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POLICY NETWORKS IN CANADIAN TELECOMMUNICATIONS:  
COLLECTIVE ACTION IN BUSINESS-GOVERNMENT RELATIONS

BY

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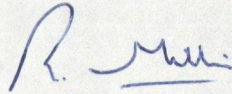
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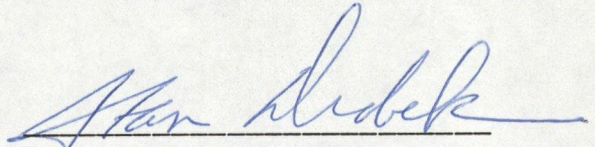


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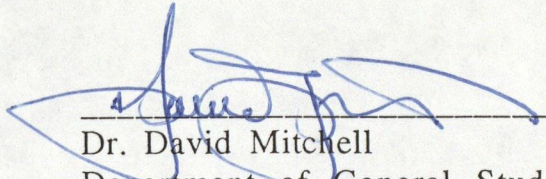
The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled, "Policy Networks in Canadian Telecommunications: Collective Action in Business-Government Relations" submitted by Laureen G. Whyte in partial fulfillment of the requirements for the degree of Master of Arts.



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## *Abstract*

On June 12, 1992 Canada's federal telecommunications regulator granted to Unitel Communications Inc. and B.C. Rail/Lightel permission to compete with monopoly telephone companies in the provision of long-distance telephone service. This decision marks the beginning of fundamental changes in Canadian telecommunications, and is the first major victory for those who believe their interests have not been well-served by a monopolistic market structure. The decision also causes us to question how, after more than one hundred years of control by powerful monopoly telcos, rationality has evolved within the telecommunications policy community to where the argument for some form of competition is now accepted.

This thesis argues that the continued strength of the Canadian telecommunications sector depends on its ability to create mechanisms for consensus-building. It explores the prospects for such mechanisms given the composition of interests that form the policy community, macro-political notions about legitimate state intervention in the economy, and the capacity of business and government to counter the sector's tendency toward fragmentation by rationalizing their policy-making institutions. Using the structural approach to the study of public policy-making, this thesis locates the sources of transition in Canadian telecommunications, particularly as these have altered the distribution of political influence - or 'policy networks' - within the policy community since the early 1970s. The utility of the structural model is tested for its ability to explain policy



outcomes and to suggest future directions in the Canadian carriage sub-sector.

Drawing primarily from William D. Coleman's recent work on policy communities and policy networks to develop a framework for analysis, this study explores the Canadian telecommunication services sub-sector. A review of public policy and telecommunications literature, archival materials, legislation, court decisions and regulatory proceedings provide the basis for both the theoretical arguments developed in Chapters 1 and 2, and an informed analysis in Chapter 3 of how this sector, through a unique ability to co-operate in building an important infrastructure, also produced a set of values that have a lasting impact on the sector.

The analysis of policy communities and policy networks in Chapters 4 and 5 are informed by empirical data gathered through a series of extensive personal interviews conducted during May and June of 1990 with government officials (federal and provincial), company and industry association representatives, academics, consultants and other observers. These two chapters demonstrate the efficacy of the structuralist model in explaining the sources of variations in telecom policy-making over time. Particularly valuable is the model's ability to capture the full benefit of empirical data by moving political analysis from a macro to a sectoral plane.

This study concludes that, if co-operative and stable policy-making relationships are the requisites of success for Canada's telecom sector, the reasons for optimism are limited.

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## CHAPTER 1

### Telecommunications and the Canadian State

The role of telecommunications in Canadian economic and political development has always been significant, but as new technologies fundamentally alter the structure of this sector, policy-makers and producers are under pressure to devise strategies to ensure the future directions of telecommunications development meet the growing and diverse needs of Canadians. No longer viewed solely as a public utility, the telecom sector has expanded to become a major driving force behind national development. The implications of this had already become clear by the 1970s: communications and related information technology sectors would profoundly alter social, economic and political processes of both industrialized and developing nations:

What is happening now in telecommunications will set the terms of life in the 21st century just as surely as what happened in the 19th century industrialism set the terms of life in the 20th century. And Canadians of this generation, as we confront the challenge of telecommunications, are preparing the framework for the national life of Canada in the 21st century - just as Canadians of the 1870s and the 1880s determined the shape of 20th century Canada by building our national railroads (Canada, 1979: 4).

While technology proceeds at an unprecedented rate to

challenge the industry and its governing regime, Canada in the early 1990s remains without a national telecommunications policy framework. Broad agreement on the need for longer-term and comprehensive planning is necessary but not sufficient to produce the types of policies that many in the industry are requesting from government. There must be a fit between the policies sought and the policy-making institutions. Part of the failure of the federal government to establish telecommunications policy in legislation can be traced to the fact that the market structure itself is in play. Technology created and then dismantled barriers to entry in telecommunications by creating interdependencies among formerly discrete economic and social segments of Canadian society. Competition and converging markets present a complex array of issues that some argue cannot be addressed by government regulation; hence the structure of policy-making itself is challenged by calls for regulatory reform and privatization. The sources of this complexity include the increase in services made possible by converging technologies among the telephone, computer and cable sectors, and pressures on the telecom industry structure from related sectors.

A policy regime structured in the past to serve the needs of the monopoly carriers and their customers is now penetrated by competitors, consumers and related sectors seeking closer access to the core of policy-making. In the discourse of pluralism, Coleman notes, groups are defined by their "interests" (Coleman & Skogstad, 1990: 271). The diversity of interests, coupled with increasing stakes in policy outcomes, mitigates against the consensus required to



successfully steer telecom legislation through Parliament. Societal diversity is mirrored in governmental structures; authority is dispersed vertically between federal and provincial jurisdictions, and horizontally across the federal level of government. This diversity of societal and state influence in Canadian telecom policy yields a 'pressure pluralist' policy network, which, according to Atkinson and Coleman, cannot facilitate the co-operation required among major socio-economic interests and state agencies to engage in planned positive adjustment, or anticipatory policy (1989: 90).

Central to debate about the future of telecommunications is an attempt by government to balance the long-standing objectives of universal telephone service at affordable rates with industrial development and international competitiveness. To date, this effort has failed to produce a political agreement capable of harnessing the complex dynamics of the information technology (IT) market. In both business and government, Canadians are increasingly looking to the concepts of co-operation, consensus and integration to produce stable relationships among major socioeconomic groups.<sup>1</sup> Such stability is widely assumed to avert the destructive cycles of growth and recession that have resisted efforts to manage the economy.<sup>2</sup> Associational activity is one mechanism through which integration is

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<sup>1</sup> The federal government's recent efforts to secure broad public participation in constitution-building is one prominent example of a more consensus-based approach to decision-making. Some Canadian businesses are also adopting 'public involvement' and 'conflict resolution' techniques, both of which are intended to foster cooperative decision-making relationships.

<sup>2</sup> This assumption is central to much of the recent literature on state-society relations, and some observers believe that collaborative relationships among socioeconomic groups contribute to economic success, particularly in high technology. See Coleman (1988), Arnold (1987) and Boyd (1987).

achieved by some of Canada's major trading partners, particularly in high technology sectors. Is such an approach feasible in Canadian telecommunications? To date, the competitive nature of relationships within the telecom policy community has denied some policy options that this approach would facilitate. Yet stable relationships among state and society, and long-term planning are deemed crucial to successfully guide Canadian telecommunications into the 21st century.

This study will explore prospects for integration, innovation and long-term planning given the structure and policy environment of the telecommunications carrier sub-sector. As telecom evolves from a traditional public utility to an enabling technology, technological and economic changes are challenging both the policies and institutions that have long sustained a stable distribution of power in the policy sector. Concurrent with the structural changes in the industry over time has emerged a seeming plethora of diverse interests - both societal and state - each seeking to further its interests to the exclusion of others in the policy community. As a result, Canadian telecommunications policy remains anchored in past realities rather than embracing future possibilities. Diffusion of public authority, combined with weakly developed societal interests produce reactive policy-making that will not facilitate the type of collaboration this sector requires in order to succeed in world markets.

Studies of telecommunications policy typically focus on economic, legal and constitutional issues; rarely is the broader policy

process treated systematically by analysts.<sup>1</sup> Yet shifts in the economic structure of the industry, changes in government priorities and the evolution of interest group organization are related to changing patterns of power and influence, and to the rules governing the policy process itself (Coleman & Skogstad, 1990: 113).<sup>2</sup> To argue that technological and economic change directly produce a new set of dominant values in policy direction ignores the fact that public objectives in Canadian telecommunications have never been solely economic. Reich argues that by "posing the issue as a struggle between free enterprise and stifling government control, (this approach) has obscured the central issue of how we organize and maintain that set of rules and constraints which we call the market." (Mosco, 1988: 1). Similarly, Woodrow and Woodside write that pressures for increased competition in Canadian telecommunications are economic, ideological and political, rather than resulting directly from technological change (1986: 112). The effect of technology on telecom, they argue, is mediated by 'political feasibility'<sup>3</sup>, and must

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<sup>1</sup> Schultz (1985) goes some way towards developing a model of regulatory decision-making, but does not address the policy process on a broader scale. Mosco (1988), and Woodrow & Woodside (1986) discuss the political aspects of telecommunications.

<sup>2</sup> For the purposes of this discussion, the following definition of political power is assumed: "A power relation, actual or potential, is an actual or potential causal relation between the preferences of an actor regarding an outcome and the outcome itself." From Jack H. Nagel (1975) *The descriptive analysis of power*. New Haven: Yale University Press, 29. Quoted in Dahl, 1976, ff. 6.

<sup>3</sup> Political feasibility is defined as "the institutional and socio-political capability to effect change in the existing way of doing things." It includes (i) the capacity of the the state's political and administrative apparatus to implement policy; (ii) the number and type of interests, and their effectiveness in shaping policy discourse; (iii) the regional structure of the carrier sub-sector and divided jurisdiction; (iv) the degree to which power is diffused among government actors (bureaucratic politics), and; (v) the influence of public opinion on electoral politics, and how this is shaped by the



be considered in view of "deeply embedded" political factors that are uniquely Canadian. Central to outcomes of the policy process in telecommunications is the nature of the partnership between state and societal actors.

The state and its relation to civil society is a central theme in contemporary political theory. Recent work in the field is driven by the recognition that changes in the international political economy are drastically altering the role and relationships of governments and producer groups in liberal democracies.<sup>1</sup> Policy-making since the post-war period is increasingly technocratic, complex and formalized, creating a diversity in state-society relations across sectors of the economy. The emerging patterns of state-society relationships differ among countries, and even across sectors within the same countries. Various macro theoretical approaches, from pluralist to neo-Marxist, have attempted to develop models of this relationship, but none has produced a satisfactory framework for understanding changes in state-society relations. Moreover, the existing models are criticized for underconceptualizing either the state's role in influencing organized interests, or the influence that organized interests wield in public policy.

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discourse of interest groups and experts.1986: 117.

<sup>1</sup> Domestically, economic decline is attributed to two developments: (i) The expansion of the public sector: piecemeal state interventionism in imperfect market processes and the collapse of consensus among state and societal actors have created a fiscal crisis; and (ii) A loss in confidence of the executive and legislative elites to steer the economy, in other words, a decline of the state's capacity to govern (Diamant, 1981: 102; Wilensky & Turner, 1987: 9; Pizzorno, 1981: 261-262). Globalization of the market economy has attenuated the ability of individual states to manage their domestic economies, and, as a result, international fora are increasingly focusing on sector-based policies. This focus on industrial sectors, in turn, reduces member nations' abilities to control domestic policy.

A recent and promising approach examines and compares modes of public policy-making through systems of interest intermediation, or 'policy networks' across industrial sectors. Borrowing from concepts developed in Europe and the United States, Canadian scholars are employing a framework that emphasizes the organizational features of state agencies, societal groups, and the 'networks' through which they interact in the process of policy-making. The model assumes a strong, but indirect, relationship between the economic structure of a policy sector and the political influence an economic actor can enjoy in policy-making.

The power to influence the policy process is mediated by the mode of political intervention exercised by societal actors, both as individual firms and through associations. Societal and state interests maximize their political influence to the extent they can achieve monopoly closure of the policy community, promoting their objectives and sometimes denying others similar advantages or benefits, or access to the core of decision-making (Wilks & Wright, 1987: 6). Not only does the distribution of power within a policy community sustain an observable pattern of state-society interaction, but the patterns - or policy networks - vary from sector-to-sector, and can change over time. Variation in monopoly closure is determined partly by the ability of business interests to transform economic<sup>1</sup> into political power, and may also be conferred to societal interests by a strong state agency (Cawson, Holmes & Stevens, 1987: 30).

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<sup>1</sup> Coleman (1988: 219) defines economic power as share of national production, control over capital, or level of employment.

William Coleman of McMaster University has done the most extensive work of this type in Canada. In his 1988 publication *Business and Politics*, Coleman examined relations between business and government in six Canadian economic sectors "through the prism of interest associations" (xi). Subsequent to *Business and Politics*, Coleman and Michael Atkinson co-authored *The State, Business, and Industrial Change in Canada* (1989) and, most recently, Coleman co-edited a similar collection of sector-specific studies with Grace Skogstad, entitled *Policy Communities and Public Policy* (1990). Policy networks are categorized into 'ideal types' according to their structural properties. Each type is characterized by its 'negotiated order' - the features of the state, the sectoral interest organizations, and the pattern of the relationship between the two, and embodies a set of assumptions about the effectiveness of the policy process, and the nature of policies likely to arise. Coleman identified seven factors contributing to the ability of societal interests to translate economic into political power: industrial concentration, geographic concentration, product mix, firm size and ownership, market orientation (import/export), and conflict with related sectors (1988: 219-21, 235). Although Coleman and Atkinson examined the Canadian telecommunications equipment and space sub-sectors, the carriage sector has not been examined using this framework.

Using the concepts of policy community and policy network developed by Coleman, this study examines the nature of policy-making in the Canadian telecommunications carriage sub-sector. The framework for analysis emphasizes the nature of state structures, industry organization, and systems of interest intermediation at the

sectoral level. Using both historical evidence and interviews with actors in the carriage sector conducted in May and June of 1990, the study (i) describes the economic structure of the sector, policy developments within the sector and the major issues the sector now confronts; (ii) assesses government policy-making in relation to the autonomy and capacity of relevant agencies; (iii) assesses the structures and activities of individual firms and organized interests in the sector; and, (iv) identifies the dominant policy networks and their implications for policy outcomes. Comparing the carrier sub-sector to Coleman's observations of state-society relations in other Canadian economic sectors, and to studies of telecommunications policy in Japan, the U.S. and Europe, this study argues that Canada cannot pursue either a purely market-led or a state-planned telecommunications policy.

A central theme of Coleman's work is that a given policy network will support certain types of public policies, but not others. This structural/institutional approach assumes that while exogenous variables such as economic structure, class, interest and technology influence the range of policy *options* that a given set of institutions can support, policy *preferences* are defined internally by the prevailing values within the policy community. In the carriage sub-sector, therefore, the powerful technical and economic forces that challenge its policy regime do not ensure outcomes that market forces alone would predict. Policy preferences are shaped rather by historical developments, past policies and operating practices, and also by the composition and values of the policy community. The policy community in the carriage sector has been expanding since the

1970s to include a broad array of actors who are challenging the long-dominant assumptions that guided telecommunications policy since the turn of the century.

### *Telecommunications in Canada*

Canada has incorporated into legislation the following definition of telecommunications: "Any transmission, emission or reception of signs, signals, writing, images and sounds or intelligence of any nature by wire, radio, optical or other electromagnetic systems". This definition was accepted by the International Telecommunications Convention (Montreux, 1965), and includes radio broadcasting and television as well as two-way common carrier communication (telephone, telegraph, telex, facsimile, etc.). Federally, Canada distinguishes between content and distribution of signals through both legislation and functional divisions within state agencies. Telecommunications encompasses telephone, telegraph, satellite, and cable television (CATV); broadcasting includes radio (AM/FM) and television. Telecommunication services and equipment manufacturing are distinct, but interdependent sub-sectors. On a global scale, equipment production accounts for approximately one-third, and service revenues for two-thirds, of the telecom industry's activities (OECD 1989: 9).

The focus of this study is on telecommunications common carriers supplying two-way services (Standard Industrial Classification code 4811). The Canadian carriage sub-sector alone

generated nearly \$13 billion in operating revenues in 1990 (Statistics Canada, Bulletin 56-203, Table 18) and employs over 100,000 Canadians. Despite an annual average labour productivity increase of 3.72 per cent from 1978-1987, the carriage sub-sector continues to create employment (OECD, 1990: 155). Predominantly Canadian-owned and oriented toward the domestic market, the major common carriers have operated as regional monopolies since shortly after the turn of the century. The carrier sub-sector is also characterized by a high level of corporate concentration and vertical integration. This economic structure, combined with government ownership and regulation, has produced a non-competitive relationship among the common carriers. The existence of powerful common interests among these carriers is evidenced by their 60 years of joint financial and operational management of the Canada-wide network through Telecom Canada. Canada's communications networks cover a large, unevenly populated territory in a country with a small, open economy. Telecom Canada, by allocating its pool of resources across the Canada-wide network to establish an even level of services, performed a function not unlike that of intergovernmental equalization programs. In a manner analogous to the railways, the common carriers established east-west links in part to counter economic magnetism from the United States.

Government regulation has played an important role in establishing the supply, price, quality of service, and profitability of the telcos. For decades, telecommunication services developed in a stable environment characteristic of other public utilities providing essential services under government regulation. In exchange for a

guaranteed annual return on capital, the monopoly carriers are obligated to ensure an "equitable system of rates, connection of customer-owned equipment, provision of service on demand, liability for any malfunction or misuse, privacy, and quality of service and continuity." (Department of Communications, 1971, Study 1[c]: 32).

These principles long sustained a set of values in this policy sector that reflected both the telcos' all-inclusive relationship with subscribers, and regulatory interpretation of just and reasonable rates and non-discriminatory access to service. Industry and governments shared an interest in universal service; business-government interaction was minimal as a result, limited primarily to rate-setting to prevent abuse. Advancements in service and equipment technology proceeded slowly, lowering costs and prices without altering the market structure. Notwithstanding economic regulation, most Canadian governments did not allocate ministerial resources to telecommunications until the 1970s. Significant decision-making authority was exercised by the common carriers in exchange for serving the limited objectives of Canadian public policy.

The configuration of regulatory responsibility for the common carriers also restrained the influence of the Canadian state on development of the telephone industry. Until recently regulatory jurisdiction of the regional carriers was divided between the two levels of government.<sup>1</sup> This structure imposed considerable

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<sup>1</sup> Prior to a 1989 Supreme Court of Canada decision, known as the AGT case, all regional monopoly carriers with the exception of Bell Canada (operating in Ontario and Quebec) and B.C. Tel were regulated by provincial public utility boards. Bell Canada and B.C. Tel filed tariffs with the federal regulator, and smaller local telcos are regulated either by municipal or provincial regulators.

restraints on the scope of oversight exercised by regulatory bodies at both levels of government. Filings by individual telcos to their respective regulatory authorities involving engineering or operational decisions taken collectively by Telecom Canada members in planning the national network can be subjected only to minimal scrutiny by regulators mindful of the far-reaching effects of such actions on other jurisdictions. Hence, these carriers have operated in a unique political environment, obligated to provide a high quality of customer service, yet able to determine the nature of Canadian carriage services in a closed policy community.

