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THE POLITICAL AND INSTITUTIONAL CONTEXT OF COMMUNICATIONS POLICY

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ABSTRACT

Throughout the industrialized world, domestic policies concerning the communications sector are changing rapidly. Yet the methods and directions of change have been quite diverse. The purpose of this paper is to examine how the institutional history of communications in each country, together with the country's political structure, is likely to affect the direction, speed and permanency of reform.

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1. INTRODUCTION

All nations, regardless of how their political and economic systems are organized, exercise considerable political control over the communications sector. In all but a few countries, ministries or government enterprises provide broadcast and telecommunications services, and even in countries that rely upon the private sector to supply such services, government bureaus exercise considerably control over the industry.

For technical and economic reasons discussed in this book, communications policy is undergoing transition and reevaluation in most developed countries. Whether deregulation, privatization, or decentralization, change is everywhere apparent. Yet each country has relatively little experience with alternative institutional arrangements of the communications sector. One potentially valuable use of international comparative studies is to provide a more comprehensive analysis of the relationship between the performance of policy alternatives and the institutional and political environment in which they must be embedded. This can provide some basis for

constructing reasonable, informed expectations about the likely consequences of changes in domestic policies in the absence of any domestic experience or evidence that is directly pertinent.

With opportunity, however, comes danger, for international comparative studies inspect institutions and performance in diverse political settings. To the extent that the performance of the communications sector depends in subtle ways upon the interactions between political institutions and market organization, these factors must be taken into account in comparative analysis.

The purpose of this chapter is to provide a general conceptual framework for examining the role of political and institutional structure in shaping the performance of the communications sector. The ultimate objective is to contribute to enhancing our understanding of the factors that affect the growth and direction of levers available to public decision-makers. The more proximate objective is to provide a framework for organizing data collection and analysis that will enable us to ask and answer the right questions about how institutions-- political and economic--affect the performance of the industry: the efficiency of the price signals it sends to its customers; the extent to which its services match the economic and other demands of the society; the efficiency of its technology and the rate at which it innovates; and the distributional gainers and losers from its operations and practices.

Successful international comparisons for the purposes of examining the relationships between institutions and performance depend on

solving a number of difficult data problems. Most obvious are those related to basic economic and technical variables. Prices, costs and quantities of service must be measured consistently through time and between countries. In addition, data must be collected in a way that enables some measurement of the extent to which accounting practices within each country not only affect data comparability, but create incentives affecting the truthful revelation of accurate information-- and even the technical choices among methods of delivering services (and, therefore, indirectly the costs of providing service). These problems, discussed more completely in this volume by Bridger Mitchell, illustrate one important way--but not the way examined in this chapter--that institutional arrangements and practices affect performance.

The remainder of this chapter examines other connections between institutional arrangements and performance. The principal working hypothesis is that the performance of the communications sector-- indeed, of any part of the economy--depends upon the political and economic environment in which it operates. Here the political and economic environment is taken to mean the type of organizations that make decisions affecting prices, technology, service, and other important variables; the relationships among these organizations; the rules governing these relationships; and the nature of the process for changing these rules. To understand the process driving the performance of the sector requires an accurate characterization of this environment and a theory for relating these characteristics to

performance. I will divide this task into two components, each of which will be assigned a section in this chapter. Section 2 deals with the supply environment: the range of alternative ways to organize the sector that provides communications services. Section 3 deals with the political environment: how the political system affects the policy choices of political officials and the objectives they seek. This section also discusses interactions between the two: how the supply and political environments interact with one another to shape the performance of the industry.

2. CHARACTERIZING THE SUPPLY STRUCTURE

Numerous economic variables are likely to be associated with the performance of the communications sector, regardless of its institutional structure. These obviously must be taken into account in any assessment of the sector's performance. Among these are macroeconomic conditions, the country's trade policies, and the state of the country's technical know-how. But the importance of communications arises in part because these variables are also affected by the performance of the sector, which in turn is affected by the sector's structural characteristics. The two most important structural characteristics are the organizational forms of the participants, and the number and ease of entry of suppliers.

The range of structural possibilities can be relatively easily comprehended by depicting it in a two-dimensional diagram (Figure 1). The vertical axis represents ease of entry as an institutional (rather

than technical) variable. That is, it measures the extent to which government policy is favorable to entry. The origin represents a government policy that prohibits entry. The upper bound of the vertical axis represents an absence of policies that inhibit entry, combined with policies, like antitrust, that attempt to prevent entry-foreclosing strategies of incumbents (except through superior efficiency).

The horizontal axis arrays the various institutional forms and market structures that might develop. In reality, this dimension collapses two quite distinct concepts into one measure. The first is the traditional market structure variable: how many entities operate in the market. The second is the degree of reliance on the private sector versus direct government control. These two concepts are amenable to combination because of their high degree of correlation. Specifically, one rarely finds government ownership combined with a multiorganizational structure, nor separate regulatory institutions for overseeing either ministries or competitive private industry. Nevertheless, there are exceptions: Australia's competing airlines (one private, one public); the Postal Rate Commission, which regulates the United States Postal Service, a government corporation that is a monopolist in many services, but faces unregulated competitors in express service and small package delivery; and economic regulation of trucking in several countries. Here the exposition in two dimensions is for ease of representation and the approximate accuracy it brings to the organizational choices that have emerged in the communications

sector. On the horizontal axis, by combining the degree of concentration of the supply of service and the extent of direct government, we are measuring the degree of government involvement in the management of firms in the industry.

