in line with stories shared among the people, and lastly construct a 'social reality' which is different from 'reality'. In other words there is a circulation process that consists of the following three stages: The first is that mass media constructs 'social reality;' the second is that 'reality' is made by reflecting the 'social reality;' and the third is that mass media again constructs the 'social reality' by cutting off the 'reality' and reporting the chosen elements. We can recognize the interaction process among the three factors; 'reality', mass media, and 'social reality' (or public opinion). We can easily see this process at work in the political arena. Particularly we have seen many cases in the field of diplomacy and international politics in which the negative image toward foreign countries increases among the people by the mechanism of 'Media-Nationalism' and then the national consciousness and nationalism are reinforced.

I will propose another question; how has the development of informationization, that has been accelerated by the diffusion of many different kinds of information technology and media, and how has it influenced the trend of 'Media-Nationalism'? When considering them the concept of an information society is very useful.

This idea has a tendency to emphasize the positive aspects of the impact brought about by informationization. It has suggested that the development of informationization would contribute to providing the users with a public sphere where they can express their opinions as well as improve their ordinary lives. Taking this optimistic view to its logical conclusion, I can outline a sequence model, as below:

1. Development and diffusion of informationization.
2. More increase and differentiation of media and its contents (especially in the field of borderless information flow and online public opinion).
3. The people's values become differentiated.
4. The national consciousness and nationalism among the people tends to decline.

According to this model the more variation of media and information, the more useful they will be for repressing nationalism. In contrast with this, there is another view which holds that the development of informationization does not solve many kinds of social problems but rather worsens them or even creates some new ones. This view is called the critical perspective of information society, which emphasizes the serious problems; 'Surveillance society' or 'Digital Divide'. From the pessimistic and critical view I can also summarize by outlining a sequence model that shows the relationship between media and nationalism, as below.

1. The development of informatization.
2. The more media and its contents are concentrated and unified, the more emotional public opinion is expressed.
3. The people's values become unified.
4. The national consciousness among the people tends to grow.

Comparing the two models we can easily see cases of the latter in Japan and other countries, where nationalism grows through media.

## Some bases of 'Media-Nationalism'

'Media-Nationalism' is not caused only by the development and diffusion of different kinds of media and their contents. When it is born and grows there must be a base for accepting it within the nation-state. As is widely known, a state consists of land, people, sovereign, and national identity among the people. The "state" sometimes means an apparatus of government and power, sometimes the overall social system subject to that government or power' (Giddens, 1985: 17). The state apparatus is essential for nation building and national development or stability.

In addition the organizations and people who belong to and operate in the nation-state need to regard the institution as legitimate. And the people see themselves as members of the nation-state by constructing and maintaining national identity.

Next I need to refer to the concept of national culture, which consists of national identity, dominant values and ways of life and thinking in the nation state. National culture plays important roles for constructing and maintaining the nation state and the nationalism of the modern society. We can define nation-state-based nationalism as follows: 'Nationalism is a set of ideas and movements in which the people imagine the nation-state, their forces of cohesion are increased, and they try to enlarge their interests.'

In the late of twentieth century, globalization has progressed rapidly, many people, goods, and information often move beyond borders more easily, and interdependency among states has further increased. Consequently nationalism based on the nation-state has transformed. In advanced societies sub-cultures grounded on region, ethnicity, religion, language, generation, gender and others have gained importance and become powerful. The identity rooted in the sub-cultures has become distinct. The members of sub-cultures have begun to reproduce their original or specific nationalisms which often oppose the nation-state-based nationalism. There are many cases where the sub-cultures conflict with the national culture. Especially the problems of immigrants and foreign workers who are not easily included in or assimilated to the national culture have become serious as kinds of 'ethnic problems'. At the same time it has raised the national consciousness based on the sub-cultures. Namely 'even in the age of globalization people try to seek culture relating to their 'roots', which can provide spatial and historical foundations instead of a nation-state that is relatively artificial for the people' (Matsumoto, 2002; 97). The type of nationalism based on the nation-state has changed due to the development of sub-cultures and globalization.

## How has nationalism in Japan changed since the Second World War?

Masao Maruyama who was one of the most important and famous 'opinion-leaders' after the Second World War wrote a very well known phrase in his book, which was 'I'd like to bet not on the 'real existence' of a military Japan before the Second World War, but instead on the 'fiction' of the Japanese political regime's goals after the Second World War' (Maruyama,1964; 584-585). His opinion, as represented by this quote, has been widely accepted and achieved the predominant position among the public, especially intellectuals. The goal or normative standard of the opinion was 'civil society' and democracy in Western societies. At that time (almost spanning between 1945-1990) many Japanese had negative images of nationalism because they associated nationalism with the sort of radical patriotism that the Japanese people shared up until World War. The words and concepts set

in contrast to nationalism and patriotism has been 'demilitarization' and 'neutral' among most Japanese. A lot of them have supported them as precious ideas and have insisted on protecting Japanese Constitution, especially article 9[1].

However the reality of Japan has become estranged from the peace-oriented concepts of the global community. Certainly Japan has adopted the policy for light armament but has subordinated itself to the U S. for its national security. The Japanese have certainly reached a consensus on the point that the peace-oriented concepts are one of the most important 'national goals'. But there is inconstancy within the consensus or national goal. In fact many Japanese approve of the lightly armed force (only for self-defense), while they want to maintain the Japanese Constitution (including article9) (NHK Hoso Yoron Chousajo Hen, 1982; 172-175).

Aside from political and foreign issues, the Japanese government and the private business sector have made tremendous efforts to accomplish economic growth. Japan has achieved expert status in the field of economics in the world while maintaining the goal of a pacifist state. As Japan gained more economic power and international influence there appeared an opinion that has been called 'Japanese revisionism'. It has insisted on reassessing and emphasizing characteristics of Japanese society including traditional culture. Needless to say the view has had a close relationship with the economic growth. It also suggests another view that is much different from the mainstream of public opinion. The main opinion was that catching up with Western societies in the field of economics was national goal in Japanese modern society. Referring to 'Japanese revisionism' Takeuchi wrote below. "The traditional institutions and consciousness were given a negative image as inferior and pre-modern. But they have subsequently come to be admired when it is recognized that they contribute to the rapid modernization in Japan as a 'magic card'" (Takeuchi, 2005; 265). The perspective of 'Japanese revisionism' has provided Japanese with the opportunity for reconsidering nationalism, particularly in the field of politics.

The social trend or climate of opinion has become remarkable in the 1990s when the international community has so dramatically changed, particularly due to the end of Cold War. For example the conservative faction in Japan began to insist that Japan could no longer maintain the policy of 'one-state-pacifism'. The policy has meant that Japan has a tendency to preserve its own peace and security without making an active contribution for resolving armed conflicts overseas. They also began to assert that the Japanese should recognize the necessity of national consciousness and nationalism, their national (or ethnic) identity, and the national interest.

Furthermore the Japanese government advocated the three principles and policies that should be gradually accomplished (Nakasone et. al.1992; 258-264). These are 'statism' in the political sphere (the state should actively play its proper roles), 'liberalism' in economics (deregulation should be promoted), and

'internationalism' in the global community (the state should become more open to the global society). This stance is closely related with the revision of Japanese constitution. That document asserts that Japan should contribute to the global community not only in the field of economics but also of international politics and global security, and insisted that the Japanese Self Defense Force (JSDF) should be dispatched overseas in order to achieve it. The opinion has caught the people's attention and has been gradually accepted among them.

## The change of consciousness and feeling of nationalism in Japan

In the 1990's, Japanese people were very shocked by the collapse of the bubble economy, and the public opinion transformed rapidly. It has encouraged the change of national consciousness and nationalism. I will mention some evidence about it below. Looking to the research result of the question, 'confidence in Japan', the affirmative answer to it has decreased. For example the answer to 'Do you think Japan belongs to first rank states?' has gone down from the peak of 57% (1993), then to 49% (1993), 38% (1998) 36% (2003) (NHK Hoso Bunka Kenkyujo Hen,2004; 115-118). It also explained that the change has been mainly caused by the economic breakdown. This evidence reveals the reason that confidence in Japan has mostly been based on and supported by the economic success.

In addition a key factor that has influenced Japanese national consciousness and nationalism was the Persian Gulf War (1990-91). It encouraged the Japanese people to discuss how Japan should contribute to global security (in this case, of Middle-East region), and then to reconsider and further criticize the Japanese policy of 'One-State-Pacifism'. When the people were asked 'What policy should Japan adopt after Persian Gulf War', 61% of people answered 'Japan should play an active role for resolving international conflicts'. Needless to say, an active role signified 'dispatching the JSDF overseas'. Below are some related opinions (Asahi Shinbun, 19 June, 1991).

1. The JSDF should not be dispatched overseas; 21%.
2. The JSDF should be dispatched only for limited operations, such as disaster relief and other non-military operation; 46%.
3. The JSDF should be dispatched and permitted military operation only under the command of UN (ex. Participating in Peace Keeping Operation of UN); 23%.
4. The JSDF should participate in the force operation (ex. Multi National Force in Persian Gulf War); 5%.
5. Others and NA; 5%.

The opinion pool also had the question, 'Do you think that foreign people see Japan as reliable country?' The affirmative response, 'Yes', had decreased; from 45% (December, 1990) to 35% (June, 1991). But the negative response, 'No', had gone up; from 44% (December, 1990) to 55% (June, 1991). In my view the research results might suggest that the positive response to 'Dispatching JSDF overseas' has been correlated with the decline of confidence in Japan and the desire to regain foreign nations' confidence in Japan. The majority of Japanese seemed to want to recover the trust by foreign countries by playing active roles in resolving international conflicts (i.e. dispatching JSDF to overseas).

The trend of public opinion has in turn encouraged the disputes over the Japanese Constitution which forbids the dispatch of the JSDF overseas. And it has increased the number of opinions favoring the revision and reform of the Constitution. The affirmative response to the question, 'We had better amend the Constitution', has increased from 33% (1991) to 50% (1993) (Yomiuri Sinbun Yoron chousabu, 2002: 49). Furthermore regarding the reform of the Constitution, the proportion of positive images (e.g. 'future oriented' (28%), 'independent' (14%), 'realistic' (29%)) was larger than that of negative ones (e.g. 'restoration' (8%), 'expansion in armaments' (10%) (Asahi Shinbun, May 3, 2002).

But we should recognize that many Japanese have not regarded the reform of Constitution as the most important issue for the present. For example when the people were asked 'What issue should politicians deal with?', most of them mentioned 'economic development', which has risen from 21% (1993) to 48% (1998), lastly to 48% (2003) (NHK Hoso Bunka Kenkyuujo,2004;72-74). From this public opinion data, we can conclude that most Japanese would like to be proud of economic superiority in the world. In other words nationalism in Japan has been closely related the the consciousness and feeling of economic power. This economic confidence, however, has decreased because of the collapse of the bubble economy in Japan, rapid development of Chinese economy, and restoration of U.S. economy. As a result of this the national consciousness and nationalism based on economic prosperity have 'drifted'.

Another factor that has caused the decrease of confidence has been the fluctuation of self-image among Japanese. Although most Japanese believed that their own society has been much safer and more peaceful than any other countries, serious events and crises happened in Japan in 1995. These consisted of the 'Great Hanshin-Awaji Earthquake (January)' and 'Sarin gas attack on underground Tokyo (March)'. Certainly most Japanese consider the great earthquake to have been a natural disaster and the sarin attack the work of the radical new religious group called 'Aum Shinri Kyo'.

But most Japanese were extremely shocked by these events, for they forced the Japanese to realize that their society is more dangerous and fragile than they had previously assumed. These two events caused Japanese confidence in their own

society decrease. In fact this conclusion is supported by the results of the following opinion pool about the sarin attack (Mainichi Shinbun, June 11, 1995). People were asked; 'Do you think that there is  a relationship between these two situations; one is that Aum Shinri Kyo has acquired many adherents, especially young generation, and committed immoral actions; the other is that there are lots of social problems to be solved in Japan. 61% responded in the affirmative while 19% responded in the negative. Thus many Japanese thought that their own society produced the felony group.