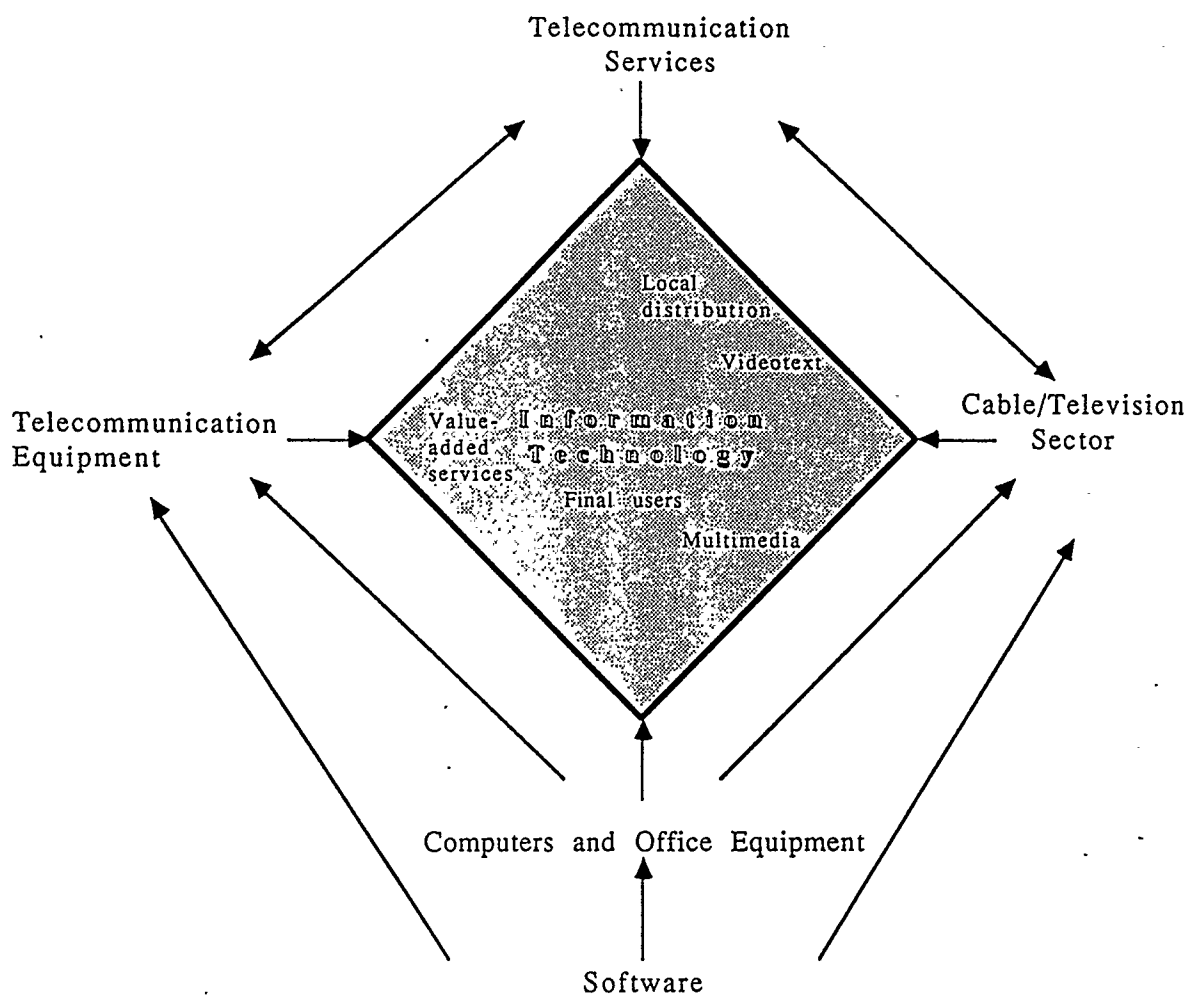
Woodrow and Woodside attribute the "stable pattern" of telecommunications policy and regulation to a particular set of values that long reflected the telcos' strategic environment. An emphasis on customer service and universality produced value of service rather than cost-based pricing, and extensive cross-subsidies to achieve equality of basic telephone service and expansion of the network. Telecom Canada's decisional structures are based on a unanimity requirement well-suited to the traditionally engineering-driven and non-competitive nature of the carriage sub-sector. "As well, the widespread practice of promotion from within the company and circulation of individuals within the industry has likewise tended to perpetuate and insulate this traditional set of values from changes in the broader community." (1986: 108).

Beginning with the introduction of microwave facilities in the late 1950s, dramatic changes spurred largely by technological innovation have transformed the nature of telecommunications, creating new and diverse opportunities for its use. Economic activity



in industrialized nations increasingly involves the collection, dissemination and storage of information, what is now known as the information economy. Many of the technical characteristics that once separated the telephone, computer and cable television sectors have converged, blurring their market boundaries to create a broader information technology (IT) industry. This convergence, coupled with lower costs, has created an accelerated demand for new services that combine voice, computing, and imaging capabilities, and rewards innovation with a high rate of growth. Figure 1 illustrates the structure of the information technology industry, and the converging, or 'grey' areas among formerly distinct market activities. According to industry figures, the IT industry conducts more than 40 per cent of all private-sector R&D in Canada, and employs roughly 300,000 people (Information Technology Association of Canada, Interview, 29 June 1990). Despite forecasts of 20 per cent annual growth internationally over the next ten years, many observers argue this growth rate will not be sufficient to support all the current players (Grewlich, 1987:253).

*Figure 1*  
*Information Technology Industry:*  
*Flow of Goods and Services*



1. Telecommunication Services: common carriers, specialized carriers.
2. Telecommunication Equipment: switching systems, transmission systems, terminal equipment (telephones, modems, facsimile machines).
3. Cable/Television: transmission systems, programming.
4. Computers and Office Equipment: mainframe, data, word processing, etc.
5. Software: for telecommunication systems and equipment, computers, value-added services, multimedia (digital video).
6. Local distribution: service carriage of voice, data and image to final users.
7. Value-added services: electronic mail, information retrieval, teletex, etc.

Political intervention by business was not a factor until the 1970s when the carriers' strategic environment began to expand rapidly. During this time, governments established dedicated ministerial support structures, or what Schultz describes as a "government embrace" (1985:116). At the same time, residential and business subscribers began to pursue collective action in the regulatory arena to press for lower prices, and more choice in equipment and services. Technological convergence and increasing pressure for competition, globalization of markets and foreign competition now present a number of challenges to the common carriers. Telecommunication service providers now face potentially significant changes in the international market as trade bodies attempt to devise trade-in-services principles. According to Grewlich, the Canadian telecom sector's ability to hold a share of the global IT market is ultimately a function of its ability to forge appropriate policies.

International competition has become a high stakes race. The stakes in the high-tech race are not just markets, as such, but a perceived need of the major technological powers of the West to capture a share of world production in growth sectors to offset the inevitable decline in others. It is probably due to such perceptions that in many countries and regions government-industry relations oriented towards positive structural adjustment have become intrinsic to a competitively oriented modernization strategy. This involves regulation and technology policy and, in both, telematics is central to the strategy (Grewlich, 1987: 251).

The pressures of changing market conditions have grown since the 1970s to challenge most of the fundamental characteristics that long guided this policy sector, including relationships among the monopoly carriers themselves. However, the monopoly carriers have not responded to demands from government and related sectors by uniting in collective action to develop telephone company policy positions. Instead, they participate in public policy-making individually, and attempt to advance their interests through the regulatory process. Particularly important in this regard is the singular power of Bell Canada, and its parent, Bell Canada Enterprises, in the Canadian political economy. In sectors dominated by a small number of large enterprises with financial resources and influence, "associations need not be the primary instrument for the defence of class interests." (Coleman, 1988:145). The major carriers are increasingly turning to multiple forms of political intervention, including lobbying firms, litigation and individual efforts of senior executives.

The regulatory process also provides a means by which these carriers can influence the course of policy. Because telephone service at affordable rates is considered an essential element of public policy, regulators define their mandates as furthering the public interest by reference to both subscribers, and ensuring the carriers' financial viability. Economic regulation also involves state dependency on the industry for complex and detailed information. Under a fragmented regulatory regime, Canadian carriers have developed this capability 'in-house' to meet the requirements of

their respective regulators. Telecom Canada members thus generated no collective mechanisms for handling sector-wide information or policy participation. Indeed, the carriers continue to avert a collective embrace by the state by establishing and maintaining Telecom Canada as an unincorporated association - a legal nonentity.

### *The Carrier Policy Community.*

The growing interdependencies among technology, markets and government are exemplified by the composition of the carriage policy community. The public and private interests whose policy focus is solely telecommunications carriage services make up a relatively small proportion of the policy community. Supplying telecommunications services are the monopoly facilities-based carriers belonging to Telecom Canada, specialized common carriers, cable companies, smaller independent telephone companies, radio common carriers, cellular telephone companies, and those providing enhanced, interconnect and resale services. Responsibility for federally-regulated carriers is divided between the Department of Communications and the Canadian Radio-television and Telecommunications Commission, both of which report to the Minister of Communications. Until recently, a similar division of departmental and regulatory responsibility existed in most provincial governments,<sup>1</sup> but provincial regulators are subject to

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<sup>1</sup> Following the 1989 Supreme Court of Canada ruling affirming federal jurisdiction for telecommunications, all major carriers except the Prairie

more political control and direction from their governments than is the federal telecom regulator.

In addition to the carriers, lead departmental and regulatory agencies, are supplier and user associations, individual firms, consumer and public advocacy groups, organized labour, and experts. The activities of other federal departments responsible for trade, competition policy, taxation, privacy and economic development also affect policy development in telecommunications.

Increasingly, players are appealing to the Federal and Supreme Courts of Canada for resolution of regulatory and constitutional issues. International trade and telecommunications organizations, foreign firms and foreign governments also influence the range of policy instruments and options available to Canadian policy-makers. Canada's proximity to and economic integration with the liberalized American telecom sector prompt those seeking increased competition to point to the 'demonstration effect' of lower long-distance prices in the U.S. that have resulted from competition there. These organized interests have penetrated the closed decision-making in the carrier sub-sector, forcing the consideration of competing values in an increasingly pluralist policy community.

This chapter presents an overview of the major technological developments in telecom, how they affect the economic structure of the sector, and hence, the particular mix of interests that comprise

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crown corporations are now regulated by the federal Canadian Radio-television and Telecommunications Commission. In order to remove provincial crown immunity from federal regulation, the federal government must enact new legislation. At the time of writing, neither provincial crown corporations nor smaller independents have been brought under federal legislative control.

the policy community. The causal relation between changes in technology, economic structure and policy community is explored in order to locate the sources of political intervention by business and of collective action. Technology is one dimension of economic structure that speaks to changes in the telecommunications policy community; new information technologies involve a more diverse product mix than has traditionally obtained for the telephone companies. High volume business and residential customers seek new services at the lowest possible price, and competitive suppliers seek to fill that demand. Chapter 2 sets out the analytical framework for mapping out the relationship between economic structure and state influences on policy sectors, and the types of policies that are expected to emerge from various 'policy networks'. It is argued that only by comparing public policies at the sectoral level can we explore the question of what motivates actors to engage in collective action. Chapter 3 provides a descriptive analysis of the organizational development, state structures and policies, and the nature of policy-making within the carriage policy sector. The ability of organized interests to achieve their desired policy outcomes is then assessed with reference to the associational system in Chapter 4, and to the prevalence of pressure pluralism in Canadian telecommunications policy-making in Chapter 5.

### *Technology Developments*

The major role of technology in shaping the configuration of the

telecommunications sector can be understood in two contexts. Internally, advances in the telecom sector have centred on developments in the transmission and routing of communications signals. More recently, new network technologies are being deployed that increase capacity, intelligence and economic efficiency over a widely distributed range of services. Externally, telecommunications, computer (hardware and software), and cable technologies have advanced and converged to supply the information market. As a result, the technical features that traditionally separated basic communications, computer and entertainment services have given way to innovations that straddle market boundaries. Together, the internal and external influences on the telecom sector combine to present a seeming infinite number of technological possibilities for the future structure of the information technology market.

### *Internal influences*

Within the telecommunications sector, technical structure is defined by type of output (service) or by type of facility. The organizational and pricing practices of the Canadian telecom industry have been based on the provision of retail services involving a complete package of facilities. As such, all telecommunication services have traditionally been provided on an all-inclusive, end-to-end basis. Facilities are described by the functions they perform in the communications system. Telecommunications networks comprise three basic components. Terminal subscriber equipment sends and receives signals to the telephone company's terminal and switching

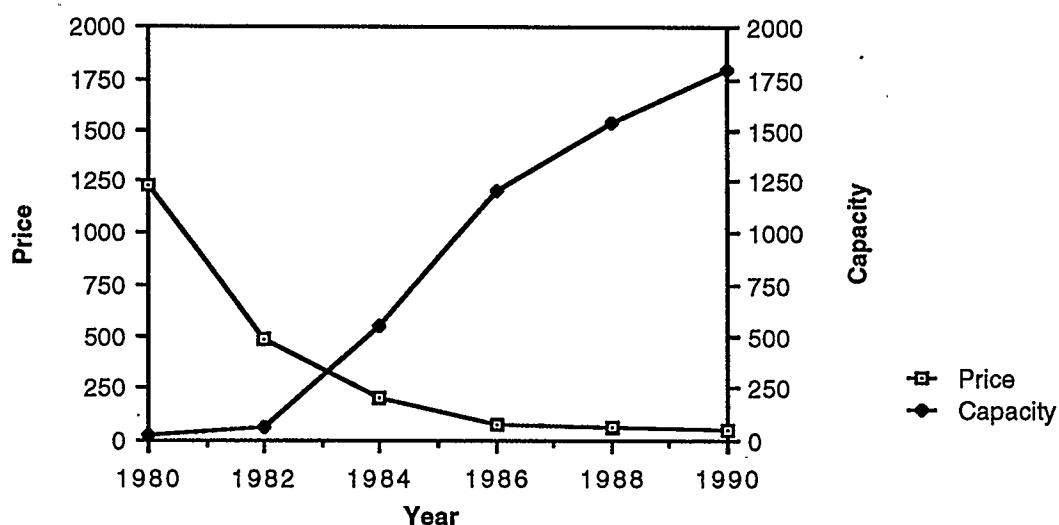


facilities via a 'local loop'. Signals are transmitted through cables, wire, coaxial tubes, microwave, satellite, mobile, radio and optical fibres. Switching equipment connects transmission facilities and directs signals among specified terminal equipment during connection (RTPC, 1981, 23-35; Globerman & Carter, 1988, 3).

The major technological developments in the telecommunications sector include the digitization of toll transmission and switching systems, and more recent deployment of optical fibre and advanced signalling. Digitization accommodates the transmission of voice, graphics, video telex, facsimile and data, blurring the distinctions among voice, data and image communications (Globerman & Carter, 1988: 11-12; McPhail & McPhail, 1989: 24). Increased network intelligence provides for storing, augmenting or modification of signals at both the switching and terminal stages.

Advances in transmission media began in the late 1950s with the installation of microwave facilities for telephone, television and data transmission. Since the early 1970s, satellite transmission has offered an alternative to microwave systems, and developments in optical fibre technology are facilitating revolutionary advances in transmission capability in terms of bandwidth, reception quality and applications. Developments in optical fibre technology illustrate how technology lowers costs and increases demand for new telecom services. Not only can a single line carry telephone, cable television and other signals, but as technological refinements increase bandwidth capacity, the cost of optical fibre is also falling (See Table 1).

*Table 1*  
*Price and Capacity of Optical Fibre*



Note: Price = cents/metre (U.S.)

Capacity = Mbps/fibre.

Source: OECD, 1988: 15.

Some other applications of technology are worth noting, as they have the potential to significantly alter the structure of telecommunications services. First, market demand for cellular radiotelephone services in Canada has far exceeded initial expectations.<sup>1</sup> Many observers note that, given its pace of growth, cellular could significantly reduce the market share currently

<sup>1</sup> Estimates place current cellular usage in Canada at 600,000. This is expected to reach three to four million by the year 2000.

served by local loops. Second, government and industry are exploring the future of Personal Communications Networks (PCN) using digital cordless telephony (DCT). DCT is a wireless form of communication that uses compact, digital cordless telephones to access a public or private telephone network.

Because they can support a broader range of applications than those traditionally involved with telecommunications, new transmission and switching technologies present a number of challenges to the monopoly carriers. Strategic deployment of available technologies in the public switched telephone network (PSTN) requires consideration of a widening range of factors, some of which involve more speculative future applications. These technologies also provide opportunities for users to bypass the PSTN. For example, private branch exchanges (PBX) and local area networks (LANs) utilize switching facilities that connect private lines to networks operating independently of the public switched system. For large telecommunications customers, these alternatives offer greater control over communications management and costs. For the major carriers, however, this represents a potential loss of the significant revenues derived from business customers.<sup>1</sup> PCN technology will offer another alternative to the PSTN, and some analysts point to PCN as an opportunity for the cable television sector to carry voice traffic on their local networks (Comgate, et. al, 1991: 69).

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<sup>1</sup> For an interesting account of how large customers in Japan and the U.S. are constructing private networks to serve their particularistic needs, See Carr, March 1990.

*External influences*

Figure 1 identified how technological convergence and evolving service concepts are altering the structure of the information technology industry, rendering it increasingly difficult to separate its suppliers. Value-added services are increasingly being deployed in the basic transmission functions of the PSTN and private-line facilities. Table 2 indicates the general direction in which new technologies are expected to shape possible future services. Most observers see achievement of the third generation as critical in the global race for IT markets. Looking at the table, we can expect that telecommunications will no longer be viewed as a simple transmission function, but will also involve the traditional computing functions of generation, storage, processing and distribution of information, as well as interactive services (OECD, 1988a: 11). If Canada is to achieve the benefits of the third generation, and succeed in the global marketplace, it must devise policies that speak to these converging markets. As is demonstrated in the chapters to follow, existing Canadian telecom policy-making institutions are not equipped to manage innovation.

*Table 2*  
*Three generations of telecommunications services*

Basic Services (First generation)	New Services (Second generation)	Advanced services (Third generation)
Telephony Telex, teletex	Digitalized telephony	Videotelephony Textfax Fast facsimile
Low-speed data	Videoconferencing	Bulk document transfer
Mobile telephony	Audiographic teleconferencing	High-speed data
Low-speed facsimile	Electronic mail  Wider availability of mobile telephony Higher resolution videotext	High quality videotext On-line graphic design Remote printing and publishing Dynamic computer load- sharing Burst-mode host- to-host transfer

Source: OECD, 1988a, p. 11.

Those who describe technology alone as the 'great deregulator' underestimate the power of both changing market demand and the role of the state in shaping the direction of telecommunications. The economics of the telephone, cable and computer sectors are different, and each is shaped by distinct legislative regimes. In Canada, telephone service is subject to rigorous direct economic regulation, while cable services operate in a less restrictive regulatory environment. Computer markets in Canada have developed largely independent of government control. Legislative barriers to market

cross-over create the motive for political intervention by those who challenge the existing rules governing market structure. Hutchison notes that while the "role of technology is obviously crucial to understanding what is happening ... (it) is the political process and its interaction with the economic system which is central." (1990: 91-92).

Government regulation seeks to impose an orderly transition from the industrial to the information age, reaping the benefits of advance while averting the disruptive effects of technology and competition in telecommunications. The issue confronting policy-makers is to find a balance between industrial development and social policies, and thus to decide how best to distribute the benefits of technology among Canadians. Regulatory policies affect the timing and nature of new services, relationships among suppliers and their customers, and the level of return on investments. For those who believe the market should guide decision-making, regulation impedes the development of vital national resources. As Grewlich argues, "the late and low level of availability of second generation telecommunications services might slow the development of the markets for telematics." (1987: 261). Others, citing high capital formation, large economies of scale, a need to manage frequency spectrum and the public utility nature of telecommunications, argue that industry structure is a matter for public policy, rather than one to be left entirely to the free market (Consumers' Association of Canada, 1986).

### *Economic structure*

Technological advances in the information industries are transforming the economic foundations on which existing policy has developed. The combination of telephone and computer services, coupled with increased productivity and lower costs, have created an unprecedented level of demand for information services in some industries and in government. Hence, telecommunications has spillover effects in other sectors such as banking, tourism, financial markets, the print media, and other information and computing industries which are increasingly using intra-firm, inter-firm and intersectoral networking to enhance productivity. For these sectors, advanced telecommunications systems have "profoundly altered their production structures and now constitute the basic infrastructure for the provision of services." (OECD, 1988a: 14). According to one banking official,

Automation and its accompanying networking is now so integral to the banking system which we offer that they are virtually inseparable. Technology and its supporting telecommunications networks have become the driving force behind our services and are already responsible for creating new ones. Moving information in new ways is in fact creating new products (Janisch, 1988: 5).