The principal use of the diagram is as a device for analyzing alternative forms of industry organization in terms of the extent to which they are subject to effective political control. The origin represents the minimum in structure and the maximum of political control: the ministerial department that provides a monopoly service from which potential competitors are banned. Next along the horizontal axis come other monopolistic forms that have less direct political control: the independent government corporation, like the BBC before entry was permitted by private competitors, and the private regulated monopoly, such as AT&T in the United States before the precompetitive regulatory and court decisions of the 1970s.

To explicate the meaning of the diagram, several well-known organizations in the communications sectors have been located on it. In each case, these organizations have been located twice--in an "early" and "late" incarnation, where the intervening period covers the changes between, say, the 1950s and the 1980s. Undertaking this exercise, of course, emphasizes the extent of the transition that the communications sector is now experiencing. The general tendency is a movement away from the origin in both dimensions--toward more competition.

As entry becomes easier, and the number of firms increases, two

phenomena occur. First, the number and diversity of competitors make the industry more difficult to control politically because of the sheer magnitude of the attendant informational and enforcement problems. Second, the competitive interactions among firms give the political actors less opportunity to alter their performance in directed, politically useful ways. A competitive environment creates less slack (monopoly profits or inefficiencies of operation) that can be redistributed politically. The least potential for political control resides in the upper right-hand portion of the figure, where numerous organizations supply service and entry is easy.

The theoretical significance of these two dimensions is sufficiently straightforward to be quickly summarized. Economic theory postulates that private firms seek to maximize profits; bureaucratic theory posits the maximization of bureau size and authority (Downs, 1967; Niskanen, 1971; Wildovsky, 1964). The profit motive is derived from the objectives of private sources of capital to the firm, which are transmitted through the incentive structure of the firm: profit-seeking behavior by employees at all levels is rewarded. The desire to increase bureau size and authority is derived from the incentives of bureau managers, whose power and rewards are positively related to the importance of the bureau. For private firms and for bureaus facing an elastic demand curve, these motives produce technical efficiency--the organization will minimize costs for whatever level of service it provides (Baumol, 1967). For bureaus facing inelastic demand, bureau size (measured by inputs) is maximized by adopting cost-enhancing

technologies--means of providing service that require more inputs. Finally, as discussed by Mitchell elsewhere in this book, the behavior of a bureau, although with some significant and subtle differences that depend on the method chosen for calculating allowed profits and for setting prices.

In all instances, supply organizations are likely to possess information about technology, costs, and demand superior to that commanded by political actors seeking to control the suppliers. The extent of this informational superiority will depend in part on the degree of separation of the supply organization from the means of political control, and in part on the resources government officials allocate to monitoring performance of supply organization (Noll, 1983). The gap is smallest for ministerial agencies, and greatest when a regulatory bureau must cope with a heterogeneous group of competitive, private suppliers. Hence, the possibility for strategic use of information to serve organizational objectives depends on the structure of the supply side of the industry (Noll and Gwen, 1983). Somewhere along the middle of the horizontal axis lies the point at which strategic possibilities are maximal: the structure is not sufficiently competitive for interactions among supply organizations to force efficient operations by eliminating excess profits and inefficient technical choice, but the informational superiority of the suppliers gives them significant autonomy from political control. Entry policy also affects manipulability: easy entry serves as a threat against inefficient operations, whereas precluded entry provides suppliers with

more possibilities for benefiting from information manipulation.

The preceding summary of the theoretical arguments relating structure to performance are focused on so-called static efficiency: given current technical knowledge, how efficiently does an industry operate? Of at least equal significance in the long run is dynamic efficiency: how does the industry perform in developing new technologies that lower costs and/or expand the number of services that produce net societal benefits?

Theory is less well developed about dynamic efficiency, but some propositions have emerged (Klein, 1977; Mansfield, 1977; Nelson and Winter, 1982; Reinganum, 1984). First, the most innovative industries appear to be those with a few highly rivalrous firms in which entry is also relatively easy. Second, large, established firms normally account for relatively steady incremental change, while entrants normally account for radical departures from established technology. Third, in the most progressive industries the rank order of firms by sales, profits and other measures of success tends to be unstable, as do measures of market concentration. Apparently the possibility of experiencing meteoric rises and falls in fortune provides the incentive to maintain a large R&D effort and a willingness to innovate and take risks. Thus, relatively free entry, in the absence of controls on market shares, and some degree of significant competition all appear to be important factors affecting technical progress. Nevertheless, there are important exceptions, so that such generalizations must be hedged. In the United States, for example, telecommunications was monopolized

from approximately World War I until the early 1970s; technical progress, however, was quite rapid. On the other hand, the period of concentration (recent years and the period before World War I) also experienced high rates of progress (Brock, 1981). Whether progress was more or less rapid during the period of monopoly is an issue on which there is relatively little information, and which is not likely ever to be convincingly resolved. Technical progress also appears to have been quite rapid in Japan, which has had monopolized service but rivalrous equipment manufacturing with some political entry barriers, the latter due to the practices of the Ministry of International Trade and Industry, but with a general movement in the direction of more competition. The general guideline relating structural aspects of the supply side to performance appear to be as follows. Whereas monopoly and foreclosed entry hold the possibility of capturing economies of scale and scope and of exercising closer political control, they increase the opportunities for monopolistic inefficiencies and probably, on balance, mitigate against dynamic efficiency. Rivalry among large firms with easy entry probably enhances short-run and long-run efficiency, but attenuates political control.