There has been a decrease of confidence in safety and peace as well as economics in Japan. It has in turn led to the decrease of the pride of their society and the fluctuation of nationalism that was based on economic success. Then the people began to recognize the importance for Japan to establish a powerful position in global community with strong orientation toward a nationalism based on economic power.

Given these difficult times, the opinion advocating a policy of contribution to the global community has become the norm. Both the Japanese government and the people thought that dispatching the JSDF overseas was one of the best ways to contribute to the global community and to make Japan more appealing to foreign countries. Japanese public opinion gradually accepts and supports the policy of dispatching the JSDF to Iraq and other countries where serious conflicts exist. It is one of the most important aspects of nationalism in Japan.

## 'Media-Nationalism' after 'September 11 Terror Attacks' in Japan

The 'September 11 Terror Attacks', following Afghanistan War and Iraq War have the common characteristics of a 'Television War'. In particular, the pictures of the terror attacks, which happened September 11, 2001, have appeared on TV again and again. The serious and tragic event and various reports about it invoked the inferior collective memory among Japanese that originated from the Gulf War.

As a result of it, as described above, the majority of the Japanese pubic opinion has agreed with more active contribution to the world community in the military as well as the economic field. It should be emphasized that the war reports by U.S. media generally adopted a binary scheme, 'terrorists and its supporters' vs. 'U.S. forces and its supporters'. The former was portrayed as evil enemies, and the latter as lawful allies. Most of the media and the majority opinion in Japan followed the same scheme. Then when Japan decided to join the 'Coalition of Willing' for attacking Iraq as well as Afghanistan, most Japanese recognized themselves as one of the important member of U.S. supporters. Japan thus reproduced and reinforced the values that formed the 'We' feeling belonging to U.S. supporters, but most Japanese regard Afghanistan, Iraq, and Islamic countries less as enemies than simply as a 'They'. In addition a terrorist group, 'Al-Qaeda' and its leader 'Osama

bin Laden' have been regarded as symbols of 'Enemy', 'Evil' and 'They' by most of Japanese as well as Western people.

Some Japanese and its media questioned the legitimacy of Afghanistan and Iraq War, and sending the JSDF to Iraq, and criticized a series of policies executed by Japanese government in accordance with U.S. policies. But as described before, the supporters of sending the JSDF to Iraq has increased in tandem with the international or national serious anxiety caused by '9.11 terrorism'. The results of a public opinion pool conducted just after sending the JSDF to Iraq show an increase in the number of Japanese who support the JSDF's continued deployment; the question was "Do you support the opinion that Japan should continue sending the JSDF to Iraq, or not?" The answer "Yes" was 50%, "No" was 32%. (Asahi-shinbun, April 17/18, 2004). As media reported the issue again and again, emphasizing the situation of the U.S. and her allies, and expressing the necessity of joining them, the climate of opinion has certainly changed and has been reinforced. It can be interpreted as growing into 'active nationalism'.

Another aspect of the change in the climate of public opinion is that most Japanese wish to maintain a secure society. We can call this 'negative nationalism'. Some media reported that Japan was targeted by the terror (but fortunately it has not happened yet in Japan). Some Japanese were killed and abducted in Iraq. In addition in 2004 terrorists attacked trains in Madrid, and yet others attacked London's subways and buses in 2005. Through a series of media reports, most Japanese have again come to recognize the position that Japan should occupy in the global community and understand the importance of a secure nation. Now the Japanese have become more aware that Japan is a member of advanced countries and U.S. allies, and they advocate not yielding to terror.

Needless to say national security is a point of national interest and the climate of opinion after the '9.11 attacks' in Japan began to resonate more with this prioritization. In referring this I need mention other serious problems that have been caused by North Korea. Since Prime Minister Junichirou Koizumi suddenly visited North Korea 2002, many different kinds of Japanese media have eagerly reported the threats of the country again and again. Indeed the country has some threatening elements for Japan, including nuclear weapons and the abduction of Japanese people. As Japanese media has actively reported these aspects Japanese nationalism has been elevated. It is another important aspect of 'Media-Nationalism' in recent Japan.

## Conclusion

Most Japanese have come to believe that their nation needs to take more responsibility for global security than before. They have recognized that the way of achieving this goal is to contribute in the military, as well as political, economic

fields. In other words they have come to appreciate the limitation of 'one-state-pacifism', mainly because Japanese media has repeatedly reported the pressing issues. Then the trend of public opinion has been linked to the formation of national consciousness and nationalism. This is a typical example of the present situation of 'Media-Nationalism' in Japan.

Of course some Asian countries, especially China and South Korea, have expressed their fears about this trend. Because they were seriously damaged by Japanese invasion during the Second World War. As Japan has had a unique position in Asia, it has attached greater importance to U.S. than other Asian countries. But Japan now needs to listen to the opinions of Asian countries more than ever before because Japan has become deeply involved with them. How does Japan cope with this and establish a relationship of mutual-respect with Asian countries although it continues to maintain its orientation to the U.S. This is the most important issue in the conditions for the rise of 'Media-Nationalism' in Japan, especially for the media.

## NOTES

Article 9 in Japanese constitution states:

1. Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

2. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

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# The Relationship between Rental and Sale in the Japanese Video Market

## by Sumiko ASAI*

## Introduction

The motion picture industry has several different revenues sources. After theatrical exhibition, home video such as digital versatile disc (DVD) is released and is followed by premium cable services and pay-per-view services via satellite broadcasting. The movie is finally distributed to the public for free through terrestrial television broadcasting. Furthermore, home video is divided into video for rental and for sale, giving the public several options for enjoying a movie.

The marketing method that distributes a program through several channels at different times is called the windowing strategies. While producing a movie is very expensive, whether the movie will be a hit or not remains uncertain until after its release. Among all content industries, the motion picture industry is especially risky, judging from the possibility of hits and films' enormous production costs. Given such uncertainty, windowing strategies are designed to maximize the profits from hit movies by price discrimination. Recently, the Internet has been utilized to distribute movies, in addition to traditional channels such as television. This shows that windowing strategies are still in the development stage.

The main focus of marketing researches into motion pictures has been on box office revenues. This is reasonable, since movies that prove to be unpopular at the cinema do not tend to be distributed through other channels. However, while annual box office revenues were 202 billion yen in 2006, movie DVDs sales to retailers and rental stores reached 217 billion yen that year, surpassing the box office revenues in Japan, according to the data collected by the Motion Picture Producers Association of Japan, Inc. (MPPAJ) and the Japan Video Software Association (JVA).

We do not usually view the same movie repeatedly, so we select one distribution channel for viewing a program. Since the time intervals between theatrical exhibition and video release, and between video release and broadcasting differ, these distribution channels do not simultaneously compete with each other. If we miss going the theater, we have a chance to view the movie through video or broadcast after a certain time has passed. On the other hand, while Japanese movie

* Sumiko ASAI is an Associate Professor of Information Economics at the School of Social Information Studies, Otsuma Women's University.

companies generally release DVDs about seven months after films' initial release into theaters, DVDs for rental and sale are released almost simultaneously, and the relationship between rental and sale differs from the relationship between other windows.

Although the video rental system is popular with consumers, producers of digital content such as music CDs and game software have different views on the rental system. In Japan, it is prohibited to rent music albums featuring Japanese artists for a maximum period of three weeks after their sales release, in consideration of the impact of rental on albums sales. For albums featuring foreign artists, the rental prohibition period is one year after sale release. The game software industry has a more negative attitude toward the rental system. Game software is exclusively sold in a packaged format[1] and rental services are not provided except in a few cases. It seems that the motion picture industry does not view the rental system negatively in terms of the prohibition period.

However, consumers do not generally rent a video that they have already purchased. If rental perfectly substitutes for purchase, the introduction of the video rental system may not contribute to the expansion of the total video market, which consists of both sale and rental. The purpose of this paper is to ascertain through empirical studies whether or not the video rental system disturbs growth of the video retail market. If these markets do not have a substitute relationship, does the rental system provide consumers with access to a wide variety of content? First, this study examines the quantitative relationship between video rental and sale. Second, it analyzes the impact of the rental system on the variety of movies consumers are able to view, in other words, the qualitative difference between rental and sale.

The rest of the paper is organized as follows: The subsequent sections provide an overview of the Japanese video market and a brief review of the related studies. Following the overview, the model and the estimation results of empirical studies are described. The final section offers some concluding remarks.

## Overview of the Japanese Video Market

Although the home videocassette market expanded with the diffusion of VHS-formatted videocassette recorders (VCRs) in the 1980s, VCRs have been replaced by DVD players since the late 1990s. As of March 2007, the penetration rate of DVD players into households reached 65.1 percent, according to the Consumer Confidence Survey conducted by the Japanese Cabinet Office. In proportion to the penetration of DVD players, the ratio of DVD sales to total video sales reached 98.3 percent in 2006, according to the data collected by the JVA. This shows that videotapes have been replaced by DVDs. Therefore, this study focuses on DVD software, since DVD is now the main format used in the home video market.

In Japan, the videotape rental business started in 1977, and the same system

also has been applied to DVDs. The Japanese Copyright Law gives copyright holders the distribution rights, which mean that videos may not be rented without their permission. According to these provisions, anyone who intends to enter the home video rental business has to obtain permission for lending DVDs from the copyright holders. However, it is difficult for rental stores to negotiate with every copyright holder to obtain such permission and it is also complicated for copyright holders to give permission to each rental store. Therefore, copyright holders trust the JVA with rental permission and the JVA comprehensively permits the owners of rental stores to provide rental services in order to simplify the licensing procedures. That is to say, DVDs are clearly divided into those for sale and those for rental based on the Copyright Law.

Table 1 shows the market trend for DVDs, using the JVA data. The JVA has collected data as measured by quantity and sales from video production companies and published them through the website of the JVA. Retail in Table 1 means DVD sales to retailers from video production companies, and Rental in Table 1 indicates DVD sales to rental stores. The retail market was 142 billion yen in 2001, and it reached 262 billion yen in 2005, nearly doubling over this four-year periods. However, the retail market shrunk by 40 billion yen in 2006 with the result that the total market decreased for the first time. Although the DVD rental market was only 6.7 billion yen in 2001, it has expanded steadily up until the present time. As a result, the rental market represented one third of the total DVD market in 2006.

Table 1: The Trend for DVDs (billion yen)

|      | Retail | Rental | Total | Ratio of Retail to Total (%) |
|------|--------|--------|-------|------------------------------|
| 2001 | 142.2  | 6.7    | 148.9 | 95.5                         |
| 2002 | 178.3  | 15.7   | 194.0 | 91.9                         |
| 2003 | 222.0  | 33.3   | 255.3 | 86.9                         |
| 2004 | 250.9  | 67.2   | 318.1 | 78.9                         |
| 2005 | 262.2  | 83.8   | 346.0 | 75.8                         |
| 2006 | 221.4  | 101.9  | 323.3 | 68.5                         |

Source: The Japan Video Software Association (JVA)

The JVA has classified DVDs into 19 genres such as foreign movies and Japanese movies. Measuring the genre share of DVD sales to retailers and rental stores showed that the top ranked genre was foreign movies. These movies represented a 34.7 percent share of all genres on average for the period from 2001 to 2006. Second place went to animated Japanese movies with an average share of 23.2 percent, and third was Japanese movies. The share of the top three genres was 73 percent on average for the five-year period in which measurements were made.

That is to say, three quarters of all DVDs retail sales are movies.