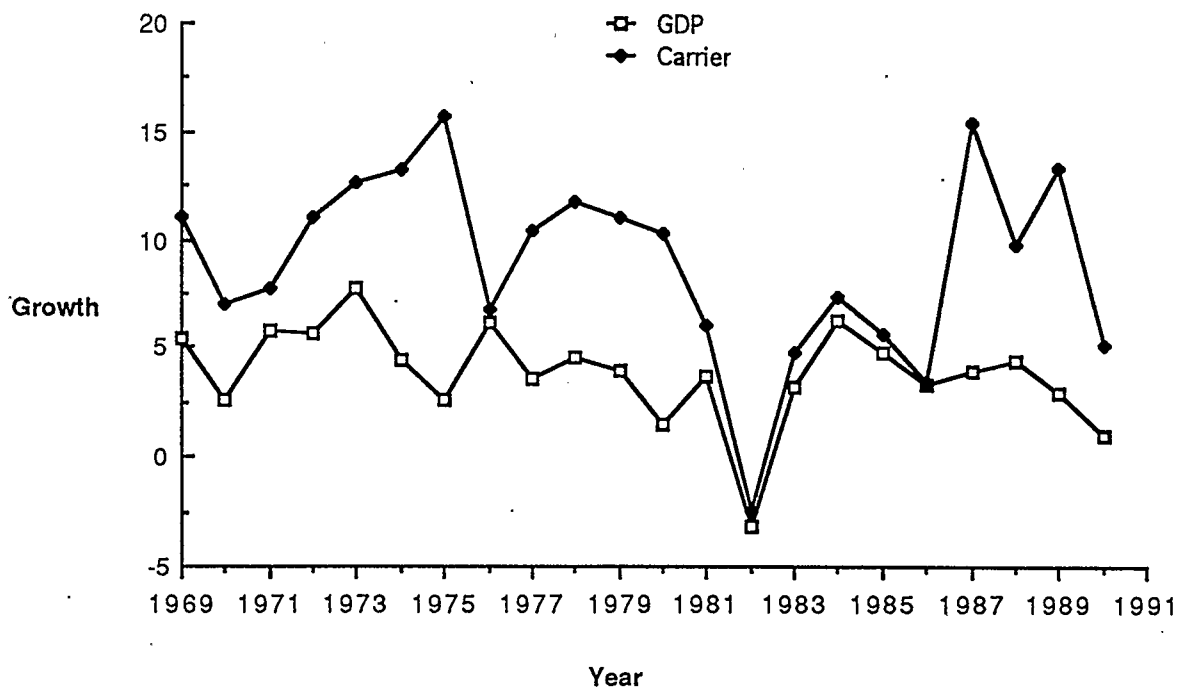
The use of communications networks for manufacturing and service industries also affects the overall functioning of markets. Some examples include telecommunications infrastructure and

services for computer integrated manufacturing, office automation, and linking stand-alone computers for file and message communications through LANs. Lower costs and faster dissemination of information enable individual firms to quickly adjust inventory levels at the raw materials, intermediate input, and final products stages of production. Advances in the telecommunications sector have a broad horizontal effect on the economy as a whole, creating new products, services, and manufacturing processes.

Apart from its contribution to other manufacturing and service sectors of the economy, telecommunications is an important sector in its own right. International organizations such as the UN and OECD note that the contribution of telecommunications to economic growth is substantial. The role of telecommunications is assessed by the OECD in terms of service income, investment, and productivity.



**Table 3**  
**Growth: Telecommunications carriers and  
the Canadian economy.**



Note: **GDP**= Growth of the Canadian economy, measured by Gross Domestic Product. Expenditure based, 1986 prices. **Carrier**=Growth of telecommunication carrier revenues, Gross Domestic Product at factor cost, 1986 prices.

Source: Statistics Canada. D20463 6829 1 (GDP Quarterly).  
I25430 4671 8.33.130 (Telecommunication Carriers).

Growth of the carrier sub-sector, represented by service income, has far outpaced growth of the national economy. From 1969-1990, revenue growth in carriage services grew by an annual

average of 8.9 per cent, compared to 3.8 per cent for the Canadian economy as a whole. In relation to other economic sectors, the carriage sub-sector "is approximately equal to those of the forestry, textiles, aviation, and chemical industries combined." (Minutes of Proceedings, 13 December 1989: 4:21). The continued ability of Canadian carriers to capitalize on the expanding and complex market, however, depends on their strategic allocation of resources, and the ability of this policy sector to confront major issues with a more comprehensive level of discourse.

Investment is also an important indicator of the role of telecommunications in the economy. The focus of investment is shifting from capacity-augmenting investment in digital transmission and switching systems to new network technologies such as optical fibre. Deployment of these more intelligent and distributed technologies increases efficiency over a wider range of existing and potential services, and encourages the use of common methods throughout the system (Comgate, et. al, 1991: 27).

Compared to other OECD nations, Canada's productivity, investment in research and development, technology diffusion, and share of international exports in high technology sectors overall are troubling. Including installation and upgrading of switching and transmission equipment, and the purchase of computer and communications systems, capital investment in Canada accounted for 2.62 per cent of Gross Fixed Capital Formation in 1987, compared to an OECD average of 3.24 per cent (OECD, 1990: 151). Bell Canada's research and development budget, averaging 2.1 per cent of net revenues (Network Letter, 1 October 1990: 2) does not compare

favourably with major carriers in other advanced economies.<sup>1</sup> According to one observer, R&D spending by the Canadian private sector currently ranks 17th of 20 countries. Government R&D spending also fell from 1.4 per cent in 1986 to 1.2 per cent in 1990, less than half the amounts spent by the U.S., Japan and Europe (Carleton University President, Robert Farquhar. Speech to CADAPSCO. October 1990).

*Economic Structure of the Canadian Carriage Sub-sector: Challenges and Opportunities*

The above point to increased pressure on the telecommunications sector and government to respond to changes in both the domestic and international markets. As more competition in both domestic and international markets shortens investment and development cycles, more resources must be devoted to research and development. While growth of the Canadian telecommunications sector overall is high, many observers argue that, without consensus in the policy sector and more attention from government, it may lose its prominent international position. Three issues currently being debated in Canadian telecommunications provide the context for collective action in telecom policy-making: competition, convergence and regulatory reform. Technological change has altered the economic

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<sup>1</sup> Bell-Northern Research (BNR), owned 70 per cent by Northern Telecom and 30 per cent by Bell Canada, is Canada's largest research and development undertaking. In 1989, 3.8 per cent of BCE telecommunications (services and equipment manufacturing) sales revenue was invested in BNR research and development programs. See Bell Canada Enterprises, 1989 Annual Report: 18, 66. By comparison, between 1987 and 1989, France Telecom invested 4.7 per cent of sales revenue in R&D, Japan's NTT invested 3.8 per cent, and British Telecom 1.9 per cent OECD, 1990: 153.

structures on which existing institutions and relationships were established, particularly by creating pressure for increased competition in Canadian telecommunications.

Shifting demand and cost structures have transformed the principal feature that guided policy-making in carriage services - natural monopoly - from an organizing to an elusive concept. In Canada, the opening of formerly monopolized market segments to both domestic and foreign competition has produced positive results and encouraged the emergence of new service providers. More recently, the demands of potential entrants and business users entail fundamental restructuring of the Canadian telecom sector, confronting policy-makers with the task of determining the extent to which the domestic telecom system can achieve the benefits of innovation, while at the same time safeguarding the public network infrastructure. This task is complicated by the interdependencies between IT sectors, as well as by the fact that each of these sectors operates in a different corporate, market, and regulatory milieu.

The defining characteristics of telecommunication services are blurring, and creating strong linkages with related social and economic sectors. This convergence is producing an expanded set of policy actors with diverse interests and increasing stakes in the direction of telecommunications policy. Within the carriage sub-sector, state structures, policy instruments and processes have for decades served the interests of the common carriers, their employees, and their subscribers (Mosco, 1990: 58). The technical expertise that enabled common carriers to close the regulatory process to intervention from other interests is increasingly shared by

other participants. Moreover, competition is considered antithetical to economic regulation, adding to the impetus for regulatory reform and raising further its implications for both state-society and inter-agency relationships. As Woodrow and Woodside point out, competition "is in tune ideologically, not just in Canada. But competition - and its implications for regulation - is not clearly defined." (1986: 112).

As this chapter demonstrates, technology is exerting powerful pressures on the economics and politics of telecommunications. During the past 20 years, innovations in telecommunications and related industries have dramatically altered the way in which markets function, and also have enhanced Canadian social and economic life. Technology, however, is value-neutral: because it produces a seemingly infinite number of choices, high-tech compels society to identify and impose its collective will on the direction of its development. Policy-makers are now under pressure to maximize the benefits of rapid technological innovation in telecom, while safeguarding against potential harm and disruption. Hence, technology and economics are exogenous factors - producing a number of policy options, but not policy preferences. Policy preferences are shaped by endogenous factors, such as the composition of the sector and its policy institutions, macro-political factors and the enduring effects of past policies and values on members of the policy community. These endogenous variables, construed at the sectoral level of analysis, form the framework for the analysis of policy communities and policy networks developed in Chapter 2. Macro-political influences on Canadian

policy-making are identified by comparing the legitimacy of state intervention in the economy and prevailing industry culture with those of its major trading partners. While macro-political factors help to explain the nature of policy options available to decision-makers, the predictive value of the policy networks model lies in its ability to account for variations in policy-making both within economic sectors, and across nations. It is to these concepts that I will now turn.

## CHAPTER 2

### Recent Approaches to State-Society Relations: Framework for Analysis

Canada's communications systems have long been among the best in the world, combining affordability and quality of service with the contribution of many "firsts" in technology application. This was achieved in a relatively stable and uncomplicated policy environment comprising few players, clearly defined market boundaries and regulatory principles. Today, in Canada as well as in other industrialized nations, telecommunications carriers face a complex and uncertain environment. Principal among the factors that are redefining policy discourse in the telecommunications sector are:

- An accelerated pace and scope of technological innovation and diffusion integrates formerly distinct economic sectors, rupturing market boundaries.
- An increasing number of players - domestic and international, telecommunications and non-telecom interests- are attempting to influence the nature of policy in telecommunications. Large business users are demanding flexibility, increased capacity and intelligence, at lower costs. In Canada and the U.S., large business users believe a market-led, competitive telecom structure will achieve their goals.
- The effects of changing market structure on capital investment, pricing and costing principles are complex and difficult to predict. Competition

forces an examination of these factors, while at the same time, convergence renders associated methodologies insufficiently flexible.

- Communications systems foster the globalization of world markets, forcing international trade and telecommunications organizations to examine, for the first time, weakening distinctions between domestic and international service markets.

Other nations are experiencing the same complicities, but are responding with different approaches to structuring their markets. The U.S. has adopted a radical, market-led restructuring of telecommunications through deregulation and removal of barriers to market entry.<sup>1</sup> The United Kingdom and Japan have privatized their national facilities-based carriers and permit competition in certain market segments.<sup>2</sup> The European Community, by contrast, believes that integration and monopoly power can most effectively achieve Europe's technological, economic and political objectives. To this end, the European Commission (EC) is devoting supra-national institutional resources to long-term planning, research and development and standards.<sup>3</sup> While these approaches imply fundamental differences in the legitimacy of state intervention,

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<sup>1</sup> In exchange for the freedom to enter related markets, AT&T in 1982 divested itself of its regional Bell Operating Companies, which continue to be regulated as natural monopolies. See Olson, 1989.

<sup>2</sup> British Telecom and Mercury Communications compete in a regulated duopoly, while Nippon Telephone and Telegraph shares the domestic market with 10 New Common Carriers (NCCs). In addition, there are now four overseas services competitors, and deregulation in the value-added market.

<sup>3</sup> Two major initiatives in IT and telecommunications research are underway, for example, and the EC has developed an ambitious standards programme intended to replace proprietary (de facto) standard-setting with one based on consensus. For a discussion of the objectives and programmes, see Narjes, 1988; Vervest, 1988.



Canada's major trading partners are embarking upon policy initiatives "having first recognized, and then acted, on the assumption that the transition to a mode of production heavily dependent on the manipulation of information will shape their respective opportunities for national economic development." (Schultz & Janisch, 1989: 6).

Canada has yet to proceed with clear policy in telecommunications, and timeliness is of the essence. Common to all of the above is the implementation of state strategy - to facilitate either a market-led or state-planned market structure - at a critical point in the industry cycle. According to Arnold, new technologies based on advances in electronics constitute a 'new technology system' with applications and effects across the entire economy. Electronics is seen by OECD countries as *the* 'sunrise' industry that should be fostered to replace the 'sunset' or 'smokestack' industries of the past. The implications for Canada of widespread state targeting of high-technology are clear.

It means that economic development is less than the positive-sum game based on the exploitation of 'comparative advantage' which is implied by conventional trade theory and closer to a zero-sum game, since many countries target the same growth sector (Arnold, 1987: 248).

Several factors account for different approaches to market structure and the types of policies implemented to address similar issues. At the macro level, there is a great deal of variation across

nations in the legitimacy of state activity in the economy. American deregulation is guided by the assumption that regulatory regimes cannot withstand the onslaught of technology and market forces. At the same time, analysts note that American proponents of both planned and market-led adjustment "conclude that the American government lacks the institutional capacity to define and implement policies that can improve the ability of particular industries to adjust to changes in the international economy".<sup>1</sup> In Japan and most European countries, state intervention in the economy is legitimate, and in some cases, considered indispensable to positive adjustment; regulation is the principal force guiding behaviour and relationships among players in the European marketplace.

Canadian policy-makers are attempting to devise policy on three issues: competition, convergence and regulatory reform. As telecom becomes integral to the productive process, it acquires the characteristics of a commodity for business, large institutional users and competitors. The need to accommodate international pressures and to enhance competition and flexibility must be balanced with measures to safeguard the existing public network infrastructure. Users also require certainty of interconnectivity and standards because they are more dependent on services that can technically be provided by more than one information supplier. The imperative of standards-setting to achieve the benefits afforded by transparency and interconnectivity runs counter to the proprietary development and marketing of new technologies that is pronounced in North

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<sup>1</sup> Vogel, 1987: 91. Irwin (1987:234) writes that "policy tends to be the U.S. telecommunications tail; market forces the U.S. telecommunications dog."

America. Canada's legislative and regulatory regime inhibits both co-operation and R&D by maintaining legislated distinctions among information sectors. Because of these diverse demands on the telcos, and the capital-intensive nature of the sub-sector, planning and co-ordination are at the same time essential, and difficult to achieve.

The policy options available to Canadian policy-makers in telecommunications are guided by macro-political considerations, including dominant attitudes about the proper role of the state, but also by institutions and patterns of relationships at the sectoral level, and the legacy of past policies and relationships. If the state is defined as a set of institutions rather than an actor characterized by "some kind of essential unity" we can explore the underlying structures and relationships among actors that yield different business-government relationships across policy sectors (Cawson, Holmes and Stevens, 1987: 11). In their analysis of the French consumer electronics sector, Cawson, Holmes and Stevens point to the ability of telecom giant, Thomson, to resist intervention by the Industry Ministry, arguing that "the extent to which it is possible to establish and implement coherent policy objectives at one level may be constrained by the type of relationship that obtains at other levels." (1987: 29). Coleman and Skogstad explicitly reject both the state-centred and society-centred models of business-government relations, arguing rather that 'interaction' is the key variable (1990: 313).

This chapter provides an overview of recent approaches to the interaction between state and societal actors in the public policy process, and locates the perceived shortcomings of dominant macro-

political theories (pluralism, Marxism and corporatism) that prompted researchers to develop new paradigms. In particular, macro-political theories of the state are criticized for their failure to explain both variations across policy sectors, and changes in policy over time. Thus the predictive value of macro theories is questioned. The structural approach argues in favour of disaggregating the state to a sectoral, or meso, level of analysis. Using the analytical framework developed by Coleman (1988), Atkinson and Coleman (1989), and Coleman and Skogstad (1990), the central features of both state and societal actors in policy-making within economic sectors are then defined and operationalized. These features -state autonomy and capacity, sectoral interests and the policy networks through which they interact - are later applied to the Canadian telecommunications carrier sub-sector in an attempt to predict future policy directions.

### *Theories of the State*

Economic and political transformations in industrialized countries have rendered existing models of state-society relations inadequate to address the complex array of observed relationships between state agencies and societal groups. Given the complex nature of policy-making in industrialized nations, the major paradigms of state-society relations fail to account for the diversity of relations and policy outcomes within states and across different states. Moreover, the existing models are criticized for underconceptualizing the state's role in influencing both the formation and capacity of

organized interests. Citing economic decline, a loss in confidence of state capacity to effectively govern, and the meagre explanatory purchase of the existing models, some policy analysts are developing a new approach to the study of state-society relations that is grounded in empirical research.

Criticisms of the dominant liberal pluralist tenets of state-society relationships arose from Marxism, corporatism, consociationalism and neo-conservatism. The competitive dynamic of the pluralist model of state-society relationships was singled out as an impediment to effective economic management. "Organized capitalism," it was argued, "is considered in need of reorganization to check the disruptive consequences of competitive action, which were partly shifted from the market to the political arena and to the subsystem of collective bargaining and labour relations." (Marin, 1983: 199).

No systematic or comprehensive attempt to analyze the institutional and functional aspects of state-interest group relations was undertaken until the late 1970s. Lehmbruch cites methodological obstacles as the reason for the lack of this type of analysis, noting that, unlike political parties, "systems of interest intermediation constitute complex configurations subject to cross-cultural and cross-national variability." (1983: 154). These features pose several constraints for analysts, perhaps the most significant being a need to modify how we view state activity and power. They also highlight a need to assume the existence of a range of diverse relationships in national settings, and to encourage mid-range generalizations about the nature of the state and its interaction with societal groups.

An overview and critique of the assumptions underlying the pluralist, Marxist and corporatist notions of groups, the state, and power helps to explain the impetus for recent approaches to state-society relations. A detailed description of the development of these bodies of literature (i.e. from their traditional to their 'neo' forms) is beyond the scope of this study, but a review of each reveals an attempt to develop a more sophisticated view of state-society relations. It will be argued, however, that none has produced a satisfactory framework for observed changes in the patterns of state-society relations.

### *Pluralism*

Most pluralist models conceptualize politics as a system comprising two discrete units: interest (or pressure) groups, with government at the centre. Organized interests, according to this model, voluntarily and freely compete in the political marketplace. Societal preferences and values are relayed to decision-makers through "vectors of influence" running from interest groups to government, (Lehmbruch, 1983: 155) and the government "acts on these values to structure impartially the preferences of competing interests." (Mosco, 1988:114). Central to the pluralist model is a notion of 'equilibrium' analogous to that of market economics. In theory, the system is efficient because it provides the government with the best source of information about what society's needs are, sanctions the 'real' (prepolitical) equilibrium of power among societal interests "because it satisfies interests according to a weighted calculation of (groups') strength", brings expectations in line with what is achievable, and

screens out the general interest in the process of interest representation. (Pizzorno, 1981: 259). Because groups compete for membership based on narrow self-interest, domination of the system by one group is unlikely.

Pluralism has not provided a theory of the state, hence the predominant use of the term 'government'. The group theory segment of pluralism assumed the existence of an epiphenomenal state, but Dahl and Lindblom did ascribe some independent action to state agencies. The model, however, has no clear attitude toward the role of government. The state, according to pluralist theory, "is identified with individual political leaders ... rather than with an institutional administrative structure" (McFarlane, 1987: 137). The public and private spheres in pluralism are conceptually distinct.

### *Marxism*

According to Marxist theory, the organization of interests reflects, *a priori*, the division of classes in society. Unlike pluralist theory, instability is caused by economic, rather than political factors. The state represents the dominant bourgeois class in a relationship that Panitch refers to as a 'confraternity of power' (Coleman, 1986: 136). Political power is an extension of economic power because the state is structurally dependent on the owners of the means of production for capital accumulation. This makes it "impossible to speak of the state exercising power; rather the state is argued to be the terrain on which class struggle takes place." (Cawson, 1986: 51).

More recently, writers have developed Poulantzas' concept of

'relative autonomy of the state'<sup>1</sup>, whereby the state maintains some degree of autonomy from capitalist interests in order to (i) resolve disputes between capitalist interests to "facilitate capital accumulation and to permit the bourgeoisie as a whole to remain the dominant class" (Mahon, 1977: 170), and (ii) ensure the legitimacy of the state in the eyes of the electorate. Miliband argues that if state policy is an exercise of state power, rather than the product of structural influences, the state must have the capacity to pursue interests of its own (1982, 1983b).

### *Corporatism*

Three approaches to state-society relations fall under the rubric of corporatism. The first, authoritarian corporatism, views corporatism as a system of political economy distinct from capitalism and socialism, where the state controls and directs the economy. In the second approach, corporatist arrangements exist within a parliamentary form of state, with monopoly capitalism dominating the representation of interests. Finally, corporatism represents for some analysts an approach to the study of organized interests and the state. Based largely on the work of Schmitter, this last approach serves as part of a framework for much of the recent empirical work in the area of state-society relations that views organizational properties as decisive factors contributing to the ability of countries to cope with economic challenges. According to Schmitter,

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<sup>1</sup> See Poulantzas, 1975, 1978; Miliband, 1969; O'Connor, 1973.



(c)orporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports (Schmitter, 1974: 93-4).