3. CHARACTERIZING THE POLITICAL STRUCTURE

The preceding analysis discussed the relationship between the supply structure and the feasibility of political control, but without mentioning what political control might be used to achieve. Obviously, political actions can serve numerous goals relating to economic

efficiency, equity, social cohesion, and technical progress, not to mention narrower, self-interested political objectives of politicians. The purpose of this section is to outline the various political objectives that might develop, and how they are likely to be related to the political structure of a country--that is, how a country's political institutions may shape its political objectives in communications policy.

In comparison to the microeconomic issues raised in the preceding section, theory is less settled on the question of political behavior. Several approaches are currently in use, and their relative popularity among research scholars varies considerably among countries. Consequently, the presentation here will be eclectic, attempting to summarize the principal arguments of each school of thought. I choose this tactic for two reasons. First, reflecting the state of development of the field, no approach is clearly superior for explaining all facets of political choice, and each can legitimately claim to shed light on some aspect of political behavior. Although I have my preferences regarding where new insights are most likely to be found, there are at present more intuitive than scientific. Second, regardless of the intrinsic scientific merit of alternative approaches, each has faithful adherents who are not likely to be reached by analysis that does not connect to their favored theoretical construct. Consequently, as a framework for inducing more research into international comparative studies of communications policy, this book would unnecessarily limit its potential audience and impact by being

too doctrinaire in the choice of a theoretical framework.

For ease of exposition, political theories are herein divided into four distinct categories. Each is rather broad, encompassing a number of approaches that probably are not comfortable being classified together. These are: Atomistic Democratic Theory; Statist Theory; Pluralist Theory; and Institutional Theory.

3.1 Atomistic Democratic Theory

This class of models of political behavior abstracts from the effects of political institutions and, in many cases, from the presence of serious conflicts of interest. In some cases, it presumes the existence of something called "the public interest," which is the policy that, in a world of complete information and efficient institutions, would be adopted by consensus. In other cases, democratic theory focuses on the positive theory of democratic processes in which there is a stable majority-rule winner (Downs, 1957; Buchanan and Tullock, 1962). These theories are also individualistic, in that normative judgments are based upon consequences in terms of the welfare of the members of the polity. In welfare economics, for example the public interest is derived from a "social welfare function" that is a weighted sum of functions relating individual welfare to consumption and wealth (Bergson, 1966).

Two concepts command most of the attention of this approach. The first is economic efficiency: producing at minimum cost, optimizing the rate of technical change, and providing exactly the right amount of

every commodity and service for which the net consumer benefits from use exceed the net social costs of production. Normatively, efficiency is interesting because of its consistency with the utilitarian objective of the greatest good for the greatest number (e.g. maximizing economic welfare). As a positive theory of political behavior, the argument rests on its internal logic--a move to enhance efficiency is Pareto improving, at least in principle, in that the extra goods from improved efficiency can be divided among all citizens to make everyone better off.

The second dominant concept is distributional equity. Normatively, distributional equity rests on egalitarian or utilitarian foundations; if the latter, it is derived from the plausibility of the assumption that people are roughly equal in their ability to enjoy economic well-being. Positively, both political philosophy and institutionless, one-dimensional (economic welfare) formal positive political theory support the conclusion of egalitarian tendencies. Rawls (1971), for example, argues for the collective rationality of distributional equity as the social norm if distributional questions were decided by citizens before they knew their identities (abilities, inherited status, tastes, etc.).

The economist's normative theory of the democratic state presupposes the separability of the two issues. For example, Samuelson (1954) proposed separating public debate into two issues: the ideal distribution of income, and then, once that is settled, the efficient operation of the economy, both public and private. Unfortunately, of

course, these goals are not separable to the extent that not all distributions of income are consistent with all possible combinations of efficient production of goods and services. Put another way, redistributing income to the desirable extent cannot be achieved without cost, including costs owing to distortions of the incentive structure conveyed through markets. Moreover, to the extent there is disagreement about distributional goals, one must either allow people to attempt to achieve distributional objectives at each significant decision point about allocation, or make the political decision process authoritarian in that some allocative choices are not susceptible to normal democratic influences. In any case, when choices must be made over a set of issues that span more than one dimension (e.g. distribution equity and the quantity of a public good to be provided), majority-rule democracy does not, in general, produce an equilibrium, or even a normatively interesting outcome (Arrow, 1951; McKelvey, 1979).

The usefulness of atomistic democratic theory is not so much that it is an accurate theory of the behavior of political actors, but that it focuses attention on certain summary questions of economic impact. Efficiency and equity (or distributional effects) matter, even if they are not determinative of the policy choice in a concise, utilitarian way. Moreover, much of the public debate--especially as enunciated by civil servants and other analysts--is cast in these terms. Not only economists, but lawyers, engineers, and other professional groups have relatively well developed concepts of efficiency and equity within

their frameworks of analysis. Presumably such "objectivist" input to the political process has value, or else political actors would not actively seek it.

Applied to communications policy, this world view is relatively straightforward. It tends to raise economic efficiency to the level of a social imperative. Judgments among alternative arrangements are made according to their relative efficiency, perhaps with, but more likely without, attention to distributional considerations, although as Feldstein (1972) and Willig and Bailey (1981) show, this latter characteristic is inessential to the basic idea. Moreover, there is often the implicit (rarely explicit) assumption that political processes will produce efficiency if only technical analysts do a good job presenting the facts. This was recently argued, with some caveats, in Breyer's (1981) analysis of regulatory reform in the United States.