Sales of foreign movie DVDs to retailers and rental stores decreased by 31 billion yen in 2006 as compared with the previous year, causing the total DVD market to shrink, as mentioned above. This paper calculated the correlation coefficient between box office revenues and movie DVDs sales to consumers in order to examine the relationship between them. Japanese and foreign movies were measured including animated movies, which earned box office revenues exceeding 1 billion yen in 2005. Data on box office revenues are available from the website of the MPPAJ. Since the average interval between a movie's release and a video's release is seven months in Japan, some DVDs were released in 2006. Therefore, DVD sales in 2006 are also covered. The DVD sales data are measured by unit and are available from the *Oricon Yearbooks 2006 and 2007*. The correlation coefficient between the box office revenues for Japanese movies and their corresponding sales as DVDs was 0.965 and the correlation coefficient between box office revenues for foreign movies and their DVDs sales was 0.917. Thus, a strong and positive relationship existed. Box office revenues of foreign movies decreased from 116 billion yen in 2005 to 94.9 billion yen in 2006. From the positive relationship between box office revenues and DVDs sales, it appears that the decrease in DVDs sales of foreign movies in 2006 was caused by a slump in foreign movies[2], and this is the main factor contributing to the decrease in total DVDs sales in 2006.

Average price may be calculated by dividing sales by quantity. Prices of DVDs for retailers set by video production companies differ significantly from those set for rental stores. The average price of DVDs shipped to retailers was 2,884 yen in 2006, while that of DVDs shipped to rental stores was 4,511 yen. When rental stores lend music CDs to consumers, copyright license fees for the rentals are paid to copyright holders in proportion to the number of times that the CDs are rented. In contrast, for visual DVDs, in many cases, the license fees for the rentals are included in the price of DVDs shipped to rental stores and these fees are set at a fixed rate, regardless of the number of times the DVD is rented. One factor contributing to the difference in DVDs prices between retailers and rental stores is the license fee for rental. Furthermore, while the average price of a DVD in the total market was 3,567 yen in 2001, the average price in 2006 was 3,253 yen. The prices of DVDs shipped to both retailers and rental stores tended to decrease.

## Related Literature

While the primary focus of many studies on the motion picture industry is the factors involved in the success of a movie[3], the rental system and windowing strategies have received little attention. When video rental stores in the U.S. obtain videos from movie distributors, revenue-sharing contracts have been widely used since the late 1990s, whereas, in Japan, a fixed rate for license fees has been

popular. Regarding the contracts in the rental system, Mortimer (2007) investigated the effect of the introduction of revenue-sharing contracts on firms and consumer welfare. In relation to the windowing strategies, Lehmann and Weinberg (2000) focused on the timing of video release after theater exhibition and calculated the optimal release time based on exponential sales curves. They also reported that the correlation coefficient between domestic box office revenues and DVD rental revenues was 0.24 in 2001, and that the correlation between box office revenues and DVD sales was 0.81 in 2002. Furthermore, Weinberg (2005) conducted an overview of the U.S. video market and raised research issues regarding the market. Although Eliashberg, Elberse and Leenders (2006) also pointed out that the relationship between the theatrical and non-theatrical window is one of the research areas in the motion picture industry that is worthy of examination, we found few studies that examined the relationship between windows.

The provision of video sale and rental services starts at almost the same time. In this sense, the relationship between sale and rental of DVDs closely resembles the relationship between sale of music CDs and Internet distribution including file sharing rather than the relationship between other windows in the motion picture industry. However, while file sharing is largely illegal, the rental of DVDs in this study is completely lawful.

Turning to the literature on the Internet distribution of music, several empirical studies on the relationship between distribution channels have already been conducted using a few different approaches. First, Liebowitz (2006) analyzed the music market using aggregated time series data and concluded that file sharing reduced the sales of packaged music. Second, Oberholzer and Strumpf (2007) conducted an empirical analysis on the effect of file sharing on records sales using data by title. They measured record purchases using instrumental variables and found that the effect of downloads on CD sales was statistically indistinguishable from zero. Third, Zentner (2006) used European individual-level data collected through the mail by a research company and measured the probability of music purchase by individuals. From the analysis, Zentner reported that peer-to-peer usage reduced the probability of purchasing music by 30 percent.

This paper estimated two DVD sales and rental demand functions, adding variables that have an impact on sales and rental demands in order to examine the relationship between DVD rental and DVD sale. The first is an analysis using aggregated data from January 2001 to December 2006. The second is cross-section analysis using data by title in 2005.

## Analysis using Time Series Data

The JVA has published data on monthly shipments of DVDs to rental stores and retailers. Since these monthly data are not classified by genre, the subject of

analysis is the overall DVD market. This paper specified the demand functions of retailers and rental stores by equations (1).

$$\ln(retail\ sale) = \alpha_1 + \beta_1 \ln(retail\ price) + \gamma_1 \ln(rental\ sale) + \lambda_1 \ln(DVD\ player)$$
$$\ln(rental\ sale) = \alpha_2 + \beta_2 \ln(rental\ price) + \gamma_2 \ln(retail\ sale) + \lambda_2 \ln(DVD\ player) \qquad (1)$$

where variable retail sale indicates DVDs shipped to retailers, and rental sale is DVDs shipped to rental stores. Both retail sale and rental sale are measured in thousands of units. Retail price is the average price and is calculated by dividing sales to retailers by sales quantity. Similarly, rental price is calculated by dividing sales to rental stores by quantity. Retail price and rental price are measured in yen. Researchers have often pointed out that a positive feedback mechanism operates between hardware and software in the information industry. Gandal, Kende and Rob (2000) found that indirect network externalities existed between CD players and CD titles. Karaca-Mandic (2003) elucidated the positive relationship between DVD players and DVD software. Taking into consideration the positive feedback between hardware and software, this study adds the variable DVD player which indicates the cumulative production of DVD players (unit: thousands). The starting point is January 2001. Retail and rental sales data are available from the JVA, and the data on DVD players are available from the website of the Japan Electronics and Information Technology Industries Association (JEITA). Table 2 reports the sample summary.

Table 2: Sample Summary Statistics (time trend data)

|  | retail sale | retail price | rental sale | rental price | DVD player |
|---|---|---|---|---|---|
| average | 5736.6 | 3145.1 | 841.9 | 5575.6 | 12234.9 |
| max | 14399.0 | 4489.8 | 2571.0 | 14048.8 | 30593.0 |
| min | 1909.0 | 2441.6 | 39.0 | 3717.9 | 81.0 |
| standard deviation | 2221.4 | 410.4 | 706.5 | 1357.8 | 9780.3 |

$\beta_1$ and $\beta_2$ are expected to be negative values. If $\gamma_1$ is negative, the development of rental services is considered to disturb the growth of the retail market. Similarly, when $\gamma_2$ is negative, the expansion of the retail market is considered to have a negative impact on the rental market.

This paper estimated equations (1) simultaneously using the full information maximum likelihood method. Table 3 shows the estimation results. The coefficients of $\beta_1$ and $\beta_2$ are negative as anticipated. $\gamma_1$ is -0.0198 and negative, but is not significant at the 10 percent significance level. These findings do not support the

hypothesis that the development of the rental system disturbs the retail market. On the other hand, $\gamma_2$ is significantly positive indicating that the retail market leads to the expansion of the rental market. Both $\lambda_1$ and $\lambda_2$ are positive. Although video rental stores hitherto stocked videocassettes, it can be seen that they have replaced videocassettes with DVDs with the penetration of DVD players into households.

Table 3: Estimation Results (time trend data)

| retail sale | | rental sale | |
|---|---|---|---|
| $\alpha_1$  15.3166  (3.3876)* | | $\alpha_2$  0.9535  (2.8420) | |
| $\beta_1$  -1.0134  (0.4055)** | | $\beta_2$  -1.0006  (0.1429)* | |
| $\gamma_1$  -0.0198  (0.2182) | | $\gamma_2$  1.0816  (0.3744)* | |
| $\lambda_1$  0.1751  (0.1674) | | $\lambda_2$  0.5211  (0.0705)* | |
| adjusted $R^2$  0.613 | | adjusted $R^2$  0.936 | |
| Log likelihood  -1064.10 | | | |
| The number of observations  72 | | | |

The standard errors are in parentheses.  * 1 percent level  ** 5 percent level

## Analysis using Cross Section Data

This paper also specified the demand functions using cross-section data by title. The subject of estimation is the rental top 100 as calculated by the number of times that a DVD was rented in 2005. These ranking data have been published on the website of the Compact Disc & Rental Commerce Trade Association of Japan (CDV-Japan) since 2005. There are a few DVDs of television dramas in the rental top 100. While movies are generally on a single DVD, television dramas series require multiple DVDs and are sold as a DVD set. On the other hand, when television dramas DVDs are rented, a single DVD rather than a DVD set is rented. That is to say, the manner in which television dramas DVDs are sold and how they are rented is different. Therefore, television dramas DVDs were excluded from the observations for estimation. Demand functions for rental and sale are specified by equations (2).

$$\ln(sale)=\alpha_1+\beta_1\ln(price)+\gamma_1\ln(rental\ times)+\lambda_1 box\ office$$
$$\ln(rental\ times)=\alpha_2+\gamma_2\ln(sale)+\lambda_2 anima \tag{2}$$

where the variable rental times represents the number of times that the DVD was rented in the rental top 100. The variable sale is units by title sold from retailers to

consumers. The explanatory variable price is the price of DVDs which consumers purchase and is measured in yen. This is not the same as retail price in equations (1), as the variable retail price in equation (1) is the average price of DVDs. DVD sale and the price data are available from the *Oricon Yearbook 2006*. Explanatory variable box office represents the box office revenues of the movie on the DVD. Since a more popular movie is expected to generate a large number of DVD sales as shown by the correlation coefficients, the variable box office measured in billions of yen is added. The MPPAJ publishes only the titles and revenues of movies which have annual box office revenues exceeding one billion yen. Box office revenues of 46 titles in the rental movie top 100 did not reach one billion yen and these data are therefore not available. When box office revenues are less than one billion yen, the variable box office is set to 0. Therefore, the variable is not transformed into a logarithm. While ordinary movies are viewed by adults, most animated movies are produced for children and viewers of ordinary movies and animated movies differ. Therefore, this paper adds a binary variable anima to identify genre. Anima is set to 1 if the DVD is an animated movie and is 0 otherwise. Table 4 describes the sample summary.

Table 4: Sample Summary Statistics (cross-section data)

|  | sale | price | rental times | box office | anima |
|---|---|---|---|---|---|
| average | 120853.7 | 3958.6 | 54942.3 | 22.6 | 0.14 |
| max | 1514370 | 8400.0 | 210132 | 396 | 1.0 |
| min | 15718 | 999 | 18687 | 0.0 | 0.0 |
| standard deviation | 204404.2 | 1098.3 | 36173.3 | 47.3 | 0.35 |

Equations (2) are also estimated using the full information maximum likelihood method and Table 5 shows the estimation results. The estimated coefficient of $\gamma_1$ indicating the impact of the rental system on the retail market is 0.2568 and positive, but is not significant at the 10 percent significance level. $\gamma_2$ is significantly positive. The positive impact of retail on the rental market is common to the results attained from the analysis using the time series data. $\lambda_1$ is significantly positive, as anticipated. $\lambda_2$ is significantly negative indicating that there is consumers' preference for purchasing rather than renting animated videos

Table 5: Estimation results (cross-section data)

| retail sale | | rental times | |
|---|---|---|---|
| $\alpha_1$  10.4632  (8.2197) | | $\alpha_2$  7.3854  (1.0522)* | |
| $\beta_1$  -0.2914  (0.3766) | | | |
| $\gamma_1$  0.2568  (0.6257) | | $\gamma_2$  0.3101  (0.0945)* | |
| $\lambda_1$  0.0109  (0.0022)* | | $\lambda_2$  -0.5489  (0.2412)** | |
| adjusted $R^2$  0.400 | | adjusted $R^2$  0.429 | |
| Log likelihood  -2361.63 | | | |
| The number of observations  100 | | | |

The standard errors are in parentheses.  * 1 percent level  ** 5 percent level

## Qualitative Difference

This section examines the qualitative difference between rental and sale of DVDs, while the above two estimations are quantitative analyses. The subject of analysis is the rental ranking of the top 30 movie DVDs in 2005, and the correspondence between rental rankings and sale rankings is examined. If the top 30 rental DVDs overlap with the top selling 30, it implies that the rental system is competing with the retail market. If there is no overlap between them, we may say that the introduction of the rental system contributes to enhancing the variety of movies that consumers can enjoy. Rental and sales rankings data from 2005 are available from the CDV-Japan's website and the *Oricon Yearbook 2006*, respectively.