Corporatist theory does not assess power and relationships in terms of either the individual or the class structure, but focuses on the process of collective action (Cawson, 1986: 9). Schmitter attributes the increased significance of organized interests - their proliferation, influence, and integration into the policy process - to a "shift in the nature and extent of public policy." (1981: 291). Public policy-making has become a more specialized, professional, and hence fragmented undertaking, reducing "private actors to the aggregation of those distinct facets of their existence to which the state has responded." (Cairns, 1989: 49). This stream of corporatist analysis shifts focus from societal tripartism to the sectoral, or meso-level of analysis.

Only the coercive intervention of the modern bureaucratic state to subsidize organizational existence; to license respective jurisdictions, to grant monopolistic access; to delegate tasks; to ensure selective privileges; to render membership obligatory *de facto* or *de jure* ;

to define issues, and hence affected interests; to insist on the provision of associated information; to encourage the formation of functionally organized 'partners' for the implementation of public policy; and so forth is likely to bring forth such an organized response from civil society (Schmitter, 1981: 291-92.).

For interest organizations, power is largely a function of social closure, whereby groups seek monopoly status in representing a particular interest. Corporatist structures promote class co-operation through common mechanisms of interest intermediation. Interest groups not only articulate, but aggregate demands. Hence organizational properties that aggregate demands are necessary for groups' success. As tensions within an interest organization must be reconciled before it can effectively negotiate on its members' behalf, the executive must retain some level of autonomy from its members. A primary distinguishing variable in the corporatist literature is the "extent to which major functional interests (are) integrated into central economic policy-making." (Cawson, 1986: 56).

No clearly defined or comprehensive theory of the state has emerged from the corporatist paradigm. However, some widely held assumptions about the state are evident. First, the state is not seen as a reactive or neutral player; through its agencies, the state influences the ability of various societal groups to effectively engage in the policy-making process. Second, the interpenetration of public and private spheres is explicitly acknowledged in corporatist literature, and is assumed to vary over time from state-to-state, and sector-to-sector. Macro-corporatist theory thus provides a theory of power

rather than a theory of the state. Many analysts in the corporatist tradition point to the Weberian notions of the state and power, where the

state represents a particular means of domination (in the Weberian sense of power relationships sanctioned by legitimacy). ...If the pluralist state is swayed by pressures, and the Marxist state is determined by class forces, the Weberian state is shaped by the nature of its organisation ... Power - state power - thus resides not in the hands of politicians, of business leaders, of trade unionists and so on, but in the organisation which has developed symbiotically - cause and effect - with the spread of capitalist rationality (Cawson, 1986: 57-8).

Rhodes notes that the examination of the role of the state raises the further question of how that role has changed (1986: 9). In this respect, he separates what he calls the 'figure', or the pattern of interactions between state and society, from the 'ground', which focuses on the distribution of power that sustains this pattern of interactions. The corporatist literature provides a useful attempt to explore the changing role of the state by analyzing the 'ground'.

### *The Need for a New Approach*

The existing models briefly outlined above are widely criticized for underconceptualizing both the state and observed relationships between the state and society. While the pluralist and macro-

corporatist paradigms do not offer comprehensive theories about the state, they do make broad generalizations about the nature of the political process - generalizations that offer meagre explanatory purchase in the search for productive concepts and methods in social science research. The pluralist model is most harshly criticized for its failure to account for both how state structures affect the formation and activities of interest groups in society, and the dynamics of collective action.<sup>1</sup>

Marxist thought has produced some useful concepts for examining state-society relations, particularly in its development of the concept of relative autonomy. But its distinction between the accumulation and legitimation functions of the state poses "intractable classification problems" for researchers, because state expenditures do not always fit neatly into one of the categories.<sup>2</sup> The significance of state structures and activities must extend beyond goal-oriented activity inherent in the concept of relative autonomy to acknowledge the power of the state to influence both the formation and capacity of societal groups. States possess, to varying degrees, the capacity to control the membership, access, and agendas of interest groups, as well as the timing of consultation between parties. Political and normative assumptions about social

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<sup>1</sup> See Coleman, 1986: 141. Pizzorno argues that the process of mediation inherent in the pluralist model creates "artificial" conflicts that arise not from societal cleavages generated by the organization of production, but by the apparatus of mediation itself. The system thus produces a vested interest in competition that mitigates against the type of consensus essential to effective policy-making. See Pizzorno, 1981; and Schmitter, 1981.

<sup>2</sup> Rhodes (1986: 14) uses the example of education spending, which can be viewed as a means of legitimation (a social investment in human capital) or as a type of collective consumption.

relationships justifiably occupy a central place in state-society analysis, but must not be permitted to obfuscate an appreciation of the complexities of policy-making across both nations and sectors of the economy.

Corporatism addresses changes in state-society relations, but fails to account for the mechanisms of change. Some argue that the corporatist model of relationship patterns is simply equated, at times, with institutionalized state-society relations because it overemphasizes organizational factors to the exclusion of policy content and distributional consequences. But this paradigm does affirm the role of the state as an entity that, in aggregating societal interests, must also meet its own needs for growth and power. According to Rhodes, the "consequences of this conception of government for policy-making are that values and interests institutionalized in policy communities are a crucial constraint on policy initiatives." (Rhodes, 1985: 26).

The above serves to highlight perceived deficiencies in the existing models of the relationship between the state and societal interests. In a complex political economy characterized by cross-cutting class and sectoral interests on the one hand, and a diverse range of state functions and sources of power on the other, a more nuanced approach that recognizes changed patterns of relations will help to explain variations in the policy-making process.

### *Recent Approaches to State-Society Relations*

Recent approaches to state-society relations reveal the aim of analysts to differentiate the types of arrangements that occur in policy-making. Wilks and Wright identify three major themes in recent studies of state-society relations: "first, the urgent need to break away from system-level macro-generalizations and to move towards empirically-based analysis, second, the comparative focus, and third, the effort to contribute towards a more productive theoretical approach." (1987: 275).

Coleman's work employs a range of concepts developed in the more recent literature to produce an empirical framework for the analysis of state-society relations. Central to this recent work in Canada are the concepts of 'policy community' and 'policy network'. Wilks and Wright define 'policy community' as a group of actors or potential actors whose community membership is defined by a common policy focus. (1987: 299). 'Policy network' is defined by Coleman and Skogstad as "a concept reserved for describing *the properties that characterize the relationships among the particular set of actors that forms around an issue of importance to the policy community.*" (1990: 26). More than one policy network may exist within a policy community, as not all policy issues will affect each policy actor. In his 1988 study of business associations, Coleman describes a policy network as

patterns of relationships linking a social category such as business with the state. These patterns will vary according to how

business and the state are organized and the degree of autonomy between these organizations (1988, 67).

Richardson & Jordan argue that policy communities are now the "dominant feature of policy-making in Britain" <sup>1</sup>; Rhodes' work in central-local relations utilizes the concept of policy community in his power-dependence framework (1985); and Katzenstein examines differences in domestic policy networks and how these differences affect international policy (1978). These concepts are particularly attractive due to their ability to encompass the diversity in relations that exists across both sectors and nations. It is expected that the focus on the sectoral, or meso, level combined with findings in the comparative literature will lead to more realistic mid-range generalizations of state-society relations than have been developed in the major existing paradigms.<sup>2</sup>

Central to the structural/institutional approach is the assumption that the preferences and values of policy actors are endogenously determined. The attitudes and actions of state actors are shaped by macro-political factors, internal resources, and their interactions with other state agencies. Exogenous variables such as economic structure, class, interest and technology, it is argued, influence but do not determine the range of policy options that a

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<sup>1</sup> 1979. See Wilks & Wright, 1987: 295.

<sup>2</sup> Writers in this stream of analysis include R.A.W. Rhodes (power dependence, policy communities and networks), J. Zysman (financial systems and industrial change), K. Dyson (role of the state and industry culture), G. Lehmbruch and P. Schmitter (corporatism), P. Katzenstein (autonomy and authority of state organizations), W.D. Coleman (business interest associations), and S. Krasner (state autonomy).

given institution can support (Atkinson & Coleman, 1989: 5). Political institutions - characterized by their rules of operation, intra-organizational structures, and operating practices - structure political discourse and rationality within an institution, providing an endogenously-defined notion of rationality.<sup>1</sup> While national policy structures and instruments influence the 'negotiated order', or policy network, within an issue area, they do not foreclose all options available to a particular sector. Institutional assumptions further regard the ideas, norms and values of policy actors as products of historical developments. Hence, Coleman's framework for analysis identifies the nature of state structures, industry organization, and systems of interest intermediation at the sectoral level using both historical evidence and interviews with those in a given policy community.

Following an overview of Coleman's framework and methodology, this study will explore the history of the telecommunication carrier sub-sector and how its market structure and policy development infuse the policy community. Interviews with representatives from government agencies, industry associations, public advocacy groups, individual firms, and experts furnish the basis for exploring the value systems, relationships among policy actors, and "ultimately the relative capacity for action of each member of a policy network."<sup>2</sup>

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<sup>1</sup> See Atkinson & Coleman, 1989: 6, or Coleman & Skogstad, 1990: 2, for a detailed argument.

<sup>2</sup> Coleman & Skogstad, 1990: 3. The main survey instrument is appended.



*Framework for Analysis: Policy Community and Policy Network*

The concepts of state autonomy and capacity, organizational development of societal interests, and policy networks form the basis for this analysis of policy-making in the Canadian telecommunications carrier industry. In moving to an operational treatment of the model, three major components are identified, including the specific criteria by which each is assessed.

The State: The first set of structures in Coleman and Skogstad's framework, autonomy and capacity of state agencies, encompass the variability of state activity across policy sectors. These variables are influenced by macropolitical institutions, which shape policy discourse and define the limits of state activity in individual sectors. The level of organizational development of societal interests is assessed according to the role that organizations seek to play in policy development, their internal organizations and relationships with other societal actors, and the structural effects of both the market configuration and government influences within a given policy area. Coleman's typology of policy networks, presented at the end of this chapter, demonstrates that discrete patterns of relationships among actors in a policy community can be identified as a product of their institutional/structural properties.

The first step in the policy networks framework is to examine state autonomy and capacity within sectors. State autonomy is the degree to which the state agency is differentiated from societal

interest organizations; if an agency is autonomous, it will define and generate policy objectives internally, rather than entirely reflecting the interests of its client. State capacity is characterized by its ability to draw upon its resources to develop and implement policy objectives. This ability is grounded in the skill of bureaucrats, the level of available financial resources, and the agency's ability to co-ordinate the activity of other participants in policy-making. "Important is the state's ability to co-ordinate and concentrate decision-making, through either single agency dominance or inter-departmental committees." (Coleman & Skogstad, 1990:31). Where authority is diffused among bureaus and levels of government, overlapping jurisdictions and bureaucratic competition limit the range of policy options available in a sector. In sectors with weak state structures,

a wide range of politicians and bureaucrats can claim some jurisdiction, no institutions exist to link their activities, and a more traditional division of labour prevails. Such bureaucratic pluralism encourages incremental, short-term decision making that is based on lowest common denominator criteria and always vulnerable to the introduction of a partisan political calculus (Atkinson & Coleman, 1989: 79).

Autonomy and capacity are related in that bureaucratic centralization enhances the capacity to perform the co-ordinating function, but they do not always occur together.<sup>1</sup> The existence of

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<sup>1</sup> This discussion is based on Coleman & Skogstad (1990:6).

one or both is relative to the organizational development of societal actors, the degree to which authority is concentrated in one bureau, and that bureau's willingness to act autonomously (without the support of its client community). Despite weakly organized societal interests, an autonomous agency may find it impossible to proceed with its agenda if it cannot control access to the policy network. This is typical where authority is dispersed among other bureaus with a mandate to exert authority, or able to enlist the support of particular societal groups within a policy sector. Hence, support from well-organized societal interests may enhance the bureau's capacity. Coleman and Skogstad caution, however, that "the line between state-societal interdependence and state autonomy is a fine one. In policy sectors where societal-state relations are embedded and politicized, state autonomy may be sufficiently attenuated to exist 'only at the margins'." (1990: 7). They cite other instruments that a state agency may use to enhance its strength:

Autonomy may be increased by the state's exploiting its jurisdictional base, defining its legislative mandate so as to leave extensive pools of discretionary power in the hands of cabinet ministers and their officials, and making symbolic and minor substantive concessions that do not threaten agenda control (1990: 7).

Events outside a given sector can motivate both an agency's attempt to bolster its strength, and societal incentives to organize. Increased global competition, for example, can induce an agency to enhance control of its agenda in a policy sector to mitigate against

the effects of instability. Societal groups may also mobilize in response to changes in the international environment.

Sectoral Interests: Related to the strength of the state across policy sectors are differences in the organizational development of societal interests. Functional and sectoral features of business interest organizations are examined as they relate to the organizations' roles in policy formation and implementation. Organizational development is influenced by the role -'policy advocacy' or 'policy participation' - the sectoral association seeks to play in policy-making. Policy advocacy refers to attempts by organized interests to influence policy from outside of the policy process, while policy participation refers to the involvement of the group in both policy formation and implementation.

For groups outside the policy process, "the guiding principle of action is competition, the capture of distributional benefits, normally at the expense of other social groups, organized or unorganized." (Coleman, 1988:48). The advocacy association must have the capacity to assess the policy process, the political impact of policy initiatives, and the economic and structural effect of policies on its members (Coleman, 1988: 49). Internal cohesion is essential for those groups engaged in policy advocacy; the organization's strength is based on the political strength of its members, and it must be able to mobilize support both within its membership and the public. This ability is enhanced when the organization limits its mandate and objectives to narrowly defined interests.

Policy participation assumes a higher degree of organizational development of societal interests, involving a number of tasks associated with both policy formation and policy implementation. The organization will participate in formulating guiding principles, operationalizing rules and legal text, and drafting the actual text of a law, directive or regulation. It may also be involved in the implementation of policy through administrative support, ensuring compliance of its members and handling sanctions and appeals.

According to Coleman, two features determine the capability of organized interests to participate in policy-making. First, a group must have the ability to "order and co-ordinate the complex range of information and activity that it is asked to assume by its members and other organizations." (Coleman, 1988: 51). This ability derives from two structural properties of the organization - its domain and structure. Second, it must be autonomous from both its own members and the state in order to "establish a broader perspective about its members' interests," ensuring the co-operation of its members, and even to mediate between its members and the state (Coleman, 1988: 51). An association possessing resources and achieving a kind of monopoly status in representing the various interests in a given sector will gain recognition by the state as a partner in formulating and implementing policy (Coleman & Skogstad, 1990: 22).

The integration of diverse interests within an associational system (the associations within a given domain) occurs through either a single association with an encompassing and highly differentiated domain, or a sectoral *peak association* (an association

whose members are associations). While the guiding principle of policy advocacy associations is competition, that of associations equipped to engage in participation is organizational *concertation*. Coleman cites Streeck and Schmitter on the dynamics of concertation as

negotiation within and among a limited and fixed set of interest organizations that mutually recognize each other's status and entitlements and that are capable of reaching and implementing relatively stable compromises (pacts) in the pursuit of their interests (1988: 52-3).

In both individual and peak associations, the domain, structure and resources contribute to the ability of sectoral interests to engage in policy participation.

Coleman categorizes the domains of associations using the standard industrial classification (SIC) used by Statistics Canada to classify levels of aggregation in the economy. The domain of an association or associational system is assessed according to the potential range of firms that might become members, including (i) market structure (type of product or service, size of firm, ownership structures); (ii) operating territory (national, regional, local); and (iii) function (trade association, employers association, commercial association) (1988: 52). A policy capable associational system will be comprehensive and highly differentiated, consisting of 'sub-units' that vary in the breadth of their domains.

The ability of associations to integrate their constituent sub-

units will depend, in part, on the structure of the association or system. An encompassing and differentiated associational system will be "capable of furnishing specialized information pertinent to particular, highly technical, policy issues." (Coleman & Skogstad, 1990: 21). High differentiation will also avoid the domination of special interests within an associational system, because the structure will aggregate various interests through divisions, committees, fee schedules, etc. into a broad industry perspective on policy issues. Five properties are summarized in Table 4. First, a policy capable association or system will be horizontally differentiated by product or service, territorial interests or functional tasks. Second, it will be vertically differentiated by product or service group and by territory from specialized to general levels of the economy. Third, the association or system will be vertically integrated; committees and executive structures will provide an integrative function by crossing and aggregating the discrete horizontal and vertical units across each level of the economy.

Differentiation and integration are typically achieved through peak associations in which authority flows downwards through each level of aggregation in the economy from peak associations representing all business to divisional associations to major sectoral associations. Such encompassing organizations are equipped to participate in policy-making; they ameliorate the state's need to reconcile several conflicting interests and are positioned to help implement policies.

**Table 4**  
**Criteria for Associative Policy-Making Capacity**

<u>POLICY CAPABLE ASSOCIATIONS</u>	<u>POLICY WEAK ASSOCIATIONS</u>
<b>Properties of Associational Systems</b>	
Systematic horizontal differentiation by product and by territory at each economic level.	Horizontal differentiation is not systematic and has gaps.
Systematic vertical differentiation by different economic levels.	Vertical integration is not systematic and has gaps.
Comprehensive vertical integration across product, territory and economic level, with authority flowing down.	No vertical integration; limited ad hoc horizontal alliances among associations.
Concentrated in a minimal few associations.	Fragmented in many associations.
No competition among associations.	Associations compete for members.
<b>Structures of Individual Associations</b>	
Horizontal differentiation by product, territory and function.	Little or no horizontal differentiation.
Vertical integration through coupling committees and executive structures.	No vertical integration; association uses an encompassing flat structure.
No competition for members.	Competition for members.
High density of representation.	Low density of representation.
<b>Resource Diversity</b>	
Finances from various sources.	Finances primarily from members or from selective benefits.
Diverse basis of member support.	Singular basis of member support.
Balance between staff professionals and members' expertise.	Few staff professionals; members' expertise dominant.
Balance between administrative head and elected executive.	Elected executive dominates administrative head.
Generates own information base.	No independent information base.
State privileges.	No state privileges.

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Source: Coleman, 1988: 55, Table 9.



The fourth and fifth properties reflect the comprehensiveness of representation at each level of aggregation. At higher levels, very few associations will represent the range of interests within their respective domains. With mutually exclusive domains, most potential members will belong to a given association and there will be no competition for members.

Policy-making in Canada, according to Coleman, is typically characterized by policy-weak associational structures. Without fully representative organizations possessing exclusive domains, the state is forced to deal with many individual associations and firms within a given sector. "Not only is the state then likely to be reluctant to involve associations in policy formulation, it will not have an obvious partner to help implement the policy of concern." (1988: 56).

The resources of an association will influence whether it performs an advocacy or participation role, and its ability to remain autonomous from both its members and the state. Two major components of an association's resources are of particular significance: its level and sources. According to Coleman's survey of Canadian associations, heavy reliance on either member contributions or state funding can emasculate the power an association derives through autonomy from both its members and the state (1988: 40). The remaining resource properties are concerned with the functional balance in an organization between an association's staff and its members. First, a balance between the contribution made by professional staff, members and the state enhances the ability of an association to develop relatively

independent positions on policy issues that demand reflection over the longer term. Similarly, the delegation of authority to an administrative head from the elected head and board of directors to formulate policy independently-particularly in an association that elects its executive annually - enhances consistency and longer term planning. A policy-capable association will also generate its own technical information through co-operation between professional staff and member firms. In this manner, it avoids limiting itself to "cataloguing member's policy demands." (1988: 60).

In their collection of sectoral analyses, Coleman and Skogstad found that

higher levels of organizational development increase the likelihood that specific societal interests will achieve their desired policy outcomes. Strong associational systems favour success in procuring public policy outputs or in gaining seats on advisory, possibly, governing councils. In the absence of a well developed associational system, organized interests are likely to succeed only with the support of other institutions or with the possession of purposive incentives that are deeply held (1990: 320).

### *Policy Communities and Policy Networks*

Finally, through an examination of the interaction of the state and business associations, the nature of relationships and power in policy-making across both sectors and nations is illuminated. Drawing from Pross, Coleman and Skogstad divide 'policy community'

into two components: the 'sub-government' and the 'attentive public'. The sub-government is the core, or centre, of policy-making, typically consisting of the main state agencies and societal groups active in a policy area. The 'attentive public', whose membership is more loosely defined, consists of state agencies, interest groups, the media and other experts who, rather than participating regularly, influence policy indirectly.<sup>1</sup> International bodies (such as the Organization for Economic Co-operation and Development and the United Nations), multinational corporations and foreign governments may also belong to a policy community, and conversely, Canadian policy communities may seek to influence the activities of these organizations (Pross, 1986: 103).