The indeterminacy of majority rule undermines democratic theory as a good device for predicting policy; however, it also introduces the opportunity to include the role of political leadership into the example of the debates over slavery and states' rights in the United States in the first half of the nineteenth century, shows how political entrepreneurs made systematic use of the instability of the status quo to enhance their power--and change policy. Although telecommunications issues are not likely to achieve sufficient salience to become the focus of a great national debate, they can be swept along by larger, destabilizing movements like deregulation in the U.S. or decentralization in France, which may be predictable and may (or may

not) lead to performance-enhancing changes in policy.

3.2 Statist Theory

The statist view of national policy-making focuses on the state as a decision-making entity that is separable analytically from its constituent parts. States have sovereignty over geographic areas, organizations and people, and they have objectives that they pursue through combinations of coercion and inducement.

Statist theory is a heterogeneous category of methods of analyzing national policies, sufficiently so that for many purposes the category would be too broad to be useful. Much of this category is essentially political philosophy, asking what a state ought to do, how it ought to do it, and under what conditions it ought to command the loyalty of its citizens; and examining the constitutional and other legal rules of the society to ascertain whether they conform to these normative criteria (see Eckstein, 1979). Other statist approaches view the state as allocating power within the society for the purpose of serving the interests of a particular class or group, as for example Marxist or elitist theories (e.g. Duvall and Freeman, 1983; Lukes, 1974; for more curmudgeonly comparisons of these forms of statist theories with pluralism, to be discussed below, see Manley, 1983, and Polsby, 1980). A similar approach posits that the state is analogous to a business in that it seeks to maximize the wealth and power of state officials (North, 1981). But the most common approach is to assume that the state pursues the "national interest." Among economists, especially of

the Chicago tradition, national interest is usually equated to present and future national income, and the conclusion is to foster internal and external economic liberalism (e.g. Friedman, 1981; Johnson, 1967). Political scientists, however, adopt a broader definition of national interest, incorporating internal and external stability (Howard, 1979) and the positive assertion of national power in the international community (Aron, 1966; Morgenthau, 1948). Indeed, the preeminence of the nation-state as the dominant organizational unit in human society is attributed to its superiority in these largely noneconomic domains (Tilly, 1975). The most significant implication of this work is that the design of optimal policy requires that tradeoffs be made between purely economic values (both national wealth and distributional equity) and the objectives related to power, security and stability (Krasner, 1976; Katzenstein, 1977; Gilpin, 1981). One source of tradeoff is, of course, the direction requirements of the noneconomic objectives, but another is that the state, in order to retain its power and sovereignty, must cut deals with potentially threatening groups of constituents that, in the short run, detract from economic objectives and, perhaps, even objectives relating to international power, but that are essential to retaining internal stability (e.g. Mahon and Mytelka, 1983; Martin, 1979).

The most important unsolved puzzle in all statist theories is the magnitude of the relative weights assigned to various national objectives, and the process by which they are derived. Only Marxists have an explanation for this, which is the linkage between ownership of

the physical resources used in production and the distribution of political power. A critique of this view is not within the scope of this paper; suffice it to say that most scholars find it at best incomplete. In any case, the absence of an endogenous process for establishing national objectives makes empirical research primarily an ex post search for explanations of policy changes, running the risk of spurious correlation and tautological argument. Another difficulty is the absence of much concrete analysis about the connections between state actions and internal stability: e.g. how, specifically, does a particular domestic policy affect the legitimacy of the state's claim to loyalty from the citizenry?

Because of the incomplete state of development of statist theory, it is hazardous to use it to predict a policy environment for any sector on the basis of expected economic, technological and political changes. But this may be due to the nascent stage of development of the theory when applied to domestic economic policies, rather than necessarily the absence of intrinsic merit in the approach. In any case, the form of the analysis would be as follows.

To explain developments in an area of microeconomic policy, such as communications, statist theory indicates that the relevant facts are the linkages between the sector and policy, on the one hand, and the purpose of the state on the other. Policy will favor the enhancement of groups and sectors that are viewed as essential to the maintenance of state power, internal stability, and the structure that supports it, as well as of national wealth. An industry that could become an

important source of political instability will be protected if it is inefficient in world markets, and in any case it will not be seriously tinkered with unless it is threatened with decline. An industry that is seen as potentially threatening to the established state structure will be constrained or even prohibited, regardless of the economic growth potential it provides.

Telecommunications and broadcasting are important to the state because of the role of communications in maintaining social cohesion and the importance of communications systems and technologies to national security and the rest of the economic system. Hence, statist view as natural a persistent government policy to promote the sector, including its protection against domination by foreigners or potentially disruptive internal groups. The purpose of government policy will be threefold: to assure that the sector does not become a barrier to the development of other favored economic activities; to promote developments that support the state's overall economic and political objectives; and to make sure that the use of the communications network is consistent with the goal of promoting state social and cultural interests.

Superficially, privatization and deregulation appear inconsistent with statist doctrine; however, this is not necessarily the case. Both are consistent with state interests if the state is certain that forces supportive of the state will control them. A trend toward these policies, then, would be viewed as caused by increasing confidence by

the state in the supportiveness of the groups that would control the sector.

3.3 Pluralist Theory

The pluralists might otherwise be regarded as a type of atomistic democratic theorists. Their focus is on the aggregation of individuals by economic interests, with explicit recognition that interests are in conflict and that different interests may be represented in the political system with differing degrees of effectiveness. As used here, the term refers to political theories that are individualistic (although they may never disaggregate the population further than by economic interest groups), that focus on the resolution of conflicts of interest, but that are stripped of significant attention to the role of most political institutions--as also are the two preceding theoretical schools.