Fifteen of the top 30 DVD rentals titles entered the top selling 30. Another 5 rental DVD titles appeared on the sales charts ranking from 31 to 100. However, the rest of the 30 rentals, 10 titles did not appear on the sales charts top 100. That is to say, the rental rankings do not always correspond with the sales rankings. Weinberg (2005) also reported that there was virtually no overlap between the top 10 rentals and the top 10 selling videos in 2002 in the U.S. It is supposed that consumers choose whether to rent or purchase depending on the title, provided that we examine the correspondence among the top 30 DVDs. However, the observations in this study are limited to data in 2005 due to the availability of data. If studies using abundant and future data will reach the same conclusion, we may assert that the rental system provides consumers with the opportunity to choose from a variety of content.

## Conclusions

This paper conducted empirical studies to examine the relationship between rental and sale of DVDs and found that the rental system does not disturb the development of the retail market. The results imply that rental stores are large-scale and regular customers for video distributors and that the rental system may be regarded as another channel that enables distributors to increase their revenues. Furthermore, it seems that consumers distinguish between purchase and rental by DVD title, and that the rental system provides them with opportunity to have contact with a wide variety of content.

However, since the number of observations and independent variables used for the estimations are limited in this paper due to the availability of data, it is desirable to re-estimate the demand function using numerous observations in order to strengthen the results reported in this study. At present, available data are limited to the ranking of rental DVDs since 2005 and to movies whose box office revenues exceed 1 billion yen. Thus, the storage of data in the field of video content is not complete. The establishment of a database is essential for further studies on the Japanese motion picture industry.

Furthermore, this paper dealt with the impact of the rental system on the retail DVD market. Recently, several distributors have introduced the Internet distribution of movies. Although the video distribution market through the Internet is still in its infancy, it may have an impact on the sales of packaged content such as DVDs. The impact of Internet distribution on the packaged content market needs to be considered.

## NOTES

1. Recently, it has become common for game software to be distributed through the Internet.
2. Most foreign movies released in Japan are Hollywood movies. Although box office revenues of foreign movies released in Japan decreased from 116 billion yen in 2005 to 95 billion yen in 2006, box office revenues in the U.S. increased by 5.5 percent in 2006.
3. For example, Prag and Casavant (1994), Vany and Walls (1999), Vany (2006) and Asai (2006).

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# A Study of Current Telecommunications Policy-making in the U.S. : The Case of Universal Service, in comparison with the Japanese case

## by Shoko KIYOHARA*

## Introduction

*Universal Service Policy in the U.S. and Japan*

Universal Service has been considered one of the most important issues in the telecommunications field, all over the world. Today, the debate on reforming universal service in telecommunications policy is more and more controversial not only in the U.S. but also in Japan. What services should be considered as universal in the broadband age? What new technologies should be subsidized by the universal service fund? These are the common questions in both countries. However, the substance of the debate in Japan is significantly different from that in the U.S. This research examines what causes the differences in policy debate between two countries.

In the U.S., as mandated by the Telecommunications Act of 1996, the goals of universal service are "to promote the availability of quality services at just, reasonable, and affordable rates; increase access to advanced telecommunications services throughout the Nation; advance the availability of such services to all consumers, including those in low income, rural, insular, and high cost areas at rates that are reasonably comparable to those charged in urban areas (FCC website)." "Advanced telecommunications services" means high-speed broadband that can transfer voice, data, and video services. Although not all citizens in the U.S. receive the direct benefit of broadband access from the universal service fund, a number of schools and libraries in poor areas as well as rural health care providers get broadband access services at discounted rates. Therefore, many people can

receive the indirect benefit through these public institutions, and it is obvious that the universal service support mechanisms in the U.S. are regarded not only as a telecommunications policy but also as a social welfare policy.

These are significant differences from the Japanese case. The beneficiaries of the universal service fund in Japan are quite limited and there is no special discounted program for low income or disabled consumers; neither is there support for education nor telemedicine purposes. The only goal under the current system is to compensate for and deficits incurred by NTT (Nippon Telegraph and Telephone) East and West (dominant incumbents for regional telephone services), which provide equal telephone services to subscribers in both urban and rural areas(MIC, website). In other words, the system supports only efforts to close the geographical divide. Voice communications divides caused by other factors such as income level are beyond the scope of universal service because it would then be considered a social welfare policy(MIC, 2007. 10. 2). Although Japanese policymakers are taking the market situation for broadband services into consideration when revising provide equal telecommunications access in both urban and rural areas, the Japanese policy debate still does not expand to help distance learning and telemedicine or other access problems caused by socioeconomic factors. It might seem odd that the universal service fund widely supports telecommunications services in the U.S., but as a result the fund undoubtedly targets many more people, and has created more constituencies in comparison with the Japanese system.

*What Does This Paper Examine?*

Where do the differences in the contemporary universal service policy debate between the two countries come from? Different market characteristics and political institutions may be the cause. However, are these aspects decisive enough when comparing American telecommunications policy with Japanese policies? My question is what else we should consider when we examine U.S. telecommunications policy. This paper will demonstrate how expanded universal service has been realized since the middle of the 1990's in the U.S. through a policy of network convergence, and then argue that the increasing number of actors participating in the telecommunications policy process most strongly distinguishes American universal service from the Japanese case.

The paper is organized as follows. The first section introduces the theoretical background such as interest group politics and issue networks. The second section provides my arguments as to why universal service policy has been expanded, seemingly a reverse of the political mood. Some say it was President Bill Clinton who showed strong leadership in fulfilling the policy goal of expanded universal service, or what is more commonly called the "Information superhighway." While I cannot deny such an argument, since 1990's it has been very difficult to implement

any social welfare programs and redistributive policy in the U.S. Around that time, social welfare programs such as Aid to Families with Dependent Children (AFDC) were revised. It is well known that the Clinton Administration had to modify the traditional liberal welfare programs, and that it was a difficult time to realize redistributive policy and social welfare programs because the Republicans took control of the Congress after Midterm Election in 1994; additionally, public opinion leaned to the conservative side (Sunada, 2000, 47-51). Accordingly, we need to take a fresh look at the reasons why an expanded universal service policy, which is also considered social welfare, was realized. The third section provides evidence for my argument. The paper will conclude that more and more diverse interest groups and civic participation as well as grassroots movements were very important in expanding universal service policy in the U.S., and that the contemporary telecommunications policy network has become more dynamic and decentralized as a result. In the Japanese case, however, there are still comparatively few citizen groups and no education groups or medical groups involved in the universal service policy debate.

This research makes use of public documents such as the Federal Communications Commission (FCC) website and other government websites; technical magazines including Telecommunications Reports; and a number of interviews with those who are closely related to the universal service policymaking process. This paper is also based on the research results of my dissertation, "*Gendai America ni okeru Telecom Seisaku to Seisaku Network no Henyo* 〔Telecommunications Policy in the Current America and the Transformation of the Policy Network〕(2007).

## Theoretical Background

*Interest Group Politics*

Since the beginning of the 20th century, political science scholars such as Arthur Bentley and David B. Truman have propounded the theory that interest groups or pressure groups are at the core of politics and policymaking in a complex, large, and increasingly specialized governmental system (Cigler, Loomis, 2002, 4). Therefore, the interest group becomes an important element for analyzing complex political processes; interest group politics itself continues to change for several reasons. Interest group politics scholars have paid much attention to how interest groups develop. David Truman has suggested that rapid technological changes and increasing social complexities greatly influence the proliferation of groups (Truman, 1971, 57). Truman's theory of group proliferation reminds us that the interest group universe is changeable and unstable.

For example, since the 1960s, the mobilization of business interests

has resulted from the rise of counterparts such as consumer groups and environmentalists. Therefore, one can say that group politics are comprised of successive waves of mobilization and countermobilization (Cigler, Loomis, 2002, 8). Since about 1960, the number of groups has increased and most of now directly engage in lobbying in Washington D.C. The growth of government and increasing federal programs accelerated the development of new political groups that were particularly interested in education, welfare, health care, civil rights, and so on (Cigler, Loomis, 2002, 12). Also, think tanks such as the American Enterprise Institute, the Brookings Institution, the Heritage Foundation, the Urban Institution, and the Cato Institute have come to play important roles in policymaking in Washington D.C. (Salisbury, 1992, 341-342). Moreover, the increasing number of senior citizens since the 1970s has also stimulated these groups. The American Association of Retired Persons (AARP) boasts an impressive membership. The AARP is well over twice the size of the AFL-CIO and in 1998, it counted 33 million members, which means 10 million more members than twenty years ago (Cigler, Loomis, 2002, 13). In other words, social movements since the 1960s, the increasing population of senior citizens, and the growth of government have stimulated more and more new groups to participate in policymaking in Washington D.C. The interest group universe has dramatically changed in the last 40 years.

Another question is how interest group politics in the telecommunications area has been changed by rapid technological innovation. AT&T, which was once the world's largest corporation and de facto monopolized the telecommunications industry, was a dominant actor in the telecommunications policy process before the AT&T divestiture in 1984. Because of the AT&T breakup and competition for the long distance telephone market, new companies freely entered some markets and a number of fractious issue networks developed (Berry, 1997, 308). Similarly, new business groups such as Competitive Telecommunications Association (Comptel) were formed. Within this competitive environment, AT&T also reorganized its lobbying team in Washington D.C. (Berry, 1997, 308).

However, there have been few studies on interest groups in the telecommunications area since the 1990's. Since then, the emergence of the Internet and the broadband environment has been having a great influence on interest group politics in the field. This paper would like to focus more closely on how interest groups in the telecommunications area have changed in reaction to rapid technological innovation.

*From Subgovernments to Issue Networks*

Robert Salisbury has suggested that more interest groups and lobbyists may wield less influence over policy results; however, he also points out that the growth in the number of interest groups in Washington D.C. has helped to bring

about a transformation in the way much public policy is made (Salisbury, 1992, 340). The American political process used to be explained as subgovernments or "iron triangles," which meant that a limited number of groups, legislators, and administrators were involved in policymaking for a particular issue area (Berry, 1997, 187). In the 1950s, a few organizations had hegemony in certain issue areas. For instance, as Salisbury mentions, the American Medical Association (AMA) dominated health policy, and the American Farm Bureau Federation (AFBF) was the most influential group on agricultural issues (Salisbury, 1992, 343). However, in the 1970s, the political process became more complex and the interest group universe in each issue area became more fragmented. The AMA used to be the single most powerful organization in health policy, but "is no longer the dominant voice of even organized medicine (Salisbury, 1992, 344)."

Hugh Heclo has suggested the concept of "issue networks" that are composed of "a large number of participants with quite variable degrees of mutual commitment or of dependence on others in their environment (Heclo, 1978, 102)". He also explains an issue network consists of "a shared-knowledge group having to do with some aspect of public policy" (Heclo, 1978, 103). He argues that we should pay more attention to the fairly open networks of people that increasingly have an influence on government, a change from the closed iron triangles or subgovernments we used to see (Heclo, 1978, 88). Since Heclo's book, more political scientists have come to analyze the policymaking process from the perspective of issue networks. For example, Fumiaki Kubo (1997) has analyzed issue networks in the environmental policy area. Jeffery M. Berry (1997) has done the same with telecommunications as well.

*The Telecommunications Issue Networks*

Using Jeffery M. Berry's definition of the telecommunications issue network, I argue that the telecommunications policy network has been transformed from the decentralized model to the convergence model. He compared issue networks in 1984 and 1994, indicating that the former was "characterized by well-defined industry niches and interest group coalitions [that] were built largely around these industry clusters (Berry, 1997, 213)". At that time, the telecommunications issue network was formed primarily focusing on telephone equipment and services (Berry, 1997, 209). There were some consumer groups in the issue network, but neither think tanks nor public interest groups were active there.