The value of 'policy network' as a conceptual tool lies primarily in its ability to address the increased differentiation of functional interests in state-society relations. Rhodes argues that

a major test confronting political systems in any advanced industrial country is ... that of securing co-ordinated policy actions through networks of separate but interdependent organisations where the collective capabilities of a number of participants are essential for effective problem solving (1986: 20).

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<sup>1</sup> (1986: 96-107). The sub-government, as defined by Pross, is limited to the minister and senior officials of the lead agency for policy and programs in a given policy area, important provincial counterparts, and interest groups whose participation and support are considered "essential" to policy-making within a policy area (98). Other federal government agencies heavily involved in that area of policy may also be considered part of the sub-government. The attentive public plays an indirect, but important function in the policy process. According to Pross, the attentive public serves to "maintain a perpetual policy-review process. It introduces into the policy community an element of diversity inhibited at the sub-government level by the need to maintain consensus" (99).

The nature of policy-making institutions and the process of interaction among policy actors are affected by macropolitical factors, the most significant of which is the legitimacy of state intervention in the economy, construed at the national level. Wilks and Wright identify 'national styles' as a logical point of departure for testing hypotheses at the meso level of analysis, because prevailing social, political and economic values impose constraints on policy choices available within sectors (1987: 4). From models of state intervention - classical and post-pluralist, class, and corporatist - state-societal relations are compared using a continuum that ranges from pluralist on one end, to more developed forms of corporatist, and *etatisme* at the other end. Integral to such explanations of state intervention in the economy is the concept of industry culture, developed primarily in 'state-centred' analyses of policy-making (Coleman, 1988: 222).

Coleman uses Lehmbruch's typology of interest representation to classify differences across the key variables - autonomy and capacity of state actors and organizational development of societal interests - into six "ideal types" of policy networks. These types are derived from a scale of corporatism that incorporates dominant macropolitical characteristics, described in Figure 2. Moving from pluralist to strong corporatist, Coleman finds the associational system becomes more 'developed'. Higher levels of integration reduce defections, vertical integration becomes formalized within classes, and horizontal relationships between classes become more informal (conducive to negotiation).

**Figure 2**  
**Modes of State-Society Interaction**

Pluralism-----Weak	Corporatism-----Medium	Corporatism-----Strong	
			Corporatism
Canada	U.K., Italy	Bonn Republic, Switzerland	Austria, Netherlands

In Canada, pluralism is the dominant national style, although Coleman found other patterns of relations obtain in some sectors or policy networks. The classification is intended as a heuristic device, as not all state-society relations will evidence consistent patterns. The types of policy networks are illustrated in Table 5: pressure pluralist, co-optive pluralist, clientele pluralist, corporatist, concertation, and state-directed.<sup>1</sup> These can be categorized into three general types - pluralist, closed and state-directed - which are explained below. According to Coleman, the different policy networks can be viewed as different processes by which societal interests translate their economic power into political influence. In a clientele network, an association "shares directly in political decision-making and is sufficiently strong to exclude other classes or organized interests, such as consumers, from the process." (1986: 145). In a corporatist network, societal interests possess political influence, but are required to share any delegation of state authority with both other societal interests and state agencies. Finally, in pressure pluralist networks, industry associations do not participate directly

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<sup>1</sup> Coleman, 1988; Atkinson & Coleman, 1989; Coleman & Skogstad, 1990. A fourth pluralist network - parentela - is identified in Coleman and Skogstad's analysis, but is not included here.

in the policy process, but influence policy through an advocacy function. Although business normally possesses more resources than other societal groups, it will be less certain to secure the interests of its membership than in clientele or corporatist networks (Coleman: 1988: 170).

Pluralist: Coleman identifies three types of pluralist networks: pressure, co-optive and clientele. In all three, state power is diffused and its co-ordinating capacity is correspondingly weak. Sectoral interests pursue their objectives independently of one another. Associational structures will not accommodate new interests. Instead, coalitions and alliances will form and disband around particular issues. State agencies and organized interests maintain a bilateral relationship, each seeking to strengthen its position by invoking the support of the other. Policy-making is focused on the short-term, "catering to individual centres of power in society." (Coleman, 1988: 71).

Closed: Because of the strength of both state and societal policy actors, and the relative monopoly of authority possessed by each in the policy process, corporatist and concertation networks are described by Coleman and Skogstad as closed policy networks. In both networks, state agencies are autonomous and differentiated from societal interests. Authority is concentrated within a single agency that is able to control access to the policy network and effectively co-ordinate policy (1990: 28).

State directed: Weak societal interest representation and a

strong, autonomous state combine to form a state directed policy network. The associational system resembles that of a pressure pluralist network, and the state is willing to proceed with its own agenda without consulting interests in the policy community. Atkinson and Coleman describe the political-administrative style as "one of managerial directive followed by a polite briefing." (1989: 87). In Canada, they argue, state direction can obtain only with commitment from the political centre. This may be less so, however, in social policy areas falling outside the realm of producer-group interests.

**Table 5**  
**Policy Networks**

<i>Properties</i>	Pressure pluralism	Co-optive pluralism	Clientele pluralism	Corporatism	Concertation	State directed
State autonomy from sectoral interests.	High	Low	Low	Moderate	High	High
Concentration of state authority.	Low	Low	Low	Moderate	High	High
Mode of intervention by societal interests.	Firm or association	Association/ monopoly firm	Association/ monopoly firm	Association	Association	Firm or association
Role of organized interests.	Advocate	Participant in design and formulation	Participant in implementation	Participant in all phases	Participant in all phases	No advocacy or participation role
Number of groups.	Many (Bilateral)	One	One	Several (Multilateral)	One	Several
Integration of associational system.	Low	Low	Low	High	High	Low
Control of associations over their members.	Weak	Moderate	Moderate	Strong	Strong	Weak
Dominant type of policy.	Allocative/ Distributive	Regulatory/ Self-regulatory	Regulatory/ Self-regulatory	Redistributive	Regulatory	Allocative/ Distributive

Sources: Coleman, 1988: 70; Atkinson & Coleman, 1989: 82-86; Coleman & Skogstad, 1990: 27-29.



*State and Society in Canadian Telecommunications*

In this chapter I have compared Canadian telecommunications policy-making with that of other industrialized nations, and argued for a sectoral approach to the study of state-society relations. The relationship between the macro and meso levels itself is treated as a variable, facilitating comparison across sectors and nations. In sectoral studies to date, researchers have found no one 'industry' level policy community, but several. In Canada, Coleman argues "it is incorrect to speak of a single business community ... There is rather a series of autonomous communities, joined often only by the tenuous ties of large conglomerate firms." (1988: 219). Similarly, it is possible to generalize that not only do sectors and sub-sectors differ in Europe, the U.S. and Japan, but also "issues or problems common to two or more countries are likely to produce different structures of dependent relations" in policy-making (Wilks & Wright, 1987: 5).

The policy community and policy network concepts are particularly useful to researchers who seek to explain the existence of different patterns of state-society relations, and why certain policy outcomes emerge in different sectors and in different countries. Coleman's framework for analysis operationalizes the variables that enable us to compare state-societal relations in policy-making across economic sectors. This framework examines the autonomy and policy-capacity of state actors, the organizational development of societal interests and the patterns of interactions, or policy networks, through which they interact. Each type of policy network assumes the existence of a particular distribution of power

within a policy community.

In addition to the policy role conferred to business interests by the state, Coleman identifies differences across sectors and sub-sectors in the degree to which business converts economic into political power. Seven aspects of economic structure relate to the structures and activities of associations and the types of policy networks through which they will interact with other interests: industrial concentration, firm size, geographic concentration, product mix, import/export orientation, foreign/domestic ownership, and conflict with related sectors (1988: 219: 235). Telecommunications offers an example of how these variables also can change relationships and structures over time. The relationship between technology and economic structure in telecom presented in chapter 1 demonstrates the extent to which a mature sector can find its strategic environment altered. Can this policy community devise an effective strategy for its future?

Using the concepts of policy community and policy network, and the framework for analysis developed in this chapter, I will discuss the Canadian telecommunications industry structure, its history and policy regime. Later, the effects of industry structure and state policies on the nature of the associational system will lend insight into the types of policy networks, and expected policy outcomes that this model predicts.

## CHAPTER 3

### Industry Structure and Policy Environment

Until recently, natural monopoly, direct economic regulation, meagre attention from government, the carriers' expertise, high capital investment and homogeneity, and the need for systemic integrity have together produced a closed, clientele policy network in telephony. However, today the interplay of technology, markets and government policy is limiting the monopoly carriers' access to clientele networks, yielding pressure pluralism in some policy areas. This chapter will elucidate how the factors Coleman attributed to variations in the conversion of economic to political power - industrial concentration, geographic concentration, firm size, product mix, import/export orientation, foreign/domestic ownership and conflict with related sectors - bear on the transition from a closed to an open policy community in the carriage sub-sector.

In order to refine the contours and explain the nature of the policy community, its associational system and links to industry structure, I will further develop the economic context, and the effect of state structures and policies specific to the telecommunications sector. An overview of the regimes and policy development in telecommunications will situate the role of the state historically, and describe its evolution to the present.

*Historical Overview of Telecommunications in Canada*<sup>1</sup>

Commercial use of the telephone was initiated by the telegraph companies; the Hamilton District Telegraph Co. established the first telephone exchange in Canada in 1878, and one year later the Dominion Telegraph Company opened an exchange in Montreal. Although the telephone met with high demand and rapid geographical dispersion, these companies only reluctantly leased telephone instruments and provided telephone connections to their telegraph customers. The Dominion Telegraph Company had dismissed an offer of exclusive Canadian rights to the telephone for \$100,000 made by Alexander Graham Bell's father, Melville Bell. According to Armstrong and Nelles, the U.S. National Bell Telephone Company purchased Melville Bell's interest in 1879 - but only "to prevent the Canadian territory from going begging." (1986: 68).

Armed with incorporation by a Special Act of the Canadian parliament in 1880, the company set out to acquire patents and other telephone interests, consolidating its hold on the Canadian market. Under the stewardship of Charles Fleetwood Sise, the Bell Telephone Company of Canada easily added the telephone interests of both the Dominion and Montreal Telegraph companies to its acquisitions, and later acquired larger telephone interests in the Maritime provinces, Ontario, Quebec, and the prairie provinces. Following the strategy of Bell's U.S. parent, Sise sought to fully

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<sup>1</sup> See Ogle, 1979: 37, 40-42.

occupy the field; he organized the company into regions, each controlled by a Bell agent, aggressively pursued those he deemed were infringing on the company's patents, and standardized operating procedures for all of Bell's interests (Armstrong & Nelles, 1986: 69-71).

Demand and revenues grew at a rate that surprised even Bell executives. "It is little wonder, therefore, that the telegraph interests, themselves amalgamated in 1882 into a national monopoly (the Great North Western Telegraph Company), ... began to express open concern about the loss of business to the telephones, and there were rumours of possible competition soon from that quarter." (Armstrong & Nelles, 1986: 71). As part of its strategy to ward off competition, Bell entered into service-swapping and pole-sharing contracts with the telegraph companies and railroads, and by the mid 1880s had negotiated exclusive rights to provide telephones for railway stations and depots, free railway passes for executives, and permission to string its wires on the railways' telegraph poles and bridges. By 1905, it had also secured exclusive franchises with 36 municipalities (Armstrong & Nelles, 1986: 110).

Bell originally intended to service the entire country, but decided by 1887 that it could not finance operations for the whole of Canada. Shortly after the turn of the century, elected officials, municipalities and disgruntled customers formed a populist movement to agitate for public ownership or regulation of public utilities. By 1905, Bell was summoned by a federal commission to respond to complaints from customers, municipalities and

competitors of discriminatory service and predation.<sup>1</sup> The federal government did not opt for public ownership, but rather empowered the Board of Railway Commissioners to regulate telecommunications in 1906.

Small independent and cooperative telephone companies emerged across the country to fill the high demand for telephone service in the less populated areas not serviced by Bell. Public pressure for access and quality of service in the Prairie provinces led the governments of Alberta (1908), Manitoba (1908) and Saskatchewan (1909) to purchase Bell's local plant and establish Crown corporations.<sup>2</sup> From 1885 to 1889, investor-owned companies purchased Bell's interests in the Maritimes, with Bell retaining a sizeable interest in them. For governments, regional monopolies served two purposes. First, large-scale investment strategies could be deployed through a single company. Second, the regional monopolies' acquisition of rights-of-way alleviated the mass of wires then being strung by other companies and individuals to establish telephone service.

The Canadian telephone pioneers' dream of a circuit linking the east and west coasts echoed that of building the national railway. Said J.J. Winfield, general manager of Maritime Telegraph &

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<sup>1</sup> See Mulock Commission, Report, 1905. While these proceedings initially caused concern for Bell Telephone, the federal government eventually withdrew its support for the Commission, and no report was submitted. Indeed, one of Bell's chief counsel in the proceedings soon thereafter replaced a discredited Sir Mulock as Postmaster General.

<sup>2</sup> Public ownership in Saskatchewan, unlike its neighbours, took the form of control of telephone service through a regular government department rather than a Crown corporation. For a thorough account of the push for public ownership in the Prairies, and the subsequent financial difficulties faced by the provincial governments, see Britnell, 1934, and Spafford, 1961.

Telephone in 1921, "As a telephone man, I hope the day will arrive when instead of only a band of steel from coast to coast and a 120-hour journey linking the furthest East and the furthest West provinces, a band of copper and a few hours will bind them still closer." (Morrison, 1976: 120). This goal, and the routing of signal through American carriers, led to the formation by major Canadian carriers of the Trans-Canada Telephone System (TCTS) in 1931. The association developed and built an integrated coast-to-coast network (the "All Red" Line) which was completed in 1932.

The period covering the 1930s to the 1950s was relatively inactive; there was essentially little change or development in telephony. TCTS's completion of the world's longest single microwave system in 1958, and the advent of automatic dialling, however, marked the beginning of a trend in technological advance that continues today at a much-accelerated pace.

### *Corporate Structure*

The organizational structure of the Canadian telecommunications industry is grounded in a historically rigid distinction by type of service, i.e., telephone and telegraph companies have operated under *de facto* exclusive monopoly conditions within their respective domains for public message service, and limited competition in the provision of dedicated or private lines. During most of the early years of telephony and telegraphy, there was limited competition; patent licenses were distributed to railway and independent companies on a regional basis with the railways (Canadian National

Railways and Canadian Pacific Limited) operating under telegraph franchises along their lines. While there was a degree of co-operation between the railways and Bell Canada in the early years,<sup>1</sup> telephony and telegraphy developed separately.

The position of the telephone and telegraph companies in the overall industry structure has changed very little since the industry's early years except for some mergers and acquisitions. The two major railways began to pool their telecommunications operations in 1947, eventually forming CNCP Telecommunications (now Unitel Communications Inc.), which dominates the telegraph market, and the major telephone companies continue to be integrated through Telecom Canada. The corporate structure in telecommunications essentially mirrors the traditional distinction between voice and non-voice, and public switched and private leased services.

Although it is characterized by diverse ownership patterns, size and distinct operating territories by company, the carriage sector overall features high levels of both horizontal and vertical integration. Telecom Canada's main functions are based on a connecting agreement that provides for the division of long-distance and other revenues among member companies through its Revenue Settlement Plan (RSP), technical standards development and marketing in support of the trans-Canada system. Its management committee (board), which is represented by one vote for each member, makes decisions based on unanimity, and its composition is limited to existing members. The size of member firms corresponds

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<sup>1</sup> See Mulock Commission, 1905, vol. I.



roughly to the population densities of the territories they serve. Within Telecom Canada, Bell's dominance is reflected in its market share (in terms of total operating revenues), of approximately 52 per cent (Schultz & Alexandroff, 1985: 65). B.C. Tel and AGT are the next largest, with 12, and 10 per cent, respectively. No other member accounts for more than four per cent of the total.

Table 6 presents an overview of the major telecommunications service providers, their ownership, and operating territories. Telecom Canada operates two nation-wide microwave networks that form the backbone of Canada's telecommunications local and long-distance network; switched voice message service constitutes the bulk of Telecom Canada member revenues.

**Table 6**  
**Canadian Telecommunications Carriers**  
**Corporate Structure**

Company	Ownership	Type	Territory
Bell Canada*	Private	BCE Inc.-owned	Ontario, Quebec,
British Columbia Telephone*	Private	GTE-owned	British Columbia
Unitel Communications	Private	CP and Rogers <sup>a</sup>	Canada
Teleglobe Canada	Private	Teleglobe Inc.	Int'l/Overseas
Telesat Canada*	Priv/Pub	Investor-owned <sup>b</sup>	Canada
Northwestel	Private	BCE Inc.-owned	Northwest Territories, Yukon, and Northern British Columbia
Alberta Government Telephones*	Priv/Pub <sup>c</sup>	Crown Corporation	Alberta
Saskatchewan Telecommunications*	Public	Crown Corporation	Saskatchewan
Manitoba Telephone System	Public	Crown Corporation	Manitoba
Maritime Telegraph and Telephone*	Private	Investor-owned	Nova Scotia
New Brunswick Tel.*	Private	Bruncor Inc.-owned	New Brunswick
Quebec Telephone	Private	Investor-owned	Quebec
Newfoundland Tel.*	Private	NEL-owned	Newfoundland
Telebec	Private	Investor-owned	Quebec
Island Telephone*	Private	Investor-owned	Prince Edward Island
Northern Telephone	Private	Investor-owned	Ontario
ED TEL	Public	Municipal corp.	Edmonton
Thunder Bay Telephone	Public	Municipally-owned	Thunder Bay

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 GTE is an American telecom company located in Stamford, Connecticut

CP Ltd. - Canadian Pacific Limited

NEL - NewTel Enterprises Limited

Rogers - Rogers Communications Inc.

\* Telecom Canada Members

<sup>a</sup> Formerly CNCP Telecommunications. CP Ltd. and Rogers hold 60% and 40% of Unitel, respectively.

<sup>b</sup> An incorporated company owned by the Government of Canada and the major telephone companies. The federal government plans to divest its interest in Telesat.

<sup>c</sup> AGT is currently undergoing privatization.

Source: CRTC, Annual Report 1988/89, p. 59.

Apart from the integrating forces of membership in Telecom

Canada, the carrier sector is horizontally integrated by ownership. In addition to ownership of Bell Canada, Bell Canada Enterprises controls a sizeable interest in the telecommunications sector as a whole, including seven smaller carriers (Newfoundland Telephone Company through interest in parent Newtel Enterprises, The New Brunswick Telephone Company through interest in parent Bruncor Inc., and The Island Telephone Company through interest in parent Maritime Telegraph and Telephone Company, Telebec Ltee, Northern Telephone and Northwest Tel), Tele-Direct (Publications) Inc., Canada's leading telecom equipment manufacturer, Northern Telecom (52.9%), Bell-Northern Research (30%), BCE Mobile (65.5%), approximately 25 per cent of Telesat, and a one-third interest in Telelobe Canada (BCE Inc. 1989 Annual Report: 10).

Vertical integration between the carriers and equipment manufacturers also has long been a prominent feature of the telecom sector. Both Bell Canada and B.C. Tel integrated backward to create manufacturers (Northern Telecom and AEL Microtel, respectively) that have flourished under monopoly conditions. Similar links exist between AGT and Novatel, and Telesat and Spar Aerospace. Moreover, Bell-Northern Telecom and B.C. Tel-Microtel jointly control their own research and development facilities. Bell-Northern Research is the largest private R&D undertaking in Canada.

Telecom Canada members typically account for 96 to 99 per cent of total carrier revenues (Schultz & Alexandroff, 1985: 65), although there are nearly 70 carriers in existence (Statistics Canada, Bulletin 56-203, 1988: 10). Most of these are smaller, independent telephone companies located in Ontario and Quebec, with two of the

largest (Edmonton and Prince Rupert) in the West. Except for Quebec Tel., which has associate membership, the independents operate without Telecom Canada affiliation, but rather negotiate revenue settlements with Telecom Canada members.<sup>1</sup> The overall number of terrestrial carriers - particularly the small independents - has decreased since the early 1900s, most of them being acquired by the larger telcos. Finally, approximately 200 radio common carriers provide paging, mobile radio, and repeater service, as well as some enhanced services.

The specialized common carriers, including Unitel, Telesat and Telelobe are beginning to operate in more competitive and less rigidly-defined markets. Unitel's strength has been the product of strategic diversification. Currently providing telegraph, telex, public data, facsimile, network management, and television broadcast signals on both microwave and satellite transmission, Unitel has avoided coupling its fate to that of telegraph service. While offering voice service as well, Unitel is presently restricted to providing private lines. The company began to actively seek entry into the lucrative public long-distance market in the mid 1970s, leading to a formal application to the federal regulator in 1983. The CRTC denied Unitel's application to interconnect with the public switched network, but it did enunciate support for competition in principle.<sup>2</sup>

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<sup>1</sup> ED TEL has a lengthy history of dispute with AGT over long distance revenue shares. See Lightbody, 1989, for an interesting analogy of this relationship to a game of 'poker'.