Pluralists are also a heterogeneous lot, so this category should be viewed as quite loose. Some pluralists are antireductionist sociologists who would reject my calling this school individualistic, for they regard the disaggregation of interest groups into individual members as necessarily entailing a significant loss in the potential explanatory power of group behavior. Nevertheless, they would agree that the group acts to achieve self-interested ends for its members, and in this sense the theory is individualistic. Other pluralists are economists who build theories of group behavior by using game theory to analyze the interactions of members of the group (Olson,

1965). Some pluralists also believe that the policy emanating from interest-group interactions has important normative significance--a political legitimacy arising from the legitimacy of the process that produced it, such as a democratic political process (Bentley, 1908). Others take a less sanguine view, analyzing perversities of the solutions to interest-group games. These include Dahl (1982) and Lindblom (1977), who are explicitly pluralist; and Becker (1983), Stigler (1971) and Peltzman (1976), who exemplify the closely analogous Chicago school of public policy-making.

The basic structure of pluralist theories is largely the same for all, and easily characterized. Each group in the political process can be viewed as receiving some payoff from every contemplated movement of public policy, and in particular of having a most desired direction for policy to move--the direction with the highest payoff to the group. In addition, each group has a cost of effective representation of its cause in the political process. These costs depend on the difficulty of organizing the group, getting its members to support group activities, and reaching a group consensus on how the group activities, and reaching a group consensus on how the group should act. Holding the total stakes of each group member constant, these costs should increase with the size and heterogeneity of interest of the group, because smaller groups face less difficulty in preventing some members from free riding on others and in reaching agreement on the group's methods and objectives. The amount of political force a group can bring to bear on policy is then the difference between its stakes and

its costs of maintaining cohesion. The policy outcome is the policy position where the forces being applied by all groups in different directions are mutually cancelling. Hence, to measure the likely policy outcome, pluralist theory instructs us to measure the stakes, organization, membership and effectiveness of the interests participating in the debate. And in particular, one group that can normally be ignored is the general public in the role of final consumer. The wealth and income side of each person's interests is more effectively organized than the expenditure side because of the diffuse, heterogeneous nature of the latter.

In terms of industrial policies, the pluralist school leads to the view that policy will work to preserve the existing sources and distribution of income, and to enhance the position of the groups already advantaged. This means relative passivity to expanding sectors, but protectionist interventions for contracting ones, especially if the latter are unionized and highly concentrated so that a few powerful, well-organized groups are exerting force on the political system. Applied to the communications sector, the outcome is not theoretically predetermined, for the sector has conflicting characteristics. It is rapidly expanding, so the welfare of existing interests is not usually threatened; however, it is also highly concentrated, and thus present workers and owners, especially if organized effectively, have a strong incentive to lobby for prohibitions against entry that will enable them to extract additional gains from expansion. The outcome, according to the pluralist view,

should depend on the extent to which the sources of growing demand are organized to offset the demands of the industry for entry controls.

Another group that pluralists predict will have limited influence is foreign producers, because of their truncated opportunities for political participation. Free trade in an industry comes about only under two conditions: either the industry is too poorly organized (or so advanced technically) that the net gains of working for protection (e.g. the difference between reduced sales by foreigners and the costs of obtaining political intervention) are not positive; or other, better organized industries with extensive foreign markets fear retaliation if the first industry is protected, and work to offset the political activities in support of protection. This would require some natural political or technical linkage between the two industries.

In the case of communications, the likely result is protection, especially if the most important linkage industries (computers, electronics) are weak, seek protection, and so do not have a big stake in foreign sales. Only a very inefficient communications sector, combined with a well organized, long-suffering user group, could be expected to offset this coalition.

3.4 Institutional Theory

The new institutionalists take the position that the details of the political system--its rules and organization--matter in terms of the development of public policy. Like pluralists, institutionalist theories tend to be individualistic, seeing policy as the result of

individual actions and as evaluated by individual effects. They also incorporate interest-group behavior into their models, and sometimes other, more general democratic forces (such as those outlined in atomistic democratic theories). But the key point is that the incentives and actions of groups and individuals are filtered through an explicit analysis of the effects of institutions. The defining idea of the school is that policy is the result of the incentives operating on political officials, and that these incentives are the result of interactions between the political activities of constituents and the political institutions through which these activities must be channeled.

One focus of institutional analysis is the importance of the electoral system: the "electoral connection" between citizens and policy makers (Fiorina, 1977; Fiorina and Noll, 1979). The object of this analysis is to examine how the method of electing the government affects the way politicians make policy.

For simplicity, consider two questions concerning how the government is elected. One is the autonomy of the legislative and executive politicians. At one extreme, parliamentary systems do not have autonomous, independent legislative and executive branches; the parliament serves both functions, so that the individual members cannot disassociate themselves from party and policy, whether of the government or of the opposition. At the other extreme is the United States government, with its separation of the legislative and executive branch (with separate elections) and further separation of the

legislative branch into two coequal houses. Here a legislator is independent of the executive, and, as one decision-maker amongst many independent agents, can hardly be held accountable for the general state of policy emanating from government.