On the other hand, 1994 was characterized as a fully integrated market model. Berry indicates that "the large-scale integration of different companies into business alliances" was the prominent characteristic by that year (Berry, 1997, 211). Cable TV companies such as Time Warner and TCI (the nation's largest owner of local cable TV companies at the time) wanted to enter the telephone service market, and

telephone companies sought new business alliances in a different market. What caused this business mood in 1994? All different markets could now provide the same services on the Internet, the "information super highway" of the future (Berry, 1997, 211).

Although Berry's study usefully illustrates how the telecommunications issue network was transformed, he does not analyze the function of each actor in the issue networks. Building on Berry's work, in my dissertation I analyze how actors affect each other and how, to understand the transformations in the telecommunications issue network, one must examine the entire universal service policy process since the 1990's.

## Arguments and Hypothesis

*From Decentralized Policy Networks to Policy Network Convergence*

This paper considers the policy network rather than the issue network. I think it is more appropriate to use the concept of the policy network because I would like to focus on the entire telecommunications policy area instead of on a single issue. I will provide a new analytical framework arguing that telecommunications policy network has been transformed from a decentralized policy network model into a policy network convergence model as the Internet has diffused among the public in the U.S. since the early 1990's (Kiyohara, 2007).

A decentralized policy network is characterized as several policy networks separated by policy areas; political actors in each policy network do not frequently enter another policy network. Figure 1 shows a decentralized policy network. In this model, even in the telecommunications area, each business market and regulations for telephony, broadcasting, cable TV and satellite are clearly separated (by so-called pipes). It is similar to Berry's telecommunications issue network in 1984. On the other hand, Figure 2 shows policy network convergence. In this model, the boundaries between policy networks are more permeable than in a decentralized policy network. Cable TV operators developed interest in entering the telephone business, and telephone companies in entering the cable TV market, since they see all telecommunications services converging on the Internet. Also, education groups such as teachers' unions and PTAs as well as think tanks, libraries, and rural communities now pay more attention to telecommunications policy than before. Most of them used to have almost no interest in the telecommunications area because this area was thought to be highly technical and not terribly relevant when only the school principal had a telephone in his or her office. Previously, the American Libraries Association (ALA) lobbied only for library funding and was interested mostly in copyright issues. However, since the 1990's with the rise of the Internet and new issues related to the Internet, telecommunications policy suddenly
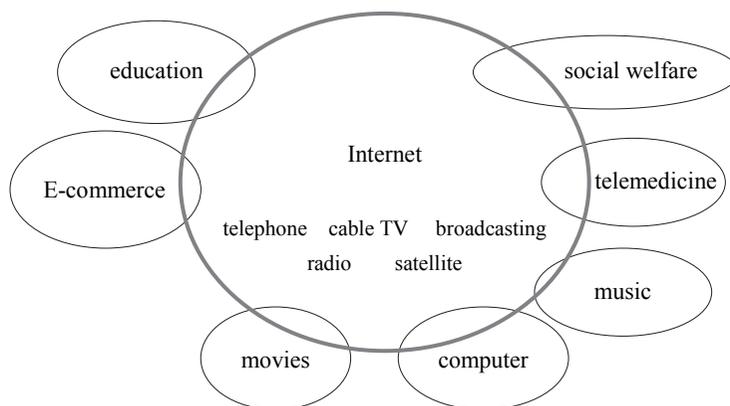
seems relevant to educational institutions of all kinds, especially libraries. In other words, in the policy network convergence model, many actors that have been politicized in different policy networks now participate in the telecommunications policy network without regard to boundaries between policies. Some groups form a coalition to fulfill their goals, and others enter as countermovements in the policy network. Some business groups lobby the Congress and the FCC very actively with plentiful political resources such as a number of lawyers. Some think tanks just educate the policymakers and the people. The converged policy network is not only composed of diverse coalitions. The important point is that many political actors which play important roles in other policy areas such as teachers unions and the ALA enter into the telecommunications policy network as active actors. Thus, the policy process becomes composed of many more political actors, which will make the process more complicated and decentralized.

**Figure 1: The Decentralized Policy Network Model
(Before the Emergence of the Internet Society)**

education

social welfare

commerce

telephony

broadcasting     cable TV

radio     satellite

medical service

computer

movies

music
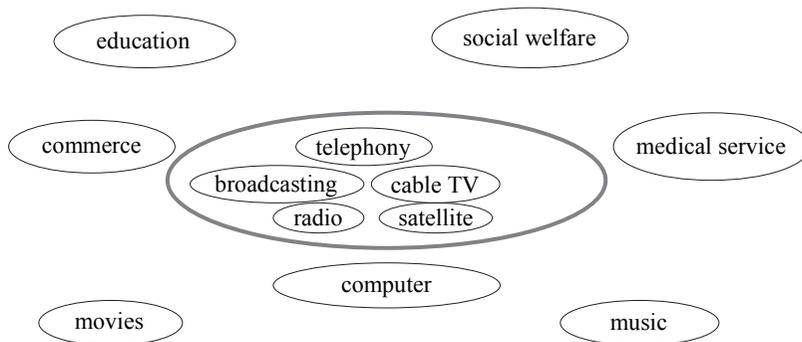
bold circle :telecommunications area

Figure 2: The Policy Network Convergence Model
(In the Development of the Internet Society)

education

social welfare

Internet

E-commerce

telemedicine

telephone    cable TV    broadcasting
radio          satellite

music

movies          computer

bold circle: telecommunications area

My hypothesis is that the transformation of the telecommunications policy network (from decentralized to converged) affects the substance of universal service policy in the U.S. In the next part, I would first like to demonstrate how the telecommunications policy network was transformed, and next, analyze how this transformation affects universal service policy.

## Analysis

*More New Groups Enter the Telecommunications Policy Network*

A number of non profit organizations have newly entered the telecommunications policy network since early 1990's. According to *the Public Interest Profiles* in 2001-2002, there were eleven organizations paying close attention to media issues. Previously, in 1992, the number of organizations was five; in 1996, the number was eight; in 1998, the number was ten. It is obvious that the number of media advocacy groups such as Accuracy in Media and Center for Media and Public Affairs is gradually increasing.

Moreover, Kevin W. Hula indicates that traditional civil liberty groups such as People for the American Way and the American Civil Liberties Union formed a coalition with newer computing organizations such as the Electronic Frontier Foundation and Voter Telecommunications Watch in order to promote the campaign "to stop the U.S. communications decency act" in 1995 (Hula, 1999, 89). The same

year, the ALA, which is the largest library group in the U.S., started up the Office for Information Technology Policy (OITP) in Washington D.C. This office plays an important role in supporting the efforts of libraries to ensure access to electronic information resources by conducting research and educating librarians. Their current major concerns are broadband; the E-rate and universal service reform; network neutrality; and copyright and federal funding (ALA Website).

Lynne E. Bradley indicates that Alliance for Public Technology, Benton Foundation, ALA, National Education Association (NEA), EdLiNC(Education and Library Network Coalition) formed by schools and libraries, the Department of Education as well as high-tech industry were new players to telecommunications debate in 1990's. (Interview with Bradley, 2006.3.1). She also noted that the reason why new groups entered the policy network was because the universal service opened up the E-rate (Ibid.).

Figure 3 indicates that there are even more new interest groups that have entered the telecommunications policy network. They are categorized as think tanks and citizen groups. Figure 3 shows that new groups were established in 1990's; there is also the Benton Foundation, which transformed its activity as a think tank in order to address the telecommunications area. Traditional conservative think tanks also have interest in telecommunications policy now. They were not interested in the telecommunications issues in 1992, according to *the Public Interest Profiles*, but came to be aware of their importance later in that decade. James L. Gattuso mentioned that one conservative group, Citizens for Sound Economics (CSE), was already working on telecommunications around the time of the AT&T break-up (Interview with Gattuso, 2005.11.8). According to him, subsequently, in 1994 and 1995 while Congress was trying to pass the telecommunications bill, a number of conservative/free market-oriented groups got involved in the telecommunications debate. He also noted that these groups had started an informal working group once a month for lunch around 1994, and that it had grown to about 20 groups in 2005 (Ibid.).

Therefore, a wide range of diverse groups have participated in the telecommunications policy network since the 1990's as Internet issues have increased. Also, it can be said that the telecommunications policy network started to converge with other networks such as high-tech, computers, and education areas.

Figure 3

| Name | Current Issues |
|------|----------------|
| Center for Democracy and Technology (1994) | ・Access to the Internet<br>・Electronic surveillance and cryptography<br>・Free expression on the Internet<br>・Online democracy, etc. |
| Electronic Privacy Information Center (1994) | ・Free speech on the Internet<br>・Consumer protection<br>・International cyber rights, etc. |
| Progress & Freedom Foundation (1993) | ・Communications<br>・Computer technology<br>・Deregulation of electric utilities,<br>・Internet<br>・Telecommunications, etc. |
| Center for Media Education (1991) | ・Advertising practices on the Web for youth and teens<br>・Use of the Internet for civic purposes for youth and teens, etc. |
| Electronic Frontier Foundation (1990) | ・Censorship and free expression<br>・Content filtering<br>・Online copyright and fair use, etc. |
| Benton Foundation(1981)<br>*In 1992,<br>newly started<br>its communications<br>policy project | ・Digital TV<br>・Media reform,<br>・Internet services at libraries<br>・Digital divide, etc. |

\* This figure shows some groups that started to be involved in the telecommunications policy in 1990's.  Not all groups that are dealing with telecommunications policy are shown.


## What Does the Transformation of the Telecommunications Policy Network Mean?

*Who affects the Expanded Universal Service System?*

So, who affects the expanded universal service system the most?  And how do they affect the substance of the policy?  First, let us examine Figure 4.

Figure 4: New Political Actors In the Telecommunications Policy Network :
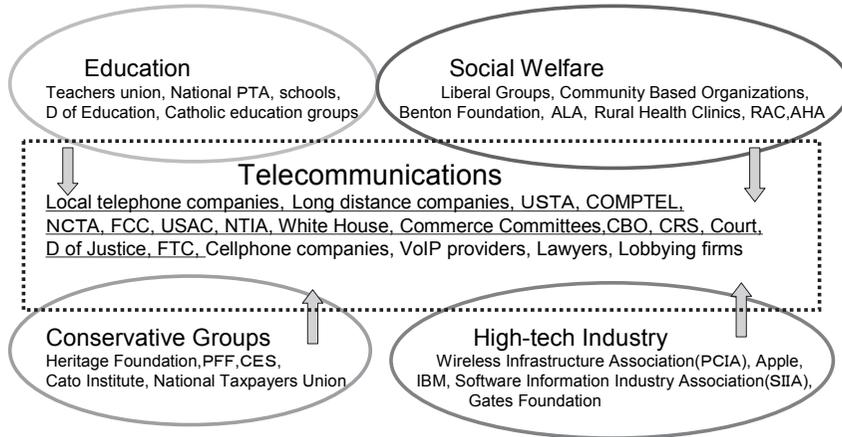Universal Service Policymaking Process



Figure 4 shows what kinds of groups are the most active regarding universal service policy. The number of political actors has been increasing in the telecommunications area. For example, Universal Service Administration Company (USAC) was established in 1997 as a not-profit subsidiary of the National Exchange Carrier Association, Inc. (NECA). Since December 31, 1998, USAC has become responsible for administering all of the universal service support programs, including the E-rate and Rural Health Care Providers Program, as directed by the FCC (USAC website). Only long distance telephone companies contributed to the universal service fund before the Telecommunications Act of 1996 was established. Thereafter, all interstate telecommunications service providers were required to contribute to the fund. As a result, local telephone service providers and wireless telephone companies have become active actors regarding this issue. Moreover, because of the Telecommunications Act of 1996, the number of lawsuits has been increasing with regard to several issues, including the E-rate. For example, in 1998, GTE, BellSouth and SBC Communications brought a case against the E-rate. Plaintiffs argued that the FCC forced telephone companies to contribute to the universal service fund but that they did not mandate all Internet service providers to contribute to the fund (Puma, Chaplin, Pape, 2001, 20). Lawyers too now play a more important role in the telecommunications area.