<sup>2</sup> CRTC Telecom Decision 85-19. The CRTC cited two reasons for rejecting Unitel's 1983 application. While the Commission expressed support for competition in principle, it doubted that Unitel could generate a "reasonable" internal rate of return should it provide the service quality standards of Bell Canada and B.C. Tel, pay full contribution payments, and offer discount prices

Unitel was created from a 1989 partnership between Rogers Communications Inc. and Canadian Pacific Telecommunications, adding Rogers' already extensive optical fibre network supporting its cable service, and a cellular telephone operation (Cantel Inc.) to the services formerly offered by CNCP. Bolstered by Rogers' strength, Unitel filed a second application to the CRTC in 1990 for approval to enter the public long-distance market in competition with Telecom Canada members. Unitel's attempt to provide competitive long-distance service carries two major implications for Telecom members. First, if successful, it could break the hold of Telecom on the national market. As a single company, it would offer a consistent package of services across the nation, which many business customers are demanding and Telecom cannot always provide. Second, Telecom's RSP would come under intense pressure: Bell Canada would be unlikely to contribute funds to lower costs for provinces with large rural subscriber bases if facing competition in its high volume segments.

Satellite service is provided by Telesat Canada, which began commercial service as a carriers' carrier (leasing transmission capacity to the terrestrial carriers) in 1974. Telesat is jointly owned by the federal government (53%), Telecom Canada members, Quebec Telephone, Ontario Northland Transportation Commission, Canadian National and Canadian Pacific. Servicing the terrestrial networks, Telesat provides voice, data, facsimile, television and radio

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to its customers (45-47). Therefore, the Commission concluded, the benefits of competition would not be realized. Concern was also raised about the impact of competition on the current system of cross-subsidy that keeps local telephone rates below costs (48).

transmission; and since obtaining CRTC approval in 1986, offers service directly to end-users. The federal government is seeking to privatize Telesat, but to date has not secured a deal.

Teleglobe Canada handles overseas telecommunications traffic (telephone, telegraph, TWX, telex, and other services) through gateway switches located in Vancouver, Toronto and Montreal. Set up as a federal Crown corporation in 1950 (as the Canadian Overseas Telecommunications Corporation), Teleglobe Canada was privatized, purchased by Teleglobe Canada Inc. (formerly Memotec Data) of Montreal in 1985, and brought under regulatory control. Representation of Canada's interests in international fora such as INTELSAT, INMARSAT, and the International Telecommunications Union remains with Teleglobe. In 1991, Teleglobe began offering GLOBEDIRECT, allowing Canadian business users access to its international network through private leased lines. In an attempt to head off GLOBEDIRECT, which bypasses the telcos' networks, Bell Canada insisted that the CRTC impose a contribution fee on private lines to the PSTN. Prohibited by law from owning more than 33 per cent of Teleglobe, BCE Inc. has been attempting to increase its control of the company through a series of controversial boardroom manoeuvres.

New entrants in telecommunications service and equipment include interconnect companies, cellular radio carriers, resellers, and enhanced service providers. The interconnect companies, for example, supply and maintain terminal equipment in what was previously a monopolized market. Resellers lease excess transmission capacity, and leased capacity also enables companies to provide

enhanced/value-added service on a private basis. Enhanced service providers offer specialized services, including electronic and voice mail, graphics messaging, facsimile, videoconferencing, electronic data interchange, teleshopping and database services. International carriers are aggressively seeking access to Canadian market share in the rapidly growing enhanced and resale markets. U.S. giant AT&T launched its Global Messaging Services in 1990, in competition with both Telecom and Unitel for enhanced services (Network Newsletter, 27 August 1990: 2.). UK-based Cable and Wireless Telecommunications has also entered the Canadian resale market.

Cellular mobile radio carriers compete for mobile telephone service in a duopolistic market structure decreed by the federal Department of Communications in 1983. Two enterprises provide cellular service in Canada: Cantel Inc., which is owned principally by Rogers Communications; and CellNet, which is an association of cellular divisions of Telecom Canada members.<sup>1</sup> As cellular demand grows, however, new providers may seek entry into this market.

Finally, optical fibre investment by both Telecom Canada members and Rogers cable raises the possibility of convergence between the cable and telephone companies. Deployment of this and other network technologies indicate short-term technical, and long-term service convergence. Many observers believe that the Canadian market cannot support the cost of two local distribution networks with fibre feeds to each consumer, and both Bell Canada and Rogers

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<sup>1</sup> These include: Bell Cellular, B.C. Cellular, AGT Cellular, ED TEL Cellular, MTS Cellular, MT&T Cellular, Quebec-Telephone Cellulaire, NBTel Cellular, SaskTel Cellular, The Newfoundland Telephone Co., and Thunder Bay Telephone.

have expressed their desire to provide the other's services.

The big question is who is going to install it (a single wire to the home), who is going to own it, who is going to operate it, and who is going to make the money from it? It's going to be a big, big struggle - and it's already begun (Stoffman, 1989: 40).

Both departmental and regulatory authorities have invited comments on the future structure of local distribution networks. While technical convergence may enable the two industries to provide both programming and non-programming services, there is no consensus on policy issues. The Department of Communications appears to assume the emergence of a local duopoly,<sup>1</sup> but has not directed policy discussion with reference to industrial, social or cultural goals. According to one study, the development of new fibre-based distributed architectures in the local network is creating a "technological upheaval" with modest short-term, but significant longer-term implications for both sectors (Comgate, et. al, 1991: 38).

Major business customers of telecom services are now considered to be an important segment of the industry. As communication systems increasingly enhance productivity and efficiency in all sectors, they have become a vital business resource. High demand for such services on a cost-efficient and flexible basis produced a massive lobbying effort by U.S. business telecom customers in the early 1980s, contributing to liberalization of the U.S.

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<sup>1</sup> See Canada Gazette [Part I, 35,123:4048] Notice No. DGTP-09-89, Local Distribution Telecommunication Networks.



market. Less visible, but increasingly active Canadian business customers are engaging in collective action to further their interests in acquiring more services to suit their needs, at lower costs. High on their agenda is competition in the public long-distance market.

Of significant concern to the major telcos is the increasing use of private networks by business and government. Private networks enable businesses to monitor and control telecommunications costs, in addition to obtaining transmission speed and flexibility that is not available through the public switched system. Five to seven per cent of business customers generate anywhere from 54 to 70 per cent of MTS/WATS revenues in Canada (Woodrow & Woodside, 1986: 165), and five per cent of industrial sectors account for 62 per cent of telephone and telegraph expenditures (Federal/Provincial pricing study, 1986: 47). These major customers fuel demand for new telecommunications services, but at the same time, demand greater freedom of choice and price competition from service providers. Monopoly carriers are attempting to stem bypass activities by shifting resources to development, marketing, and pricing of services to meet the diverse needs of their customers.

### *Policy and Regulation*

Telecommunications policy in Canada at both the federal and provincial levels of government, has developed for most of this century primarily through instruments of ownership and regulation. First, federal, provincial and some municipal governments develop

broad policy through regular government departments. In addition to this, each level of government has performed an oversight function through direct economic regulation of the carriers.<sup>1</sup> Telecom Canada is an unregulated entity, although its member firms have been regulated by the various agencies at the federal and provincial levels of government.<sup>2</sup>

Government control of telecommunications first emerged in 1892, when cabinet brought Bell Canada's rates under scrutiny by amending its Special Act.<sup>3</sup> In 1906, telephone and telegraph services were brought under the competence of the Board of Railway Commissioners,<sup>4</sup> and in 1938 this responsibility was transferred to the Board of Transport Commissioners. Except for Saskatchewan, which established telephone service through a regular government

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<sup>1</sup> Regulatory authority over the telephone companies is currently in a state of flux. Prior to 1990, the federal Canadian Radio-television and Telecommunications Commission (CRTC) regulated Bell Canada, B.C. Tel, Unitel, Teleglobe and Telesat. Provincial authorities approved tariffs of the remaining regional telephone companies, and some independent telephone companies were regulated either by provincial or municipal authorities. At the time of writing, all Maritime telcos now file tariffs with the CRTC in accordance with the Supreme Court of Canada's 1989 affirmation of federal jurisdiction. Other regional telcos are expected to begin filing tariffs with the CRTC sometime in the near future. Independent telephone companies will likely remain within the purview of municipal or provincial jurisdiction.

<sup>2</sup> Through its Revenue Settlement Plan (RSP), Telecom Canada allocates inter-provincial toll revenues, a quasi-regulatory function in which provincial regulatory bodies tended not to intervene. This self-regulating function was not seen as problematic until the 1970s when technological and economic changes began to advance rapidly. While the CRTC has jurisdiction over the largest Telecom Canada carriers, it has not attempted to assert direct regulatory control of the association as a whole. This issue was addressed in depth by the CRTC in 1981 when Bell and B.C. Tel filed applications for adjustments in their Telecom Canada rates (CRTC, Telecom. Decision 81-13), but the Commission was powerless to pursue the issues beyond an order that Bell and B.C. Tel attempt to negotiate cost allocation methods with Telecom Canada members (Bruce, 1986, 327-29) - an attempt that subsequently failed.

<sup>3</sup> An Act respecting the Bell Telephone Company of Canada, S.C., 1892, c.41, s.3.

<sup>4</sup> An Act to amend the Railway Act, 1903, S.C., 1906, c.42, ss. 29-35.

department, most provincial governments had also created agencies to regulate telephone and telegraph services by 1910.

The primary function of regulators at both levels of government was to prevent carriers from using their monopoly position to extract excessive profits. This reflects the general goal of direct economic regulation, which was to address market failure - in this case, the tendency of the telephone industry toward natural monopoly. Federal legislation addressing telephony was appended to transport legislation<sup>1</sup>, and regulators had little influence on the structure of the industry. Territorial monopolies already existed for each of the major carriers by the time economic regulation was instituted in 1906. Moreover, natural monopoly conditions were assumed to create barriers that preclude market entry, rendering industry structure a non-issue for regulatory purposes.

Regulatory activity was minimal from 1906 to 1968: there were only five rate cases each for Bell Canada and B.C. Tel, and the first rate hearing in Alberta did not occur until 1966 (Ogle, 1979: 232). Telephone companies rarely sought rate increases during this time because high growth resulted in significant returns to scale and technology advanced at a rate sufficient to reduce their costs. Also, TCTS effectively managed the equalization of costs among its members for constructing the "All Red" line, reducing the need for the companies to seek tariff increases from their regulators.

Despite the existence of both public and private ownership of

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<sup>1</sup> The Canadian Transport Commission, which regulated telephone companies briefly before the CRTC was created, had no staff assigned specifically to telecom.

these carriers, their interests were largely homogeneous and government oversight avoided interference with 'managerial prerogative'. Three general principles evolved: (i) natural monopoly as the most effective form of market structure, (ii) end-to-end service provided by one company; and (iii) an embedded system of cross-subsidies based on value of service pricing rather than cost. These policies required minimal state involvement.

By the 1960s, entry into the telecommunications market through terminal attachment and system interconnection became an issue, and the federal regulator acquired the authority to supervise these in 1968. This, Schultz and Alexandroff point out, marked the "beginning of a significant regulatory role in structural issues." (1985: 79).

The early 1970s also signalled a new direction in federal departmental involvement in telecommunications, and its vision of the future of the industry. Schultz & Alexandroff describe these changes as a shift from a 'policing' to a 'planning' role in steering the direction of the Canadian carriage industry (1985: 6-24). This change in government involvement derived largely from the transition of telecommunications from a public utility to an enabling technology, its increased value in the Canadian economy, and a consequent desire of government to develop a comprehensive framework for the industry's future direction. Immediately following its creation, the federal Department of Communications initiated an ambitious study of telecommunications; its final report, Instant World, was written from a series of studies prepared by industry, academic and government participants. Noting the integrating effect of

communications among economic sectors, social sectors, and between nations, Canadian policy-makers were early to address the implications of convergence between communications and computer technologies. Implicit was a redefinition of the public interest in telecommunications policy.

Recognizing that existing policy instruments were insufficient to realize its objectives, the department quickly sought to consolidate scattered grants of authority, and assume more administrative control over both federal crown corporations and the federal regulator. Responsibility for telecommunications was transferred from the Canadian Transport Commission to the CRTC in 1976. However, the federal move toward a more interventionist planning role occurred at a time when regulation of the telecommunications industry became politicized. Several factors contributed to this politicization: (i) the larger number of interests affected by the industry, including other information technology sectors, potential competitors, and customers demanding consideration of their needs in policy formation; (ii) federal-provincial conflict over jurisdiction and; (iii) the effects of structural changes on the economy both domestically and internationally.

As government at both levels aspired to define the role of telecommunications both in terms of the industry itself and as it interacts with other social and economic sectors, the Trudeau government's commitment to 'participatory democracy' induced expansion of the policy community. Federal support for interest group activity equipped organizations such as the Consumers' Association of Canada (CAC), National Anti-Poverty Organization

(NAPO) and native groups to make effective interventions in the regulatory process. This was encouraged further when the CRTC adopted new rules of procedure, including a provision to award costs for certain intervenors requiring subsidization. The carriers also were persuaded by the federal communications minister to develop policy and technical capabilities by creating an industry association.<sup>1</sup>

Prior to the 1970s, the diffusion of decision-making authority between levels of government did not generate conflict. However, when federal-provincial conflict over energy, transportation, offshore resources and communications erupted, government-to-government priorities came to dominate the national telecom policy agenda, politicizing decision-making on substantive issues.<sup>2</sup> As the two levels of governments staked out their respective claims to exclusive jurisdiction, communications policy of the type originally envisioned by the DOC was overshadowed by federal-provincial relations. Not until the mid-1980s did the DOC attempt to turn its attention from technical matters and federal-provincial relations to industrial policy (Woodrow & Woodside, 1986: 196).

Expansion of the policy community began again in the late 1980s as initiatives of other ministries in trade, competition policy and privatization began to impinge on telecommunications policy,

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<sup>1</sup> The Canadian Telecommunications Carriers' Association (CTCA) emerged in 1972, but proved short-lived and conflictual, essentially self-destructing over the issue of competition.

<sup>2</sup> Doern (1978:12-13) notes that, prior to the 1970s, federal-provincial policies were developed bilaterally through expenditure politics. Since then, however, federal-provincial negotiations increasingly entered the arena of regulatory politics. He argues that reaching agreement in regulatory issues is difficult because it is viewed as more of a zero-sum game. For a discussion of federal-provincial relations in communications, *see* Woodrow, et. al (1980).

associational activity expanded nationally and internationally, and both organized labour and the user community intensified their efforts to affect the course of debate in telecommunications policy and regulation.

Given the dominant role of the monopoly carriers in establishing the Canadian telecommunications network infrastructure, and the relatively recent emergence of state support structures, state agencies are - not surprisingly - attempting to formulate telecom policies under difficult conditions. In order to explain the state agencies' ability to contemplate innovative policy, and to seek input from societal groups, the current state structures and mandates are first identified here. Chapter 4 will then explain the associational system as it derives from the carrier industry structure, and as it interacts in policy networks with the state.

### *State Agencies*

The state's primary instruments are crown ownership and economic regulation. Crown ownership of Teleglobe, Telesat and the prairie telcos ensured rapid and broad expansion of the Canadian telecommunications sector that market forces alone would not have achieved. Economic regulation by independent agencies has also enabled the state to encourage network expansion while averting monopoly abuse. Canadian policy-makers also possess more control over regulatory bodies than do their counterparts in the United States. Through its power to vary regulatory decisions, for example, the federal Cabinet is able to impose its policy preferences based on

considerations that may or may not fall within the realm of evidence presented before the CRTC. Grants of authority contained in the various acts comprising the Ministry of Communications' mandate are vague and outdated, providing inadequate direction for an industry that has changed dramatically since the turn of the century. As a result, affected interests rely upon speeches and pronouncements, and moral suasion for policy direction.

Nor is decision-making centralized. In addition to regulation, policy instruments include tax deductions on R&D expenditures, other tax measures, tariffs and procurement favouring Canadian manufacturers and service providers. Each of these instruments is affected by policies implemented by other federal ministries in areas such as fiscal policy, international trade and government procurement.

The principal state actors involved in telecommunications policy are:

1. Telecommunications Policy Branch of the federal Department of Communications.
2. Canadian Radio-television and Telecommunications Commission.
3. Provincial governments.
4. Consumer and Corporate Affairs, which houses the Director, Competition Bureau.
5. Federal Department of Industry, Science and Technology.
6. Federal Department of Finance.



## 7. Trade.

## 8. Privatization and Regulatory Affairs.

*Statutory Powers and Objectives: Cabinet and the Minister of Communications*

Central to the DOC's interpretation of its role is the assumption that promoting the economic health of the communications industry serves not only the industry itself, but also other economic and social sectors. In this view, communications contribute to national sovereignty, economic nationalism, cultural identity and national unity. This linkage between telecommunications and other sectors is particularly evident at the federal level of government, where the Communications portfolio comprises telecommunications, broadcasting, and the arts and culture program it acquired from the Secretary of State in 1980.<sup>1</sup>

Since 1970, federal telecommunications policy has been grounded in three principles: universal service at affordable rates, encouraging the benefits of market forces while promoting the public network infrastructure, and Canadian ownership. Anticipating increased globalization of telecom markets and competition among a small number of large, multinational IT enterprises, some DOC officials point to a need to secure the domestic market for the

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<sup>1</sup> The contribution of communications to nation building is identified in the Department of Communication's mission statement: "helping Canadians share their ideas, information and dreams." The report goes on to expound the mission statement as reflecting "the dynamic link between the two central areas of the Department's work - the communications systems that join Canadians, and the arts and culture Canadians share." See Department of Communications, 1989-1990 Annual Report: 4.

Canadian telecom sector. In this scenario, state involvement in infrastructure development is crucial, as is assistance in developing export markets. Less important is the state's traditional role as market regulator/consumer protector. This vision, however, requires significant structural and legislative change, which can be achieved only with support at the highest political level.

Cabinet and the Minister of Communications are authorized by a number of statutes to control telecommunications markets.<sup>1</sup> The federal Department of Communications performs eight main functions;

- Regulation of technical standards; management and allocation of spectrum;
- Research and development;
- Technology assessment;
- Economic and social policy research;
- Coordination of government use of telecommunications;
- Operation of experimental telecommunications undertakings;
- Representation of Canadian interests in international telecommunications matters;
- Inter-governmental liaison for federal-provincial affairs (Waverman, 1982: 53).

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<sup>1</sup> Grants of authority include the Department of Communications Act, The Telegraphs Act, The Canadian Radio-television and Telecommunications Act, the National Telecommunications Powers and Procedures Act (part of the National Transportation Act), The Telesat Canada Act, The Radio Act, The Railway Act, The Teleglobe Canada Act, The Bell Canada Reorganization Act, and the B.C. Telephone Act. In addition, Canada is party to international legal instruments, bilateral and multilateral agreements. Relevant legislation will be individually documented below.

The Department of Communications directly controls entry into telecommunications markets serviced by microwave and satellite, and indirectly through review powers over regulatory decisions under the National Transportation Act<sup>1</sup>. Although it is the lead federal agency in telecommunications, the DOC has not always exercised control over other federal actors involved in telecommunications.

Prior to the creation of the DOC, responsibility for communications was dispersed across various federal departments. As a result of changes in the telecommunications industry, the federal government undertook to establish control over its development. The first move was to create the DOC in 1968 under the Government Organization Act, (S.C. 1968-69, c.28, ss.7-12) bringing both telecommunications and broadcasting within its purview. This was seen by most observers as housekeeping rather than establishing a new direction. There was no statement of public policy and no new powers for the minister were announced when the department was created (Schultz & Alexandroff, 1985: 89). The government did indicate, however, that it was seeking to "evolve a national communications plan and a national communications policy to integrate and rationalize all systems of communications whether those of today ... or those of tomorrow." (Canada, House of Commons Debates, February 27, 1969: 6079). According to Schultz and Alexandroff, this was "a clear statement of the government's

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<sup>1</sup> Redesignated the National Telecommunications Powers and Procedures Act, NTA, S.C. 1987, c.43, s.302, hereinafter referred to as the NTA.

intention to plan the telecommunications system and to employ regulation as the primary planning instrument." (1985: 90).