The second dimension of governmental structure is the nature of the constituencies from which legislators are elected. The extreme cases here are nationwide proportional representation and single-member geographic districts. In the former voters cast ballots for parties, and parties run ordered lists of candidates for the legislature. The share of the party's representation is determined by its share of the total vote, and candidates on the party list are declared elected down to the point at which the party's legislative seats are exhausted. In the latter, each party nominates a candidate to fill a legislative seat representing a specific constituency. The ultimate winner can be either the candidate with a plurality of the vote in the first election, or the eventual majority winner after a sequence of runoffs.

Both of these structural characteristics are illustrated in Figure 2, in which several legislative bodies are located for expositional purposes. The degree of legislative autonomy is the most difficult concept to grasp, and then to measure, for it depends on the rules governing the relationship between the branches of government. In France, for example, the branches are separate, but the legislature is relatively weak because the executive can dictate the legislative agenda. In most nations that practice separation of powers, the legislature controls its own agenda. Proposals from the executive

branch have no standing unless introduced by a legislator, and even then have no precedence over other proposals that have been introduced.

The significance of these factors is in the incentives and political behavior that they induce upon voters and legislators. Generally, as a nation moves upwards and to the right from the origin in Figure 2, the legislature is more likely to respond to pluralist demand for special-interest legislation. Under nationwide proportional representation, legislators do not receive personal votes, and hence their ability to build an independent base of support--separate from the party--is vastly limited. Only at the level of the national party will interest groups gain recognition. And because specific industries or narrow economic interests are likely to be too small to provide a large enough electoral base to support a party, particularism is manifested through parties that represent either much larger affinity groups--labor, religious groups, ethnic groups, ideological groups--or broad coalitions of economic interest (Barry, 1975). By contrast, the smallest support constituency for a legislator occurs in single-member districts in which elections are decided by plurality. Here a legislator represents a tiny fraction of the total population, and need not win even half of the vote to be elected. At this level, narrow economic interests are far more likely to be the deciding force in legislative elections, as analyzed in Cox, McCubbins and Sullivan (1983).

The significance of the autonomy dimension is in the ability of the legislature to carry out the preferred policies of its members

against the wishes of the executive. In parliamentary systems, the conflict between the legislative and executive branches is minimized because the latter are chosen by the former, and in any case individual members have little opportunity to act autonomously. But an autonomous legislature representing narrow constituencies has the power and inclination to engage in distributional politics in the most particularistic form--as, for example, the famed "pork barrel" in the American legislature (Ferejohn, 1974; Weingast, Shepsle and Johnson, 1981). Even in Great Britain, the structure of constituencies, despite the relative weakness of individual members, creates some opportunities for a legislator to develop an independent base of strength from the party through the British counterpart to pork barrel, called "dust bin" politics, as documented by Cain, Ferejohn and Fiorina (1983).

In the pure pluralist model, the political equilibrium is for a degree of politics that actually reduces national income and wealth. The reason is that each group sees only its share of taxation as the cost of its favored program, but captures the full benefit. Interaction among interest groups seeking special favors, when modeled as a noncooperative game, leads to a prisoner's dilemma situation--an outcome in which all would be better off if no group received favors, but each group is better off joining the winning distributive coalition than attempting to undermine it. This situation is broken only when the degree of inefficiency of the distributive equilibrium is so great that the cost share of each group in its own program exceeds its benefits to that group (Weingast, 1979), or when the national costs of

distributive politics cause a political demand to alter the electoral institutions, such as a switch to proportional representation (Rogowski, 1984). Because these are rather loose constraints, legislatures located in the upper right-hand portion of Figure 2 will be relatively free to engage in highly inefficient distributive programs.

By contrast, party-list legislators and separately elected chief executives must win a large national coalition. Consequently, because they must form a much larger coalition, they have less of an incentive to engage in distributive politics. The reason is that national elections, whether presidential elections or nationwide proportional representation, force candidates and parties to offer simultaneously an entire package of distributive programs which voters must accept or reject as an entirety. This places a far more stringent constraint on the degree of inefficiency of the package: the tax share of the party's coalition must be smaller for all programs together than each group's particular benefit from its own program.

The resolution of the conflict between national political interests, represented by coalitions, parties and chief executives, and particularistic interests, as represented by autonomous legislators who represent narrow constituencies, is decided by the relative power of the two forces. Hence the rationale for the conclusion that the least degree of distributive politics is found in systems located at the origin of Figure 2.

Protection of industry, whether through international trade

barriers or internal barriers to competition and free entry, is an example of distributive politics. It provides income and wealth to the favored economic interest, but reduces production efficiency. Consequently, the extent to which an industry-specific policy becomes protectionist should depend on the political structure of the country. The same telecommunications industry organization, for example, should produce distinctly different results in, say, the United States, France and the Netherlands. Moreover, if change does occur in the direction of less protectionism, its source is more likely to be in the executive branch and among party leaders than among legislators in any country in which constituencies are relatively small in legislative elections. For example, in the United States, both Democrat Jimmy Carter and Republican Ronald Reagan were instigators of economic deregulation, and in both cases moved substantially faster than Congress wanted or would have on its own (Derthick and Quirk, 1984). The engine of change was executive appointments to regulatory bureaus and executive court actions, like the AT&T antitrust case.

The second institutional factor affecting policy is organizational: the forms of the organizations that connect policy makers to private industry. In part, this was discussed above in the analysis of the economic structure of the industry. The political system can exercise maximal control when political actors actually run an industry, as with ministerial public enterprise. This is an example of a more general phenomenon: the ability of the political process to direct economic activity in any area is greatest if the connection

between elected officials and the industry's decision-makers is direct, and does not need to be mediated through another organization, such as a regulatory agency or some other bureau comprised of professional mediators, such as trade associations. Another example, besides ministerial public enterprise, is corporatism as practiced in some European countries and in some Japanese industries. Here government ministries possess the means to control or at least strongly to influence private decisions (such as in controlling credit or the allocation of research), and implement their plans through direct contact with officials of industry. This, of course, is a more attenuated form of control than a ministerial public enterprise. Corporatism is closer in form to an independent public enterprise that must have important elements of its budget approved by the political system (such as the Tennessee Valley Authority or the United States Postal Service).