The most conspicuous new groups in the telecommunications policy network are education groups, libraries and social welfare groups. At the beginning of the policy debate in Congress, around 1993, the Telecommunications Roundtable was formed by many liberal groups including the Center for Media Education, People

for the American Way and the American Civil Liberties Union. In response, the Benton Foundation started to educate politicians as well as non profit organizations so as to encourage them to participate in the expanded universal service debate. The Benton Foundation was cooperating with National Telecommunications and Information Administration (NTIA) in 1994 and 1995 in the policy debate. In 1995, the ALA also mobilized their members to lobby Congressional representatives to support the bill including the universal service amendment, which was introduced by Senator Olympia Snowe (ME, R) and Senator John Rockefeller (WV, D).

Once the Telecommunications Act of 1996 was established, EdLiNC was formed by education groups and libraries including the NEA, National PTA, and the ALA, and had an important role in the FCC rulemaking process regarding the E-rate. They mobilized hundreds of their members to lobby for the FCC and Federal-State Joint Board members to create a discounted support program based on the Telecommunications Act of 1996. They worked with the Department of Education and Senators Snowe and Rockefeller. Despite the strong opposition from telecommunications service providers, the FCC Commissioners decided to create the E-rate program by a unanimous vote in May, 1997. The E-rate program provides eligible schools and libraries with telecommunications service, Internet access and internal connections at discounted rates (20 to 90 %).

Since the E-rate program as well as the Rural Health Care Providers Program was created by the FCC, schools, libraries, and rural health care providers have sent their representatives to the Schools and Libraries Committee and Rural Health Care Committee of the USAC. These committees have power and authority to manage the support programs on behalf of USAC. Not only part of the committee, schools and libraries work hard on monitoring the implementation of the E-rate program. There are 61 state E-rate program coordinators, and most of them are staff working at the state departments of education. Mary Kusler related that education groups have been involved in telecommunications issues since the E-rate program started, and that the number of negotiations with the FCC has increased (Interview with Kusler, 2003 September 2). Education groups often contact the USAC to monitor the E-rate program. George McDonald of USAC mentioned that education groups were very active participants in the implementation of the E-rate and that they contacted with him very quickly if USAC made a mistake (Interview with McDonald, 2004, November 15).

Similarly, in 1998 and 1999, as long distance telephone companies such as AT&T, MCI and Sprint started to charge their customers universal service fees, a large countermovement against the E-rate occurred, led by the National Taxpayers Union and consumer groups. The countermovement got behind Republican Congressional representatives to submit bills to terminate or reform the E-rate. Against this countermovement, the NEA, American Association of School Administrators, National Association of Independent Schools, National

School Boards Association, U.S. Catholic Conference's Department of Education, and the National Catholic Education Association formed a national grassroots movement called "Save the E-rate Campaign." With this movement, and since the E-rate became much more popular after it started to reimburse, none of the bills to terminate the E-rate were passed in Congress. Also, in 1999, the FCC decided to raise the funding cap from 1.9 billion U.S. dollars to the amount of 2.25 billion U.S. dollars.

The active movement by schools and libraries was not just under the Clinton Administration, although Vice President Al Gore was a strong supporter of the E-rate. After the Bush Administration started, President George W. Bush wanted to consolidate the E-rate with other education subsidy programs because he was pushing his own education policy ("No Child Left Behind") and did not want to continue Clinton and Gore's pet program, the E-rate. However, schools and libraries insisted that the universal service fund worked better than general tax revenue to support them. Schools and libraries still play very important roles in extending the E-rate program. On April 23, 2003, the FCC adopted the Second Report and Order and Further Notice of Proposed Rulemaking regarding the E-rate. According to the Report and Order, about 44 % of the 125 groups that filed public comments at that time were schools and libraries. They asked to add new services such as voice mail and wireless phones to the services supported by the E-rate. The FCC allowed their requests by the Report and Order (FCC Second Report and order and Further Notice of Proposed Rulemaking, CC Docket No.02-6, Adopted: 23 April, 2003).

In other words, a large number of constituencies monitor the implementation of the universal service program, especially the E-rate, in the U.S. Education groups and social welfare groups have worked to extend the universal service fund programs to schools and libraries as well as rural health care providers during a difficult time for realizing social welfare or redistributive policy. These groups have come into the telecommunications policy network from other areas of universal service since the middle 1990's.

It may be much easier to understand why high-tech industries are also new political actors in the telecommunications policy network. For example, the Bill & Melinda Gates Foundation supports the ALA to increase libraries' participation in the E-rate program. In 2006, the Gates Foundation awarded the OITP of the ALA $375,000; the grant will help the OITP develop and test a training and support program for state library E-rate coordinators (Bill and Gates Foundation website). However, high-tech industries were still less active supporters in the FCC rulemaking process in 1996 and early 1997, although they did not oppose the program (Interview with Bradley, 2006.3.1, Hundt, 2000, 195).

## Conclusion

What are the differences between the American case and the Japanese one? In Japan, the Ministry of Internal Affairs and Communications (MIC) has formed a Study Group for the Future Vision of the Universal Service System. Only three groups out of sixteen that filed public comments on March 2, 2007 regarding this study group were not telecommunications service providers (MIC, website). Disabilities groups such as the Japanese Federation of the Deaf and a consumer group called Shufuren filed public comments on the universal service debate. The former wanted a debate on the universal accessibility of relay services and the latter wanted to reform the universal service system because the current system collects a universal service fee from all end-users. The MIC also collected public comments for the Report on the Future Universal Service Vision from October 5 to November 5, 2007 (MIC, website). A total of 14 public comments were filed, but none of them were filed by citizen groups, education groups, or consumer groups. Most of them were filed by telecommunications companies such as NTT Docomo and KDDI. The exception was one filed by Nippon Keidanren (Japan Business Federation; a comprehensive economic organization). Of course, there is a difference between political institutions in the U.S. and Japan. However, from these statistics, it appears that the voice from non-telecommunications groups in Japan regarding universal service is much weaker than in the U.S.

As explained above, in the U.S., there are diverse constituencies on universal service policy. Moreover, most are new participants in the telecommunications policy network although they have been very active political actors in other policy areas. Especially, education groups and the ALA have mobilized a large grassroots movement, cooperating with community based organizations as well as rural health care providers. We can see this political activity not only on the federal level but also in some states. In California, the California Public Utility Commission (CPUC) established the California Teleconnect Fund (CTF) by Decision 96-10-066 on October 25, 1996. The CPUC decision was mandated by the FCC perspective on expanded universal service under the Telecommunications Act of 1996 (CPUC website). Since then, schools and libraries as well as community based organizations and rural health care providers have had frequent contact with the CPUC. They attend advisory committee meetings of the CTF as representatives from their organizations and debate what kind of new technology should be incorporated into CTF programs.

Of course, not all Americans know that they are charged for universal service fees and the issue may not be as popular as environmental policy (such as water pollution) or the Iraq War. Nevertheless, the number of groups that filed public comments put into relief the paucity of participants in the universal service policy debate in Japan. In conclusion, it is very important that a diverse range of interest groups affect the substance of universal service policy in the U.S. In Japan, it is

easy to say that we should avoid expanding the universal service fund like in the U.S. However, before that, we may need to think about the reasons that cause national differences in the debate. Considering the market situation and political infrastructure is not sufficient to compare the Japanese policy-making process with the American one. We should pay more attention to the fact that there is a diverse constituency and that the voices from non-telecommunications service providers are quite important in the policy debate in the U.S. The new groups cause more complicated interest antagonism, but they are vital to the current expanded universal service system in the U.S.

Lastly, it should be noted that this study has examined mostly the American universal service policy process. The lack of analysis on the Japanese policy process or a comparative study of political institutions means that I am not yet certain that the telecommunications policy network transformation in the U.S. is the most important factor for the differences in the policy debate with the Japanese case. Nevertheless, this study does suggest the importance of policy network convergence within the universal service policy debate in the U.S.

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# Challenges Facing the Cable Television (CATV) Industry in an Effort to Create Survival Business Models:
## Region-based and Region-expansion Business Strategies and Government Assistance Policies

## by Sayaka SHIOTANI*

## Introduction

This paper explores whether the CATV businesses which have enjoyed governmental protection to date will play a role as part of the information and communication infrastructure in the age of multimedia. This paper also examines whether the expansion model and region-based services are the right strategies for the CATV industry for its survival, and whether governmental assistance would lead to a viable development of the industry. These issues will be examined in detail below.

There are few preceding empirical research papers on this subject, besides Jitsuzumi & Nakamura (1999 & 2003). Other research papers have touched upon the merging of the broadcasting and telecommunications, the fiercely competitive entry from telecommunication businesses, or support systems, but not in detail. The author and the group involved is now conducting quantitative empirical analysis on the management policy, and will discuss the management policy and the government support system further. As a first step, this paper will recount the recent trends about digitalization and the merging of the broadcasting and telecommunications, and conduct qualitative analysis on the need for an expansion strategy and the direction in which the governmental support system should be headed.

## Overview of the CATV Industry

Japan's CATV industry has developed based on such a business model as retransmission of traditional TV companies' terrestrial waves to each household through cables. Due to its role retransmitting terrestrial waves to areas where

people have difficulty in receiving airwaves directly, CATV has enjoyed public assistance including the establishment of a retransmission network which required massive initial investment, assistance for the measures for addressing the difficulty of receiving airwaves and broadcasting services, and preferential tax treatment from central and local governments. In addition, three quarters of CATV operators are mixed public-private entities. This shows that the CATV industry depends on governmental support substantially. This also indicates that CATV businesses tend to take the form of mixed public-private entity in order to receive public assistance.

The background has brought about the situation where more than sixty percent of CATV operators register accumulated losses, which highlights CATV's high dependency on public assistance, while 80 percent of CATV operators register annual profits in recent years (See Table 1). Among CATV operators, there remains a great gap in their size, and their dependency ratio on governmental measures.

Table 1: Financial Situation of CATV Operators

|  | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 |
|---|---|---|---|---|---|---|---|
| Number of operators | 311 | 317 | 314 | 314 | 312 | 310 | 311 |
| Number of operators registering profit in a fiscal year | 196 (63.0%) | 201 (63.4%) | 216 (68.8%) | 242 (77.1%) | 250 (80.1%) | 251 (81.0%) | 245 (78.8%) |
| Number of operators registering accumulated deficits | 236 (75.9%) | 233 (73.5%) | 225 (71.7%) | 214 (68.2%) | 200 (64.1%) | 183 (59.0%) | n.a |

Source: Prepared based on data from "The Report by the Div. of Regional Broadcasting Services, Bureau of Information and Communication Policy, the Ministry of Internal Affairs and Communications" (2004-2007).

CATV subscribers have increased in number in recent years. At the end of the fiscal year 2006, the number of CATV subscribers reached 20.63 million: an increase of 7.7 percent over the previous fiscal year[1]. Against that background, optimists argue that "CATV will play a role as an information and telecommunication infrastructure in the multimedia age"[2], a transformation from its current role as infrastructure which provides a two-way, high-speed, large-volume access network to each household at a low cost. I will examine below whether such a view should hold in reality.

Figure 1: Number of CATV Operators According to Capital Size
(Among 201 Operators)
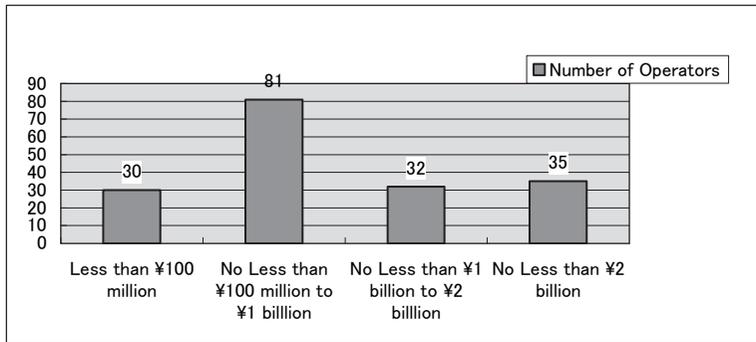


Source: prepared based on "The Report by the Study Group on CATV" (2004).