Despite its intentions, several of the Department's attempts to replace the Railway Act (R.S.C. 1970: c.R-2) (which was first enacted in the 1880s) with new telecom legislation have either failed to materialize, or disappeared after first reading. Beginning in the early 1970s there emerged a series of studies (1971 Telecommission), policy papers (1973 Green Paper, 1975 Grey Paper), federal-provincial negotiations (none of which produced agreement), and several failed attempts to pass legislation<sup>1</sup>.

More recently, the DOC is attempting again to proceed with its agenda. In 1987, then Minister of Communications, Flora Macdonald, outlined the direction of federal policy, identifying three objectives for the carriage sub-sector:

First, to maintain universally affordable and accessible telephone service;

Second, to foster an efficient telecommunications network infrastructure that permits the delivery of services to Canadians at the lowest possible cost;

Third, to create a viable competitive marketplace for the supply of telecommunications services and equipment in all areas of Canada (Macdonald, 1987).

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<sup>1</sup> Bill C-43 (1974-76, 30th Parliament, 1st session), Bill C-24 (1977-78, 30th Parliament, 3rd session), Bill C-16 (1978-79, 30th Parliament, 4th session). Legislation was tabled again in 1984 to address Bell Canada's reorganization and make changes to the regulatory process, but died on the order paper when the 1984 election was called.

To achieve these objectives, the federal government intended to grant the Governor-in-Council (Cabinet) legislative authority to issue telecom policy directives to the CRTC. Legislation would also enable the CRTC to forbear from regulating segments of the market that are competitive enough to safeguard consumers' interests. Where crown corporations were no longer deemed to serve the public interest, they would be privatized. In keeping with this policy, the Minister of State Privatization announced the sale of Teleglobe Canada in 1987, the federal government divested its interest in CNCP, and it is currently seeking to divest its interest in Telesat. Finally, competition would be encouraged within the framework of a facilities-based classification of carriage activity, distinguishing between the provision of basic and enhanced services.

Under the new framework, Type I carriers own the basic infrastructure and provide basic transmission to the public and other service providers. The basic services market would be tightly controlled through a restrictive regime of licensing in the Type I category to prevent uneconomic entry, to impose a foreign ownership ceiling of 20 per cent (with existing foreign-controlled carriers grandfathered), and to designate Type I undertakings as carriers of last resort. Type II carriers would lease transmission capacity from Type I carriers to provide enhanced/value-added services on a competitive basis. Significantly, the policy also contemplates vesting ultimate entry decisions with the Minister of Communications. Overall, the policy reveals an apparent contradiction between the objectives of competition and universal service at affordable rates. Should competition in the PSTN shift significant costs to the local

segment or residential consumer, which has occurred in the U.S., universality may be compromised. Despite the endorsement of competition, both the policy statement and the Type I/Type II licensing scenario were seen by some as an affirmation of the status quo on market entry.

This initiative suffered the fate of its predecessors when an election was called for 1988, and no legislation has yet been tabled by DOC. Interviews with DOC officials suggest that provisions in forthcoming legislation will address the question of 'who decides'. The structure of decision-making contemplated by DOC is intended to enhance its autonomy vis-a-vis both industry and the CRTC. In addition to controlling market entry through licensing, vesting ultimate authority in the Minister, and enhancing its control over the CRTC (including the power to issue directions and to appoint bodies of inquiry, rather than full regulatory proceedings on certain issues), the department intends to assert national jurisdiction. Changes to the Commission's mandate would be minimal, and centre on its ability to exercise forbearance.

The department has, in recent years, attempted to legitimize its policy-making process through increased consultation. To this end, it has struck various advisory councils, committees and working groups to complement the more traditional process of requesting input from interested parties by issuing Canada Gazette notices. These councils have been established in areas such as standards, terminal attachment, public wireless and convergence, and serve two purposes. First, because departmental involvement in structural issues is fairly recent, DOC runs up against policy participants

accustomed to the procedural norms and equal access that characterize the regulatory process. For example, the DOC was criticized for its 1983 handling of cellular telephone licensing because it was a paper proceeding conducted largely in private. In its handling of the policy, the department was accused of ex parte communication and favouritism. According to one former association representative, "(this process) was almost horrendous compared to what the CRTC does. The parties only see the tip of the iceberg in the Gazette paper proceedings. They (DOC) don't understand how far it has to go." (Interview, 5 June 1990). The advisory council therefore provides for more open and even access to the process, produces a report, and is multilateral, leaving the DOC less vulnerable to charges of illegitimate process.

With regard to the second purpose, DOC officials also pointed to the advisory council as an important forum for the exchange of information and views among affected parties. Interestingly, it is in this context that the dominant role of the monopoly carriers becomes evident. The ISDN advisory committee, according to one DOC official, provided the players with the opportunity to become informed about the telcos' plans, thereby reducing uncertainty.

Maybe by just having the process, some of these fears went away, because Telecom Canada had a chance to hear all these concerns, and to indicate how they intended to proceed and what their objectives were for policy purposes (Interview, 5 June 1990).

Multilateral proceedings, while opening the departmental process,

may not offer the procedural requisites of legitimate decision-making in telecommunications. Janisch, citing the departmental consultation process in federal air transportation policy, argues for a formal, legislated consultative process to prevent "a very real danger that consultation in an atmosphere of intimacy will drift into dictation by (dominant) corporate interests." (Janisch, 1979: 95).

*Statutory Powers and Objectives: the CRTC*

The CRTC regulates both broadcasting and telecommunications (telephone, telegraph, and cable), and operates under different statutory provisions for the two.<sup>1</sup> In telecommunications, the CRTC operates under the provisions of the Railway Act, the Canadian Radio-television and Telecommunications Act (S.C. 1974-75-76, c.49), the National Transportation Act, the Competition Tribunal Act (S.C. 1986: c.26), and several Acts relating to regulated companies (e.g. Bell Canada Acts). Through public hearings, the Commission regulates rates, approves the introduction of new services, reviews capital expenditures, and sets other conditions under which telecommunications companies operate. Rate hearings and Construction Program Reviews (CPR) are conducted separately. In addition to incremental policy-making in individual cases, broader

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<sup>1</sup> The Commission's Telecommunications Branch is divided into three groups. Operations, responsible for decision-writing and complaints; Financial Analysis, responsible for general rate cases, cost inquiry, and financial analyses of general and corporate transactions; and Economic, Social and Technical Analysis, which includes policy (regulatory, competition, social impact analysis), tariffs, technical issues, construction and depreciation. Expenditures and person-years are divided roughly equally among these three divisions.



policy emerges through issue hearings and the CRTC's practice of formulating guidelines. Since the mid 1970s, the CRTC's iterative decision-making has produced the bulk of federal policies in telecommunications.

Responsibility for telecommunications was transferred to the CRTC from the Canadian Transport Commission in 1976. Absent in the CRTC Act is a definition of the regulator's statutory mandate or purpose. These are apparently left to the other statutes, the Railway Act and the NTA, which in turn are concerned largely with transportation policy (Romaniuk & Janisch, 1986: 384).

Under the provisions of the Railway Act, the CRTC is to ensure that the rates charged by the telecommunications companies are "just and reasonable" and "not unjustly discriminatory or unduly preferential" between classes of subscribers. Nowhere in the Act are provisions which define the purpose, or overall objectives of telecommunications regulation. The Act's objects are 'company' rather than 'industry' specific, and the terminology of the provisions reflect the technology of the turn of the century (telephone and telegraph). The Commission's authority to control the market conduct of regulated companies includes

- Pricing.
- Terms and conditions of network interconnection with other companies (bottleneck facilities).
- Working agreements between the telephone companies and other telecommunications service providers (regulated or unregulated).

- The terms and conditions under which traffic may be carried.
- Provisions contained in specific company Acts and the Telegraphs Act (Romaniuk & Janisch, 1986: 387).

Shortly after assuming responsibility for telecommunications, the CRTC issued two statements setting out its perceived role and mandate. The Commission indicated it would distance itself from the passive, court-like approach of its predecessor (CTC) and, stressing its "obligation to re-examine and re-evaluate regulatory practices and procedures" would engage in more proactive decision making through the use of broad issue hearings (CRTC, 1976: 4). The Commission also expressed its objectives through a broad interpretation of its authority over rates:

The principle of "just and reasonable" rates is neither a narrow nor a static concept. Indeed, the Commission views this principle in the widest possible terms, and considers itself obliged to continually review the level and structure of carrier rates to ensure that telecommunications services are fully responsive to the public interest (1976: 3).

Since releasing the two statements, the CRTC has interpreted its mandate to include several areas which its predecessors did not. The Commission has addressed quality of service,<sup>1</sup> costing of competitive

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<sup>1</sup> See Bell Canada - General Increase in Rates, CRTC Telecom Decision 80-14, 12 August 1980: 8; see also Montgomery, et al., 1989: 45.

and monopoly service offerings,<sup>1</sup> definitions of local calling areas,<sup>2</sup> and vertical integration (Montgomery, et al., 1989: 29-30). The Commission also determined that the Railway Act provisions prohibiting undue discrimination were not limited to discrimination between classes of subscribers, but also applied to competitors seeking access to the telcos' network facilities. Schultz and Alexandroff portray this expanded regulatory role as part of the shift from a 'policing' to a 'planning' function (1985: 14.).

The statements also set out new telecommunications rules of procedure which included a number of innovations in the regulatory process designed to clearly spell out the rights and obligations of parties involved. These rules expanded and formalized the opportunities for interested parties to participate in the hearings process, including the entitlement of interveners to be awarded costs.<sup>3</sup> In establishing procedural mechanisms designed to locate the public interest, the Commission opened policy-making in telecommunications to formerly excluded interests, particularly consumers, the poor, native groups and business users.<sup>4</sup>

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<sup>1</sup> See Inquiry into Telecommunications Carriers' Costing and Accounting Procedures; Phase II - Information Requirements for New Service Tariff Filings, CRTC Telecom Decision 79-16, 28 August 1979; and Phase III - Costing of Existing Services, CRTC Telecom Decision 85-10, 25 June 1985.

<sup>2</sup> British Columbia Telephone Company - Revenue Requirements for the Years 1988 and 1989 and Revised Criteria for Extended Area Service, CRTC Telecom Decision 88-21, 19 December 1988: 192.

<sup>3</sup> Johnston, 1980: 48: 110. Section 73 of the NTA empowering the CRTC to award costs has been interpreted broadly. Initially, costs were awarded only in specialized situations; and then to participants that made an informative contribution - as opposed to nuisance - to the proceedings. This was widened also when in the early 1980s the Commission required Bell and B.C. Tel to pay the costs of consultants hired by the CRTC to analyze and report on evidence in long distance rate hearings.

<sup>4</sup> Many of the participants in this study pointed out that there was a tremendous difference between the way in which the Canadian Transport

Agency attitudes toward formal accountability for government objectives and the public interest influence the external participants in the regulatory process as well as the staff of the agency. Schultz and Alexandroff note that changes in functions of regulation lead to changes in the politics of regulation. In policing regulation, the participants were those companies and other groups directly affected by regulatory decisions, whereas in planning regulation in telecommunications there is now representation by increasingly diverse business and consumer interests.

As the scope of regulation widens, Schultz and Alexandroff argue, agency autonomy declines (1985: 23-24). First, regulatory appointments have shifted toward those with backgrounds in the public service and business from the legal profession or judiciary. Second, vague, open-ended legislative mandates have seemingly replaced the more narrow versions previously conferred on policing regulatory regimes, enhancing the discretionary powers of the CRTC. Finally, other government organizations, particularly regular government departments, have acquired tasks that were formerly the preserve of the regulator.

The combination of monopoly industry structure and minimal state intervention in telecommunications help to explain the paramountcy of the major telephone companies in charting their own course during most of this century. The Canadian telecommunications

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Commission and the CRTC interpreted their mandates. Consumer, native and business user groups had virtually no success in their attempts to persuade the monopoly telcos to address their needs. The CTC interpreted its scope narrowly, which prevented both a policy-making role in the regulatory arena and the ability of these groups to bring state pressure to bear on the telcos.

sector overall has been characterized by a high degree of both vertical and horizontal concentration, domestic ownership and market orientation, large capital investment requirements, homogeneous products and services and minimal pressure from related sectors. As this chapter demonstrates, the sector is now experiencing a rapid diversification of product mix, an increasing number of actual or potential competitors and successful policy interventions by related sectors. In addition, national borders are becoming irrelevant in IT for both foreign firms entering the Canadian market and for Canadian firms entering world markets. These changes are opening the policy community to new objectives and new values. They are also pressuring state actors to adopt policies and processes that can achieve both direction and broad support.

At the federal level, the Canadian state does define and generate some aspects of policy internally, but will not proceed with an initiative without broad support from the policy community, nor is it able to co-ordinate or control access by other actors to policy-making structures. As will be argued in chapter 4, diffusion of authority among bureaus and levels of government creates multiple avenues of intervention by competing interests, and mitigates against the implementation of comprehensive policies. This diffusion, combined with the legacy of minimal state intervention in telecommunications does not predict a strong role for the state in determining the sector's future.

The effects on organized interests of state structures and policies are direct and several. Following an analysis of the

associational system, I will argue that divided state structures with overlapping mandates open the policy community to pressure pluralist networks by creating multiple avenues to the core of policy-making. Lacking effective intergovernmental and inter-departmental coordinating mechanisms, state divisions yield inertia, freezing legislative boundaries among converging markets.

## CHAPTER 4

## Organizational Development and State Capacity

The interdependencies among technology, markets and government have produced a diverse range of narrow, competitive interests in Canadian telecommunications that are increasingly competing in pressure pluralist networks. As this chapter will establish, both the associational system and Canada's legislative/regulatory regime are structured on past realities, further creating conflict among stakeholders. The associational system is weakly integrated and somewhat competitive. The monopoly telcos have not, with one minor exception, perceived a need for a policy-capable industry association. Collaboration among these carriers has centred instead on technical, investment, interconnection and other operational requirements. Moreover, federal-provincial jurisdictional disputes sapped state resources for substantive policy-making, leaving the carriers and their regulators to determine any policy that has emerged since the mid 1970s. Competitive interests and related sectors, however, are enhancing both the level and scope of associational activity in the telecom sector. The ability of these interests to influence policy is enhanced by diffusion of state authority across federal bureaus.

### *The Associational System*

The advent of competition, convergence and globalization in a formerly monopolistic sector provide the context for associative action in telecommunications. The monopoly carriers long provided all services and controlled equipment in a sector dominated by large firms, each contained by legislation, regulation and ownership to a defined segment of the market. The carriers' need for organizational integration was met operationally through interconnection agreements and division of long-distance revenues managed largely by Telecom Canada. These carriers, monitored by a patchwork of regulatory authorities, addressed their own needs in clientele networks. Today, convergence and competition are breaking the all-inclusive relationship between the monopoly telephone companies and their customers, as other service providers, supported in principle by business users, seek to enter both network (infrastructure) and end-services markets.

Competitive pressures, both domestic and international, fundamentally redefine the carriers' strategic environment. With new services and distribution technologies, and new service providers entering their formerly protected markets, these carriers must now respond quickly to a host of new considerations such as the complex relationship between prices and costs, the ability to move quickly to choose, develop and market new services, and maintaining the ties that enable the telcos to provide nation-wide services. Given the effect of history on their size and market structure, the facilities-based carriers find it difficult to move



quickly to embrace new technologies and adjust to competitive pricing structures. Widening the access of domestic and foreign competitors to Canadian markets turns attention to the distribution of costs within the system. The carriers have been attempting to redress the imbalance between prices and costs through measures such as rate rebalancing and volume-based discounts. However, existing arrangements among the monopoly carriers are not structured for rapid co-ordination of service and price offerings.<sup>1</sup>

Globalization is also forcing the telcos to look seriously at the cost of their traditional, domestically-oriented public utility role in the economy. Pressures from the financial services industry, international telecom regimes and multi-national companies, and trade developments more generally bring to the policy community new values that cannot be easily harmonized with the public service-orientation that long guided this sub-sector. Particularly vulnerable are the smaller monopoly carriers that serve less populated areas and have benefitted from the division of long-distance revenues among Telecom Canada members. These telcos, and their respective provincial governments, have relatively less resources than the larger carriers to reorient their business planning to thrive in a competitive environment, or become global players. The powerful common interests among the carriers are hence attenuated as the

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<sup>1</sup> Bell Canada and B.C. Tel spearheaded efforts to keep competitive network service offerings more attractive than those offered by rival Unitel, but had difficulty securing the participation of all Telecom members. Given that the carriers base such decisions on demographic attributes of their operating territories, these initiatives may not receive support from all carriers. Where agreement can be secured, the time involved may render competitive filings too slow to be effective.

effects of market forces and governing regimes affect them differentially.

Industry structure also explains the emergence of consumer and business user associations in carrier policy. In a monopoly environment, these customers were dissatisfied with the paucity of service, equipment and pricing options available to them. Collective action enabled them to devote resources to the pursuit of their interests, with relatively less perceived fear of reprisal from the carriers or government.<sup>1</sup> Over the past five years, competitive suppliers, business users and unions have reoriented and expanded their associational activities to better perform an advocacy function. This is evidenced by their increasing attention to socio-economic issues, and contrasts with the more traditional technical basis of policy development. Contributing to the strength of advocacy is the competitive relationship among associations with narrowly-defined, and sometimes overlapping, interests.

According to Coleman's typology of patterns of organization in associational activity, telecommunications carrier policy falls into the competitive system, where associations compete for members, and no structures exist to integrate functional divisions. As indicated on Table 7, organized interests are segmented into associations representing suppliers, business users, public interest organizations representing consumers and the poor, and labour unions. These

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<sup>1</sup> Several participants in this study referred to potential repercussions from either the major carriers or from government agencies, but this does not appear to be as widely-held as it was in the past. The Canadian Business Telecommunications Alliance, a business user association that will be discussed below, continues to keep its membership list secret today.

groups, in turn, contain divisions based on market (monopoly/competitive), size of firms, and function, but with overlapping domains in some areas. Associations representing related sectors such as cable television, broadcasting, newspapers and banking are increasing their activities in telecom policy, primarily through departmental processes and attending trade conferences.

**Table 7**  
**Associational System, Telecommunications**

**Facilities-based carriers**

Telecom Canada and Information Technology Association of Canada

**Competitive and Independent Suppliers**

Association of Competitive Telecommunications Suppliers  
 Canadian Independent Telephone Association  
 Information Technology Association of Canada

**Business Users**

Canadian Federation of Independent Business  
 Canadian Business Telecommunications Alliance  
 Canadian Bankers Association  
 Communications Competition Coalition

**Consumers**

Consumers Association of Canada  
 National Anti-Poverty Organization  
 Public Interest Advocacy Centre  
 British Columbia Public Interest Advocacy Centre  
 Public Interest Law Centre (Manitoba)

**Unions**

Communications and Electrical Workers of Canada  
 Telecommunications Workers' Union (British Columbia)  
 International Brotherhood of Electrical Workers (Chapters)  
 Canadian Overseas Telecommunications Workers Union

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Most associations devote resources to advocacy functions, such as government and public relations, tax lobbying, legal affairs, and member services. Organized interests in telecommunications compete in pressure pluralist networks in competition, taxation, and rate hearings, the monopoly carriers work in clientele networks in some areas, and elements of corporatism are emerging in the departmental process to address issues such as convergence and wireless communications (PCN). Given the increasing diversity of markets, service providers and increasing foreign firms, the associational system is unable to co-ordinate industry-wide research and development, marketing or standards development. Rather, government has assumed responsibility for these critical functions by striking advisory councils to which individual firms belong. Research and development is conducted solely by well-resourced firms, either individually, or in conjunction with government agencies or universities.

Within the supplier category, there is differentiation between monopoly and competitive suppliers, and further between large and small competitive suppliers. Absent in this sector is a carriers' association. Since 1931 the monopoly carriers have furthered their technical, operational and financial interests through Telecom Canada, but the association is not structured for policy, nor does it seek to play an advocacy role. Telecom Canada members, particularly Bell Canada and B.C. Tel, continue to work in clientele policy networks in some policy areas on the basis of their expertise, their traditional relationship with policy-makers and corporate influence.

However, access to clientele networks is diminishing, forcing these telcos to engage in advocacy on a number of fronts.

Telecom Canada is essentially a connecting agreement, but possesses no delegation of authority from the state, and hence is not a private interest government. But common interests in network expansion and concentration of ownership long enabled the principles of mutuality and unanimous decision-making at all levels within the organization to serve the carriers well in establishing the basic character of the network, its pricing structure and wealth redistribution facilitated by revenue sharing. Telecom operates under guidelines set out in its mission statement, connecting agreement and functional organization. The management committee, which operates as a board of directors, consists of Chief Executive Officers of all member telcos, and appoints a president (officially Telecom's only staff member). All other staff are seconded from the member telcos, with Bell contributing over 60 per cent of Telecom's human and other resources. Committee and staff structures support marketing, finance and inter-carrier relations, network planning and maintenance, and public relations.