When intermediating organizations are present, the degree of political control over the target industry depends on the structural features of the intermediating agency. Several factors influence whether the intermediating agency effectively transmits government policy, acts relatively independently of either government or the private sector, or serves largely as a conduit for the interests of the target industry (Noll, 1983).

(1) Is the authority of the agency narrowly defined in law, or does it have a broad instruction to develop policy in an ill-defined public interest? Vague mandates invite autonomous bureaus or capture

by the private sector.

(2) Who runs the organization, and how are they appointed? Do they serve at the pleasure of political leaders (or private groups), or are they long-term, secure employees, such as career civil servants or judges? The latter invites independence, and the development of policy according to the professional norms of the type of people who populate the agency.

(3) What procedures must the organization follow for reaching decisions? Does it bear a difficult burden of proof, or can it act relatively freely of evidentiary requirements? Are its processes open to participation by anyone, or are they closed to groups strongly affected by them, or perhaps even to everyone other than the target industry? Generally, a high evidentiary burden and a relatively open process favor autonomy; a high evidentiary burden and a closed process favor industry (because only industry can supply the evidence needed to support a decision); and a low evidentiary burden makes the process more unpredictable.

(4) Does the intermediating agency possess rich or poor resources relative to the scope of its authority? Understaffed organizations are obviously going to be more dependent on outsiders for direction.

(5) What is the nature of formal, external review of the role of the mediator? Is the organization advisory to political actors and/or industry? Is it decisive, but subject to extensive judicial review? Or is the only check on decisions the response of the political process to its performance? These alternatives are ordered according to

increasing autonomy, of course; the nature of the review will determine whether it tips in favor of political control or industry control.

Industry, for example, is likely to benefit from extensive reviews-- unless the opposition is well organized, such as is the case in matters of environmental policy. But in communications policy in a setting of monopolistic supply, opposition is not likely to be well organized, so that extensive external review opportunities will favor the monopolistic supplier.

In summary, the organizational aspects of institutional analysis deal with the extent to which pluralist and other politically effective interests can attain their ends for reasons related to the structure of the relevant decision-making environment. Of course, political actors probably are in some sense aware of these distinctions; hence their choice of an institutional mechanism for implementing policy will also reflect the political forces giving rise to policy (Fiorina, 1984; McCubbins, forthcoming). To undertake a protectionist policy, but to implement it through an independent organization staffed by, say, economists practicing a norm of efficiency, is to attenuate vastly the protectionist bent of the process. Indeed, in the United States, precisely such a move was undertaken in the 1930s when economists in the United States Treasury were given a key role in determining tariffs (Goldstein, 1983). Thus, it would be a mistake to think of these organizational factors as completely independent in affecting policy. But for analytical purposes, categorizing them separately serves a useful function for understanding how the existing institutional

structure is likely to push policy.

4. CONCLUDING OBSERVATIONS ABOUT COMMUNICATIONS

Suppose that the topic of interest to policy analysis is to examine institutional alternatives in terms of their contributions to national objectives as the latter emerge from democratic or statist theories, but in a setting in which pluralist forces are at work, though with varying degrees of impact owing to institutional factors. We can then offer some hypotheses about how communications policies might evolve and perform using the theoretical perspectives offered in the previous section.

Communications is relatively important sector from both the democratic and statist perspective because individual users derive so much economic well-being from these activities; because telecommunications especially is so important to the development of other sectors of the economy; and because of the role of communications in serving noneconomic national objectives. Thus, from a pluralist perspective, the sector is more likely than others to be the focus of significant political attention from groups other than the suppliers of services. One would not expect a pure protectionist policy to be stable, given the importance of the sector.

Nevertheless, the communications sector tends to be highly concentrated and well organized, so that it, too, should be a potent political force. Because history has brought us to a position of relatively high concentration, movements toward less centralized

control must overcome considerable political inertia. How fast this takes place depends on three things: the extent to which a less centralized regime actually serves interests other than those of the supply side; the institutional structure in which change is taking place; and whether telecommunications can be tied into a currently salient general political issue.

A discussion of the economic and technical merits of decentralized control is beyond the scope of this paper, except to cite the nature of the debate. The technical argument for centralized control is economies of scale and scope: costs allegedly will be lower and service is better if production is centralized. The opposing argument is that in most advanced countries the size and diversity of demand for communications services has long since passed the point at which it is most effectively provided through a centralized structure. More diversity of supply, it is argued, will cause services to be better tailored to specific user needs, and will enhance innovation so that any possible economies of centralization will be more than offset.

Suppose that the argument for greater diversity is technically correct, so that on balance democratic, statist and other pluralist forces will favor it. Then the following *ceteris paribus* hypotheses should flow from some combination of the four theoretical models described here.

(1) The speed of reform should be greater in nations with relatively advanced sectors that make extensive use of the telecommunications system, and that are relatively concentrated or

otherwise politically well organized. For example, nations with strong computer industries should move toward reform more rapidly than nations relying essentially completely on imported computers.