## Rapid Change in the Environment Surrounding the CATV Industry

*Changes in the Market Environment*

**Increased Competition for CATV**

The CATV industry is undergoing a rapid change in its environment. In the area of broadcasting, satellite digital broadcasting and terrestrial digital broadcasting as multi-channel broadcasting media are expanding. In addition, gas, electrical or railroad operators which have their own track networks are planning to enter the CATV industry[3]. Law Concerning Broadcast on Telecommunications Service, which has been in effect since 2002, provides an opportunity for operators which do not own transmission infrastructure to engage in broadcasting, making use of the existing infrastructure of telecommunications operators. It also provides an opportunity for telecommunications operators to engage in broadcasting services. Since then, telecommunications operators have started the transmission of images, making use of IP technology through FTTH or ADSL(broadband broadcasting services)[4].

It is increasingly important for the management of the CATV industry to expand the transmission infrastructure as much as possible in an effort to adapt itself to the competitive environment. The choice is whether to use hybrid fiber-copper (HFC), as an extension of their own existing transmission networks, or whether to rent FTTH which electronic, railroad, gas, or telecommunication companies such as NTT have already installed. While their own individual investment in HFC could be burdensome for small-size operators, the existing characteristics of CATV, such as closed networking and two-way communications would be maintained. On the other hand, while the use of FTTH would lead to less expense for infrastructure

investment and maintenance fees for CATV operators, it would be difficult to hold onto the existing CATV business model, i.e. retransmission of broadcasting to the limited area through their own transmission network..

**CATV's Entry into the Communications Field**

When broadband services initially started in Japan, the prospects for CATV were considered bright due to its potential as an Internet provider through the existing transmission network, and as a multi-purpose player that bundled telephone, data and video services.  However, the number of Internet users through CATV has stagnated in recent years.  At the end of the fiscal year 2006, the number of CATV Internet users was 385 million. The number of ADSL network subscribers surpassed that of CATV in 2001. The increase ratio of subscribers is higher in FTTH than CATV; many are switching away from the CATV Internet to FTTH[5].

Some reasons can be cited here. First, CATV operators have a disadvantage in their networking capabilities due to the relatively small business size as compared with that of the Internet providers. Second, major providers are conducting energetic sales promotions in an effort to expand ADSL subscribers. Third, CATV operators have not chosen a policy of allowing users to have an option only for the Internet. Fourth, CATV operators have not been able to offer the same level of software programs, as compared with the Internet providers. Fifth, the speed of the existing CATV network is 30 Mbps, which is slower than that of FTTH's 100Mbps.

In addition, CATV operators have a disadvantage in IP telephone services, as long as CATV uses the closed existing regional HFC network, since its free telephone area is limited in scope. The prospect of CATV's IP telephone is not bright, since its limited scope of free services are not attractive for subscribers. On the other hand, IP telephone services thorough ADSL and FTTH have great advantages over those through CATV, since they can offer a wider area for free telephone services due to the nation-wide network.

All the above suggest that, in order for region-based CATV operators to gain added value, it would be essential for them to have a nation-wide network through business partnerships.

**Digitalization of Analog Terrestrial TV Services**

There appears to be some adverse effects that the digitalization of terrestrial TV services may cause to CATV operators. While the effects will not be clear until its actual development, it is often said that terrestrial digital broadcasting services may have advantages in addressing the difficulty of airwave transmission. If that is the case, there would be more likelihood that the areas now having difficulty in clear reception of terrestrial analog TV airwaves could receive clear airwaves directly. The costs of addressing the difficulty in reception of TV airwaves, which, in turn, have accounted for the CATV operators' revenues in large part, might be affected

if a majority of CATV viewers in the regions where they face difficulty in receiving terrestrial airwave would switch to direct digitalized broadcasting services. In addition, since the digitalization makes more multi-channeled broadcasting services possible than now available, there would be no incentive for consumers to continue to subscribe a set sales of 20 channeled broadcasting services which CATV operators supply today. In sum, the digitalization of terrestrial TV services could result in fundamentally unraveling the basis for CATV operators' business model to date, i.e., the retransmission of terrestrial broadcasting services.

Second, the digitalization of terrestrial TV may trigger the question as to whether the same rule of the analogue broadcasting should apply to CATV in such areas as retransmission[6]. In fact, a question arises as to whether terrestrial TV stations which provide CATV with TV contents should allow digitalized transmission to be transformed into analogue transmission in the area of their affiliated regional broadcasting services. While analogue retransmission would need additional investment, it would not be able to offer subscribers digital TV's added services, and therefore runs counter to a policy of promote digitalization. Thus, in recent years, the terrestrial TV stations have demanded a pass-through[7] system, which does not allow any change in digitalized retransmission by CATV operators. On the other hand, under a pass-through system, the possibility arises as to whether CATV operators would not be able to collect fees from subscribers through the existing set-top boxes, and the subscribers would be more aware of the cost accrued from retransmission of terrestrial broadcasting[8].

**Need to Alleviate a Gap in Reception of TV**

While CATV has so far played a role of alleviating the difficulty faced by a region in terms of clear reception of TV airwaves, this role is coming to an end. The CATV industry, which has enjoyed a provision of governmental subsidies and assistance in the name of alleviating a gap in receiving TV broadcasting, needs to address its dependent proclivity in the increasingly competitive market.

*Advantage of CATV in Doubt*

As the market environment changes, there arises a question as to whether the existing advantage of CATV will remain intact. In the following, the issues surrounding that question will be considered.

**CATV's Function of Two-way Information Transmission**

The major characteristic of CATV networks is to establish two way information networks with broadband which can be utilized for communication and broadcasting services, through stable copper transmission networks. While terrestrial broadcasting, broadcasting satellite and communications satellite

services have difficulty in providing two-way communication services, CATV can provide video-on-demand services[9], on-line shopping, on-the-household welfare services and the effective dissemination and feedback about regional governmental information in times of natural disaster, with its two-way communication capabilities. However, CATV operators which provide individual broadcasting services have not offered contents which utilize its two-way communication capabilities. Further, broadband broadcasting services which utilize FTTH as a transmission network which possesses stable two-way communication capabilities can become a formidable competitor for CATV.

**Existing Well-Established Transmission Networks**

It is often said that CATV has an advantage in that it employs an existing well-established transmission network system. To be sure, theoretically, the broadband services which utilize ADSL, which has the same characteristics of employing the existing network, can provide two-way communication services. However, unlike FTTH network, it can hardly provide high quality TV image of terrestrial broadcasting, since its networks, i.e., telephone lines, have a limited wavelength available, and are frequently interrupted by other packet data, due to its IP specifications.

On the other hand, since FTTH has a two-way, stable image quality, CATV operators which do not own the existing networks could join the market, renting the FTTH networks. These CATV operators which do not possess the existing networks, could be exempt from costs involving the infrastructure and human resource investment to establish and maintain their own transmission network and develop their own technicians. The CATV operators' advantage of owning their own existing transmission network could be diminished, as the FTTH networks expand.

**Treatment of Network Security and Copyrights**

In view of the network security, it is advantageous for CATV operators to provide secure networks, employing closed transmission networks through copper cable. Therefore, the content owners with copyright can safely provide their contents. Operators using their own fixed networks such as CATV are allowed to deal with copyright issues in a comprehensive manner, while broadband broadcasting service operators employing the IP multi-cast system need to acquire permission from copyright holders individually prior to the transmission, since such broadband services are categorized as telecommunication services under the Copyright Law. This is a very cumbersome process for these broadband providers. Accordingly, unlike eoT.V., and OPCAS, which provide broadcasting services based on the QAM system and obtain retransmission agreements by separating image transmission from IP communication, broadcasting operators using the IP

multi-cast system such as BBTV and Fiber-Plus TV, cannot obtain retransmission agreements from the terrestrial broadcasting service companies, and therefore provide a limited number of channels, as compared with CATV using their own network. The above point symbolizes that the issue of system remains as an obstacle, even if the gap between communication and broadcasting services are narrowed technologically.

On the other hand, a question arises for CATV operators as to how they can address the issue of diluting the closed environment as one of the major CATV features, as they expand their networks, in an effort to engage in the Internet and IP telephone services. Further, CATV operators using FTTH as a retransmission network cannot offer a closed environment. In other words, while it is essential for region-based CATV operators to maintain closed networks, they may face a choice whether or not they should maintain the networks of the closed environment, as the need to expand the networks increases.

**Region-based Transmission**

While CATV's region-based characteristics will be discussed in detail below, it can safely be said that CATV is mostly transmitting governmental and regional information in a one-way direction, therefore does not utilize its unique characteristics of two-way transmission. The establishment of an e-government or e-regional municipality is under process centering upon its communications base. It can also be pointed out that, in an emergency such as an earthquake, CATV's transmission network could be fragile. In addition, as the merger of local authorities proceeds further, there may be discrepancies between the scope of newly merged local authorities and that of the existing CATV business area.

In sum, in a changing environment CATV's advantages such as owning its own transmission network are increasingly put in question, as the communications industry expands its presence in the area of broadcasting under the trend of mergers between the broadcasting and communications businesses. In addition, in the foreseeable future digitalization might fundamentally unravel CATV's core business model, i.e., retransmission of terrestrial TV services. It may be undeniable that, over time, the environment surrounding CATV industry would be increasingly fierce.

On the other hand, while CATV still has an advantage over broadcasting services under the copyright system, other advantages such as two-way transmission or possession of its own transmission networks could be diluted with an expansion of FTTH networks. Furthermore, the advantage of establishing a secure network due to its closed network system could be contradictory to an expansion of its networks. Also, the region-based transmission is not satisfactory. Overall, CATV's advantages are now in doubt.

## Evaluation of the Expansion Strategy and Region-based Strategy

As was discussed in the previous section, in a fast-changing environment the CATV industry is losing its existing advantages or is not in a position to exploit its potential to the fullest. Presently, the CATV industry is facing up to these challenges through expanding its scope of targeted areas and promoting region-based characteristics further. In this section, the seemingly contradictory two directions of strategies, i.e., the expansion of areas and the promotion of its region-based characteristics will be assessed in a qualitative manner. It is hoped that this qualitative approach will serve as a basis for future quantitative approach.

### *Assessment of Expansion Strategy*

#### Inadequate Size of CATV Business

In order for the CATV industry to address today's urgent issues, it is imperative to expand its business size, in that its management resources are exceedingly inadequate in terms of human, financial, and technological resources. These issues include those such as how to promote infrastructure investment to promote digitalization of terrestrial broadcasting, how to compete with broadband broadcasting services, how to introduce advanced security technology, and how to establish a technology development system in order to provide advanced services such as PPV, VOD, dissemination of regional governmental information, or electronic commercial transactions. It may also be beneficial for the CATV industry to expand its business size in an effort to consolidate its customer base, increase commercial revenues, and strengthen its content procurement capabilities through increasing its bargaining power with content providers.

According to Jitsuzumi & Nakamura (1999 & 2003) which assessed CATV's business size and its management effectiveness, it is estimated that the most effective size for the CATV industry is that of 40,000 to 200,000 household subscribers[10]. Presently, the ratio of CATV operators whose subscribers are over 50,000 out of all the members of the Japan CATV Association is merely 20%[11]. Accordingly, a majority of operators do not reach the optimum business size. The promotion of expanding business size is still considered to be an effective business strategy in CATV industry.

#### Various Forms of Expansion: Strengthening of Capital Relations (Merger) or that of Business Partnership

In order to achieve network expansion, besides the business size expansion through strengthening capital relations, there is an approach to promote business partnership through such methods as joint use of head end among CATV operators, merger of reception device infrastructure and an establishment of platform for management, administration, surcharge and certification systems of CATV. While

there may be cases where, in view of management strategy, the promotion of capital relations is considered to be harmful to CATV's region-based characteristics, there may be others where the systematic aspects such as public subsidies to CATV operators have been influential. The CATV industry, where its permit is originally issued to a single operator in a single administrative area, may have cases where the public-owned CATV system, intervention by local authorities, and public support systems adversely affect the expansion strategy, even though deregulation enables CATV operators to expand their target area under a permit system. While there is such an operator as ZTV which materialized its expansion strategy at the time of deregulation, a majority of CATV operators remain relatively small-sized, and stay in a single administrative area. This is reflective of the background aspects described above.