(2) The speed of the reform should be more rapid in countries in which the performance of the industry is least efficient, thereby imposing the greatest cost to users. Of course, in the real world the *ceteris paribus* element is likely to be violated between this and the first hypothesis; countries with highly progressive computer and electronics industries usually have very advanced communications systems that encourage these developments. Nevertheless, the independent effects of an advanced user industry and an advanced supplier industry ought to be in the opposite direction.

(3) The speed of reform should occur more rapidly in countries in which reorganization to improve the performance of the domestic economy is, in some form, a salient political issue.

(4) Countries that are most vulnerable to their position in international trade should evolve more quickly in the direction of efficient reform, as should countries in which there is the strongest demand for national identity, whether expressed as social cohesion or a strong national defense.

(5) Politicians with national constituencies ought to view reform more favorably than leaders with localized constituencies. Thus, in countries with independent executive and legislative branches, the executive branch ought to be more reformist; meanwhile, legislatures composed of representatives from separate geographic constituencies

ought to be the most reluctant to change.

(6) In countries with strong, independent legislators, reform should be more effective the greater is the distance of the legislature from the details of communications policy-making, attenuating particularistic control by pluralist forces. In all societies, creating an intermediating technical bureaucracy between the government and the telecommunications sector should produce a more efficient industry than would a structure in which political control is exercised through direct contacts between political leaders and industry decision-makers.

More generally, the problem of developing effective national interventions by governments at the level of industries and companies is more severe in relatively self-sufficient, diverse societies, and in nations with political structures that tend to fragment decision-making among political leaders with separate constituencies. Effective regulation or industrial policy, therefore, ought to be more difficult in Britain or the United States than, say, in Japan, with West Germany and France in intermediate positions. (But for the same reasons, other types of policies--infrastructure investments, for example--should flourish more in the former.)

These hypotheses provide some insight into why communications was ripe for reform circa 1980. A favorable political climate was created by disruptions in trade and by the deterioration in the economies of advanced industrialized states that began in the 1970s. This gave rise to structural reorganization of the institutions controlling the

economy as a salient political issue. At the same time, the microelectronics revolution substantially increased the demand for communications services, as well as the supply of new, more efficient equipment to provide them. Both factors undermine the political ability of supply organizations to maintain protectionist policies, whether private corporations or public monopolies.

The first condition contributing to the reform environment is far more likely to disappear than the second. A restoration of economic stability and growth would cause the issue of national economic management to slip on the list of salient national political issues. But the relatively balanced conflict between users and suppliers in the communications sector will remain. This conflict should work towards efficient performance as long as the institutional structure makes use of the conflict to guide policy. The primary threat is that the competing interests will reach accommodation and present a united front through merger or a cartel-like agreement. Such a threat is most likely to emerge, again, in relatively self-sufficient, diverse economies with decentralized political systems that maximize pluralist influence.

FOOTNOTE

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FIGURE 2: STRUCTURAL MAP OF NATIONAL POLITICAL SYSTEMS

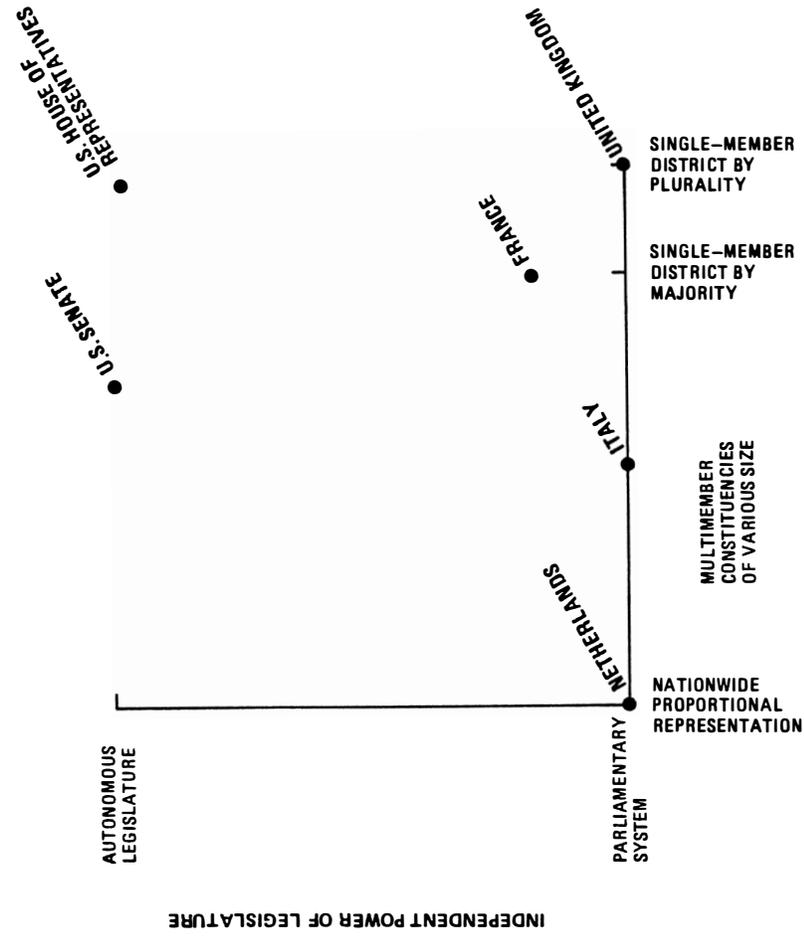


FIGURE 1: STRUCTURAL MAP OF COMMUNICATIONS INDUSTRIES