## *Assessing CATV's Role as a Region-based Media*

### Coordinating CATV's Region-based Characteristics and its Expansion Strategy

Various efforts have been underway to coordinate CATV's two seemingly contradictory future directions:the region-based market segmentation approach and comprehensive expansion approach. In some cases, CATV's expanded network has been utilized in order to promote region-based transmission for locally initiated contents. For example, in Oita Prefecture, the idea of "networking CATV operators" has been launched in an effort to share image data among CATV operators and give a stimulus to the region through transmitting locally produced programs to other regions with networking[12]. In Tottori Prefecture, Chukai TV, with governmental assistance, promotes its locally produced programs to a national audience through a communication satellite[13]. In Hokkaido, Obihiro CATV is forming a partnership with a local newspaper, its parent company[14].

### Improving CATV's Region-based Characteristics

As a marketing strategy to improve relations with the region, CATV operators need to enhance their role as media to help promote togetherness as a regional community through regional information transmission. Besides the live broadcasting of local J-League team games and that of local tournaments of high school baseball, there emerge such programs as local lifestyle information programs and local weather forecasting services. In some cases, locally initiated voluntary programs are being broadcasted[15]. Further, CATV can play an information hub role as a clearing house of local information, if CATV's characteristics as a two-way transmission media are utilized. In particular, CATV as a two-way transmission media has great potential in such ways as: the establishment of in-house health management systems through CATV in sanitary, welfare, medical fields; the promotion of information exchanges and life-long education by linking various

advanced educational institutions and research institutes; the expedited information dissemination system in cases of natural disasters; and the industrial promotion through promoting governmental information. While it cannot be safely said that the CATV has managed to exploit its two-way transmission capabilities in providing its contents, it is indispensable for CATV to offer region-based contents through fully utilizing its two-way transmission capabilities, in an effort to distinguish itself from other media or providers.

In summary, since CATV operators have not reached their optimum business size, the business expansion is still an effective management strategy. CATV operators need to face up to challenges of promoting region-based characteristics and expand their network and business at the same time.

## Public Assistance to the CATV Industry

Government assistance has played an important role in the CATV industry. In fact, in view of the public interest that information and communications infrastructure should be established, and that regional disparities should be addressed including areas of difficult transmission, the central and local governments have provided various forms of assistance to the CATV industry.

However, as the CATV industry transforms itself towards more expansion and promotion of its regional character, the assistance policy should be changed as well. Subsidies to projects where there is no particular justification should not be continued. Even if there is reasonable ground for governmental assistance, such assistance should not be rendered to CATV operators in areas where the nature and scope of such assistance address the difficulties which their managers themselves should be responsible for. Such assistance may result in inefficient management and misplaced management strategies.

This chapter will consider the merits and demerits of governmental assistance policies as a first step in discussion of the assistance policies. It is hoped that this deliberation will pave the way for the forthcoming, specific recommendations.

### *The State of Play*

First, in regard to the public nature of CATV, Specific Rate Support Grants are provided by the Ministry of Internal Affairs and Communications to local authorities in order to make up for the expenses of governmental information programs, based on a judgment that programs such as live broadcasting of parliamentary deliberations are intrinsically public in nature. In view of alleviating regional disparities in the broadcasting infrastructure, preferential financial and tax treatment are provided to CATV operators including mixed public-private entities, by the Ministry of Internal Affairs and Communications. In cases where local

authorities engage in the CATV business through general account budgets, rather than the establishment of the mixed public-private entities, they are designated as "a project for enhancing regional information and communication", and bonds for stimulating the regional economy and for budget appropriations are provided. In addition, subsidies are granted to local authorities and agricultural cooperatives by the central government (the Ministry of Agriculture, Forestry and Fisheries) for those projects designated as "a project for enhancing regional information and communication".

Figure 2: The Ratio of Government Support in the Capital of CATV Operators
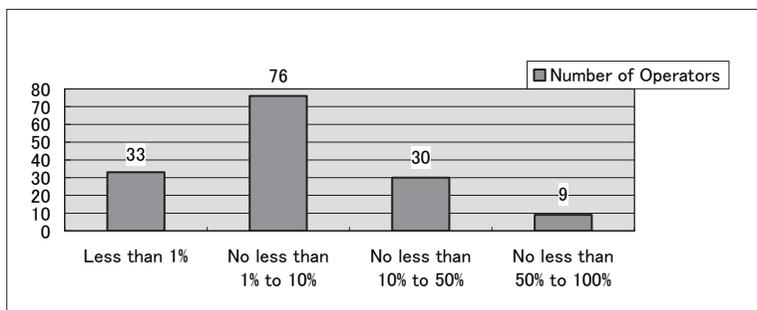


Source: prepared based on "The Report by the Study Group on CATV" (2004).

*Issues of Governmental Assistance System and the Directions for Reform*

The governmental assistance system is one of the measures that are available to the government to intervene in the market to make sure that goods and services are provided below market prices. Thus, there should be justifiable reasons for the government to intervene in the market with subsidies. Due to the limited scope of this paper, detailed deliberations about the adequacy of the governmental assistance will be discussed in other publications. For these deliberations, two aspects of the external effects and income redistribution effects should be mentioned.

As for the external effects, there may be regional development effects, which may be considered as common elements in regional infrastructure industries such as communications and broadcasting services. These effects, however, are commonly seen in broadcasting and communications services, and are not unique to CATV, since, there exist other services such as CS, BS and broadband broadcasting services,today.

As to redistribution effects deriving from the universal nature and scope of services, since the measures for universal services in broadcasting and

communications services are seen not only in CATV but also in CS, BS, broadband and other various broadcasting services, it would be difficult to justify such indirect income transfers which are only available for CATV, not equally applicable to other services.

Second, the current governmental assistance system has a problem that the assistance is basically limited to local authorities and mixed public-private entities. This would create a bias that the CATV business is prone to take a managerial form of public sector, and lead to a decreased managerial effectiveness through the fixed form of CATV business entities, and create a disincentive against mergers and acquisitions toward the expansion of CATV business size. There is no particular need to limit CATV-related subsidies to the public sectors. In other fields such as bus and railroads, private operators are also granted subsidies.

Third, there is a question whether the individual CATV-related subsidies system according to governmental jurisdiction such as that of the Ministry of Internal Affairs and Communications and that of the Ministry of Agriculture, Forestry and Fisheries would adversely affect comprehensive and effective assistance.

Fourth, under the current governmental assistance system, subsidies and low-interest loans mostly take the form of capital subsidies that can be only applicable to infrastructure investment. The subsidies only available for infrastructure could create a bias toward unnecessarily redundant infrastructure investment and adversely affect optimum resource allocation.

In view of the above, there emerges a prospective direction for reform: a change to a system where, instead of ministry-based subsidies, government subsidies shall be incorporated into the Rate Support Grant, and local authorities can select the most efficient operators or services. In other words, it is important to leave local authorities with options to choose high-speed communications services that they prefer including CATV, and provide the sort of assistance (including pubic subsidies or tax preferences) that is necessary. In a reformed system, an option utilizing subsidies to promote village relocations may be available for local authorities in their efforts to take steps to lower costs.

Such a reform, by enabling local authorities to select which management form or operators to which  they should provide assistance, would eliminate biased distributions of subsidies according to different forms of management of CATV operators and induce more competition among media and operators. As competition grows with other communications operators, it is about time for CATV operators to start its own soul-searching in an effort to survive through self-help effort, instead of sticking to the status quo and depending on governmental assistance.

## Conclusion

The qualitative analysis above was offered regarding CATV's strategic agenda and the assistance policy to the CATV industry. The author and the author's group intend to shed more light on these issues through the on going research. Some of the most important issues about the CATV's forthcoming business model include: further substantiation on the expansion-model hypothesis through hearings with individual CATV operators and quantitative analysis on their management; proposals for management strategies which synthesize the seemingly contradictory directions, i.e., the expansion-model strategy and region-based approach; and proposals for specific public assistance policies towards the CATV industry.

First of all, as digitalization expands, there is a need to proceed with the quantitative analysis on the effectiveness of the approach toward the economy of scale through mergers and acquisitions among CATV operators, taking into account a developments since Jitsuzumi & Nakamura (2003) which utilized data from 1997. While a clear direction is yet to be seen on questions such as how far the CATV's expansion should be promoted, and whether such an expansion strategy should be conducted through the strengthening of capital-to-capital relations such as mergers and acquisitions, or the alliance partnership should be promoted by way of further rationalization of operations, these questions are to be further considered based on hearings with individual operators and corporations.

In addition, while the region-based approach is not a clearly defined concept, it is desirable that this concept be clearly delineated, if possible, based on the quantitative approach. MSO's management strategy should be discussed distinctively, while, in this paper, this strategy is referred to as a part of the expansion strategy.

Furthermore, the public assistance policy should be given further consideration in an effort to review the justifications of such an assistance policy, and the ways to identify policies that give incentives to more effective management and to prevent the misuse of public subsidies, based on the real management data should be explored.

## NOTES

1. Regional Broadcasting Division, Information and Communications Policy Bureau (2007). The number would be increased to 28.75 million households (a 4.8% increase over the previous fiscal year), with an addition of households which subscribe only to retransmission of airwaves.

2. Regional Broadcasting Division, Information and Communications Policy Bureau (2002)

3. For example, Tepco Cable TV by Tokyo Gas Co..

4. Law Concerning Broadcast on Telecommunications Service enables BBTV based on IP multi- cast through ADSL, Optic plus TV based on IP multicast with FTTH, eoT.V. of Kansai Electronics Co. affiliates based on QAM and OPCAS of Sky Perfect TV affiliates based on QAM. Among these media services, eoT.V. and OPCAS provide similar services to CATV in that they retransmit terrestrial and satellite broadcasting.

5. As of November, 2003, 24% of CATV subscribers switched from CATV to FTTH (Ministry of Internal Affairs and Communications (2004)).

6. Cable Television Broadcast Law (1972) introduced the retransmission agreement system in an effort to create an order in which terrestrial TV services and CATV coexist. With a retransmission agreement required, the law aimed at preventing an unauthorized change in the contents of terrestrial TV services. On the other hand, in cases where CATV operators are not able to obtain a retransmission agreement of terrestrial TV companies, according to Article 13 of the Cable Television Broadcast Law, the compulsory system of arbitration by the Minister of Post and Communications (Internal Affairs and Communications) was introduced in May, 1986.

7. "Pass through" is a system where broadcast signals received by airwaves can transmit to the CATV system the same broadcast signals, with the same or changed wavelengths.

8. Mori (2004).

9. At the same time, *Satellite & CATV*, March 2005, points out that there is no successful business model for VOD, in its special edition titled "Starting VOD Services".

10. Jitsuzumi & Nakamura (1999 & 2003).

11. Study Group on CATV (2004).

12. Handa (2004).

13. "Satellite and Communications Co." is a mixed public-private company established by Chukai TV. It was established with initial capital of ¥31 million in 1998, with the help of government funding. It received ¥30 million in loans as a result of its designation under the Promotion of Creative Activities of Tottori Prefecture, and ¥390 million in loans for subsidies under a scheme of the Promotion of Establishing Infrastructure of Advanced Application.  In

addition, its capital was increased to ¥230 million, since it received additional funding from the Telecommunications Venture Investment Association, and as a result it was designated as an applicable new enterprise under the "Promotion of Developing Specific Communication and Broadcasting Services Law" by the Ministry of Internal Affairs and Communications. With the help of this support, the company aims at nation-wide broadcasting and networking ("*Satellite and CATV*", January, 2005, pp. 40-41).

14. "*Satellite and CATV*", August, 2004, pp. 53-57.
15. Chukai TV case is a good example (Takahashi (2004)).

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## Contents

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