Because Telecom has traditionally been engineering-driven, structurally discrete functional units and a flat reporting structure were sufficient for effective decision-making. Rarely were significant policy implications involved in the association's work, and Telecom's decisional structure, based on unanimity, has served its members' interests well. However, as these companies attempt to reposition themselves in a changing strategic environment, gaps are surfacing across the association's structures, forcing a review of Telecom's role

and structure. First, the unanimity provision enabled Telecom members as a group to commit massive capital resources to network expansion and upgrading. Structural divisions between engineering and marketing in the provision of new services are now widening as strategic and policy considerations increasingly bear upon the decision to proceed with some national services. No mechanisms exist to streamline this type of decision-making, leaving these carriers as a group unable to co-ordinate nation-wide offerings that can effectively compete with specialized carriers, particularly Unitel.

Second, competition affects the interests of Telecom Canada members differentially. Bell Canada, for example, contributes a large portion of the long-distance revenues that keep all Telecom carriers' local rates down. In a more competitive environment, Bell's interest in retaining its own customers by reducing long-distance rates arguably supersedes its interest in subsidizing local rates of other regional carriers. Bell and B.C. Tel have both sought long-distance rate reductions through rate rebalancing; this realignment between the local and long-distance segments reduces the amount of revenues flowing to the RSP. With an eye to international markets, Bell and B.C. Tel also need to draw upon resources in the domestic market to strengthen their global prospects. For Telecom Canada to resolve these conflicting interests, its decisional structures will need alteration.

Finally, the federal Department of Communications and the CRTC are requiring the monopoly telcos to furnish policy direction on major issues that are currently on the public agenda. According to one Telecom official, the use of Gazette notices by the DOC to elicit

input on decision-making in the past required no more than a technical response at the middle or lower management level of the organization. More recently, these Gazette notices carry policy and strategic implications, impelling Telecom and the individual carriers to reallocate resources to this function. Moreover, submissions must be vetted through the management committee, which is not structured for policy functions. The result, as one DOC official noted, is a submission that is reduced to the lowest possible denominator - not particularly useful for decision-makers.

Bell Canada and B.C. Tel also belong to the Information Technology Association of Canada (ITAC), which represents information providers including computer (hardware and software), telecom carriers, cable and equipment manufacturers.<sup>1</sup> Although its domain spans the information technology sector, ITAC is not a peak association; member firms join the association directly. Moreover, approximately half its members are American firms, some with varying interests in Canadian telecommunications policy direction. ITAC's objectives are pursued through a broad policy focus directed toward industry, science and technology departments. Formally, it seeks "to help establish a business environment conducive to innovation and growth, in which ITAC members can contribute to Canada's progress." (ITAC, 1987-88 Annual Report: 3). Functionally, it is well-structured for advocacy. A powerful board of member presidents and vice-presidents is strengthened by the allocation of human and financial resources to research, strategic and

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<sup>1</sup> According to ITAC, it represents approximately 70 per cent of revenues and 50 per cent of employees of the IT industry. Letter from ITAC, 23 January 1990.



government/public relations functions. This is complemented by committee structures designed to facilitate advocacy in taxation, customs, government legislation and procurement. These functional divisions are not differentiated vertically, nor integrated across executive or committee structures. Telecommunications is at the same time the sole economic division with a separate committee, and the only problematic policy area in ITAC .

Another sign of the predominant advocacy role is the provision of selective benefits and services to members. Most importantly, ITAC offers to its members the ear of government. During interviews, several government and regulatory officials pointed to the association's ability to make important contributions to longer-term policy. Although public servants contribute to research undertaken by ITAC, the association's role is characterized by advocacy, not participation.

The Association of Competitive Telecommunications Suppliers also represents equipment manufacturers, but is oriented primarily toward the smaller interconnect companies. Its "sole objective is to encourage fair and open competition in the Canadian telecommunications market." (Presentation by ACTS president Don Braden to Communication Strategies '89). ACTS devotes most of its resources to federal and provincial regulatory proceedings, but additionally performs a lobbying function, monitors quality standards and provides member services. The membership draws on the expertise of the president and his small support staff in scrutinizing the larger carriers' pricing structures for evidence of predation, and making strategic regulatory interventions.

The Canadian Independent Telephone Association (CITA) brings together the smaller independents both individually, and as members of regional associations. Since 1905 the CITA has provided for technical and other resource sharing, and negotiates or establishes principles for toll and tariff settlements between the independents and the monopoly carriers. Of the supplier groups, Telecom Canada and the CITA are the oldest, and least active in advocacy. The relationship between these two centres on negotiation of agreements and informal contact at trade conferences.

Customers are differentiated at two levels; first between residential and business interests, and second by size within the business user community. The major role of business users in influencing Canadian telecommunications policy is atypical of most other economic sectors, and across nations the business user community is surpassed in its organization and commitment only by its American counterpart. Business users at the same time account for a large proportion of telco revenues and have pressed for competition and access to bypass technologies. Public institutions such as government agencies, hospitals and universities also seek lower costs and more service variety through associational activity.

Business users are divided roughly into associations representing large, medium and small firms. Here the uneven effects of technology, competition and regulation are pronounced. Large users that depend heavily on communication systems are represented by the Communications Competition Coalition (CCC), created in 1990 largely through the efforts of the six major Canadian banks to mount a powerful lobby in Ottawa. These users are

interested in results, rather than process, voicing their demands to cabinet ministers, the media and at trade conferences. The coalition's political focus is best exemplified by the context in which it couches its demands. Arguing that competition strengthens the economy, produces jobs and ensures an economically sound future for Canadians, the association downplays questions about its own membership. Composed primarily of large, heavy communications users, the CCC presents itself as an 'educational institute' rather than a lobbying organization, making the case that what serves the interests of its membership also serves the public interest. Nor have other members of the policy community taken this association to task on its membership. Bankers have long employed the systemic integrity argument, among other means, to discourage competition in the financial industry.<sup>1</sup> As will be demonstrated in the next chapter, the economic context and socio-political similarities between policy-making in financial and telecommunications services are substantial.

Financial institutions additionally monitor events and make occasional policy submissions through the Telecommunications Committee of the Canadian Bankers' Association. Also a globalizing industry, the banking sector seeks national consistency of service and pricing, lower prices and faster availability of new technology. The Royal Bank is the largest private sector user of telecom services, and identifies this as its fastest growing expense. The CBA makes

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<sup>1</sup> Systemic integrity means that integrity of the system as a whole is dependent upon each component. In the competition debate, both in banking and telecommunications, the opening of a single market segment to competitive forces may threaten the viability of the entire system, and hence, Canadian consumers.

policy submissions to government agencies on general issues, and signs off on more detailed submissions by the Canadian Business Telecommunications Alliance.

The Canadian Business Telecommunications Alliance (CBTA) primarily represents mid-sized firms and institutional users, but with overlap across the dimension of firm size. More important is the operational focus of CBTA's mandate, which is geared toward the concerns of middle management in meeting their information needs. Representing approximately 300 organizations and over 1000 individuals, CBTA was formed in 1962 and federally chartered in 1965 to share information and expertise, and collectively press for easing of restrictive equipment leasing arrangements and high service pricing. Notably, its membership list remains secret. Today, CBTA is recognized by others in the policy community as an important contributor to policy development. Its objectives are :

- To provide a vehicle whereby members can actively exchange concepts, information and experiences, through ongoing educational and professional development activities;
- To represent the interests of member companies in national and international forums; and
- To develop policy and position papers on issues that will affect business users of telecommunications in Canada (CBTA 1988-89 Annual Report: 2).

Committee and staff structures supporting the CBTA's functions

are directed to regulatory proceedings and member services; advocacy is less apparent than in the other business user associations. Although the association is board-led, representation is drawn from the middle manager level of member firms. The short term of presidential office (one year) is offset by the consistency and expertise of professional staff. In addition, approximately 75 per cent of association revenues flows from CBTA's annual 'Telecon' conference, a major industry event that brings together the major telecom players. The association secured a delegate seat to the World Administrative Telephone and Telegraph Conference (WATTC), joining the federal government, Telecom Canada, Teleglobe and Unitel.

Finally, small business users' interests in telecom are voiced by the Canadian Federation of Independent Business (CFIB). Established in 1971, CFIB is a political action group representing small and mid-sized, Canadian owned companies. Its interest in telecommunications is to advocate the pricing and service options of small business users that are sometimes overlooked or relatively uneconomical for carriers to provide. The association became active in telecommunications policy during the late 1980s, making submissions on selected issues to departmental and regulatory bodies. More recently, however, telecom has assumed a low priority in relation to issues such as taxation and government spending.

As with small business, the priority attached to telecommunications policy by non-profit, voluntary consumer and public advocacy organizations has declined in recent years as a result of several factors. Residential consumer and low income groups,

while favouring competitive pricing and service offerings, are critical of the current emphasis on competition, and argue that the public interest rests instead with an equitable distribution of productivity gains from the market as a whole. They support regulation, and at the same time, admonish the CRTC to safeguard the stability of local rates. While the possibility of higher local telephone rates directly impacts consumers and the poor, the organizations representing these groups suffer from the logic of collective action. Moreover, telecommunications has been largely crowded off the public interest agenda recently by more basic economic issues such as poverty and taxation policies. Nor does the Canadian consumer movement have a Ralph Nader to champion its cause. All these groups have reassessed their priorities as public funding levels continue to shrink.

The Consumers' Association of Canada represents a broad and amorphous constituency of individual consumers and organizations. Founded as a permanent organization in 1947, the CAC has since acted on price, quality, service and other issues on behalf of consumers.<sup>1</sup> With financial prodding from Ottawa and encouragement from the CRTC, the Consumers' Association of Canada devoted separate resources to telecommunications and other regulated industries in the early 1970s through establishment of a separate Regulated Industries Program. RIP's successful regulatory interventions attracted increasing amounts of dedicated government funding and cost awards, which had the unfortunate effect of also creating tension between it and the CAC as a whole. These internal

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<sup>1</sup> For an overview of the CAC, *see* Public interest groups and public policy, 1979, or The Consumers Association of Canada, 1964.

problems culminated in a 1989 mass resignation from the program, with eight of nine members charging the Association was no longer prepared to support a professional, active presence on behalf of consumers on regulatory matters (Globe & Mail, 9 July, 1989: 1). Since the resignations, the CAC has played a less active role in telecommunications. According to one former member, who requested anonymity, "(what) is really going to go by the boards is an understanding of which areas to target, an understanding that would seem esoteric to people without expertise." (Interview with former RIP member, 6 June 1990).

The National Anti-Poverty Organization, funded largely by the federal departments of Health and Welfare, Consumer and Corporate Affairs and other organizations, speaks for low income Canadian consumers. The potential for upward pressure on local rates from deregulation, competition and/or rate rebalancing draws NAPO into the regulatory process, often represented by the Public Interest Advocacy Centre (PIAC). Despite its effectiveness in regulatory proceedings, NAPO has more recently been beset by "bread and butter" issues that have pushed telecommunications off its list of issues and priorities. Telecommunications was moved off the 'response-only' list<sup>1</sup> in 1989-90, although NAPO did take part in Unitel's application to enter the long-distance market.

Spurred by the negative effects of technology and competition

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<sup>1</sup> NAPO prioritizes its activities each year by way of listing issues in descending order of importance from 1. Proactive Action Issues, 2. Reactive Action Issues, 3. Monitoring Issues, and 4. Response Only. Telecommunications issues have moved since the mid 1980s from 'reactive action issues' to moving off the list completely in 1989.

on their workers, unions engage in advocacy through research, media campaigns, departmental and regulatory proceedings and court challenges. Foremost on the labour agenda is deregulation, which workers anticipate will deteriorate the quality of their working environment, and portends massive job losses.<sup>1</sup> The workers' stakes in a changing telecom environment are effectively linked to those of other stakeholders:

...in an all-out competitive environment such as that which exists in the United States, the priority is not affordability of service, and it is not availability of service; it is cheapness. And the big cost item is people. ... The (telephone) companies make out quite well in such an environment; it just so happens that the using public and the workforce that provides service to that public, both get a lousy deal. So we feel that the needs of the members of this union are closely linked to the satisfaction of the telecom needs of the broader public (Interview with S. Shniad, TWU, 19 June 1990).

Although segmented by function and territory, the unions are well-organized and aggressive in representing their members. Most outspoken is the British Columbia based Telecommunications Workers' Union, which has a full-time staff member who produces research, networks with other advocacy groups, and mounts political and legal actions. Compared to consumer and public advocacy groups, workers' material interests in telecommunications policy are more

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<sup>1</sup> Mosco & Zureik, 1988: 279-87. By 1990, AT&T had reduced its workforce by 92,000 over six years following liberalization and divestiture. See Deutsch, 1990: B2.



direct and easily defined, enabling the unions to mobilize their members when required.

Territorial divisions are significant only as they have been affected by state interests, for example, the desire of prairie governments to preserve the existing costing and pricing system, and Quebec's determination to control communications as part of its strategy to preserve and promote its culture. These territorial divisions were largely overcome by the telephone companies themselves - a development often cited as a lesson in co-operative federalism. In fact, the technical and economic imperatives of the sector itself created powerful common interests that traditionally countered the state's territorial impulse.

Because communication systems link Canadians and economic activity from all regions, associational strength obtains at a national level. The associational system is accordingly located, and directs the majority of its policy efforts, in central Canada. Most head offices are located in Ottawa or Toronto, and regional associational activities serve primarily to provide member services and generate support. Of the associations in the carrier sub-sector, CBTA, ACTS, ITAC and CFIB have regional "branches" that serve an organizing function. One exception to the unitary structure that characterizes most of the associational system is the Consumers' Association, which has more developed regional structures.

Another functional division in the associational system is found in the orientation of groups' activities toward the regulatory versus the departmental process. As described above, consumer and public advocate groups, CBTA and ACTS regularly intervene directly in

regulatory proceedings. For these groups, interventions have consumed a significant share of association resources however, involvement in departmental initiatives is increasing as the DOC undertakes to assume a larger role in market structure decisions. ITAC's predecessor, CBEMA, intervened in regulatory proceedings, but since redefining its mandate has shifted its focus to federal and provincial ministries, particularly those responsible for industry and technology.

Public relations is less pronounced than in other economic sectors that attempt to cultivate broad public support for their positions. Hence, a relatively small proportion of resources is directed toward activities such as media advertising, community relations and speakers' bureaus. This emphasis on government, as opposed to public, relations arises in part from the technical and economic complexities of the issues currently being debated. ITAC officials estimate, for example, that long-distance competition in telecommunications is "fought out tooth and nail" among 10 per cent of its members, and is of moderate interest to only half of its membership (Interview, 29 May 1990).

Also pointing to a strong advocacy role is the dominance of member firms in policy development throughout the associational system. The high and increasing stakes in current telecommunications policy debate is evidenced by the singular actions of individual firms in interest advocacy. Bell Canada, B.C. Tel, IBM, Unitel, the Royal Bank, and Rogers are notable for their independence; collective action for these companies complements their other strategic activities, providing avenues of influence and

legitimacy but demanding little commitment to objectives that require concessions to competing interests. Bell Canada has always exercised a preponderant share of power in Canadian telecommunications, and in the current environment is occupying this field not unlike its original *modus operandi* at the turn of the century. During the interexchange competition hearing of the early 1980s, several supplier and business user associations - including CBTA, ACTS, ITAC's predecessor and the CBA - formed an alliance under 'Canadians for Competitive Telecommunications'. At the time, the law firm McCarthy & McCarthy housed some prominent lawyers in the field, who were retained by the group. Bell suggested it would remove its subsidiary, Trans-Canada Pipeline Limited, from McCarthy's client base unless the law firm severed its relationship with the 'et. al' group, which it did.

Bell's membership in ITAC is similarly motivated by reasons not typically ascribed to collective action. It already possesses influence, expertise and information, and access to decision-makers. One Bell Canada official summed the company's expectations of membership in ITAC:

...certain issues, because of the composition of the membership, whether you are in this kind of an association or not, it really isn't going to facilitate their resolution, to be honest. Because when you join an association, it doesn't mean you give up your rights as an individual company to hold views and certainly ITAC doesn't force that on its members. ... I suppose any time you're involved in an organization and you're talking to each other it's better than not talking to

each other. ... But fundamentally, given the membership, you're going to have competing interests sitting there - that's the way it is (Interview, 8 June 1990).

ITAC, while distancing itself from former allies on the competition issue since admitting Bell and B.C. Tel, maintains that it 'holds a candle' for users. Given its current board composition, the ability to accommodate pro-competitive user interests would cause that candle to burn brightly at both ends.

Integration in the associational system is weak, with no formal and only sporadic informal ties among the individual associations. Several reasons for this lack of integration are apparent. First, the interests are sufficiently numerous and competitive that no fundamental or long-term common interests are identifiable. Because this sub-sector is diversifying rapidly, with uneven effects across its functional divisions, common interests are fleeting and narrowly-defined. Second, the types of issues currently on the telecommunications agenda carry significant consequences for each interest in the policy community, leading the associations to focus on their lobbying efforts by establishing strong links with their members, and couching their demands in ideological terms.<sup>1</sup> In pressure pluralist networks, associations require the flexibility that

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<sup>1</sup> Examples of ideologically-charged debates abound in telecommunications. For example, Ted Rogers often uses the term 'Soviet-style' to describe the telcos' monopoly. Similarly, Bell Canada president Jean Monty refers to Ted Rogers as the guy who signals American programming into Canadian homes. In a June 1990 interview, CCC executive director, Monty Richardson argued that the future of our children, the free market economy, and jobs were at stake in Canada. Citing the Avro Arrow as the first of many Canadian failures in high technology, he also alluded to state intervention as a Soviet phenomenon.

independence affords. For those seeking success through advocacy, associational autonomy from members, pragmatism and longer-term alliances with other interests are perceived to have deleterious consequences. Instead, advocacy is maximized through associations with flat organizational structures and through policy outputs dominated by member firms. Alliances among associations form and then dissolve around particular telecommunications issues. One association professional questions the effect of such loose alliances among organized interests:

The biggest trend in associations is coalition-building. Because of the problems of consensus, associations and groups come together on specific issues, present their views and then disband. And that raises the question of the future of associations. Do you need associations in an environment like that? (Interview, 29 May 1990).

The lines separating industry segments in telecommunication services, and in the IT industry overall, are reinforced by state structures and lack of policy direction in legislation. Relations with government are frequent and significant for managerial decisions of the carriers such as purchasing, capital investment, service offerings, price, interconnection, customer complaints and billing. Legislation does not acknowledge competition, convergence or globalization, but continues to structure the policy process according to separation of markets. The principal state actors identified in this chapter either claim various responsibility for telecommunications, or possess mandates that alter the range of policy options available to lead

agencies.

### *State capacity*

In government, there is support in principle within federal agencies for some form of increased competition, but significant differences of opinion about the degree and form it should take, and assessments of the benefits that would ensue. The CRTC and DOC have moved cautiously toward opening segments of the market, balancing the benefits of competition against its possible adverse effect on related market segments and sectors. Other federal ministries involved in telecommunications favour a more decisive move toward liberalized markets. Provincial governments with a history of facilitating low local telephone rates as a matter of public policy are opposed to changes in the current market structure that would result from competition. For Quebec, the jurisdictional issue is not related to questions of market structure, but rather control of communications and culture. All provincial governments argue that politicians, and not regulators, should make policy.

Until 1989, responsibility for the major telecommunications carriers resided *de facto* with both federal and provincial levels of government. This balkanization produced different operating environments for suppliers and customers, exacerbated by federal-provincial conflict over telecommunications policy. Recent statements by federal communications officials suggest that, despite the Supreme Court's affirmation of federal jurisdiction, the provinces will

continue to occupy a position at the core of policy-making. In addition to the major role of the provinces, governmental involvement in telecommunications is beginning to diffuse horizontally across the federal level. Pronounced is the competitive relationship between the DOC and CRTC, but other federal ministries and international telecommunications and trade organizations are also increasingly shaping Canadian telecom policy.

Autonomy and capacity of the state are related because the relationship between state and societal actors is affected by the ability of societal groups to invoke the authority of other state institutions with corresponding interests. This reinforces, and is reinforced by bureaucratic competition between the federal and provincial governments, and among federal agencies. Societal interests are divided, which affords the DOC considerable policy-making room. However, as the federal government assumes jurisdiction for telcos across the country, and organized interests intensify their political interventions, other ministries offer access to the core of policy-making.

### *DOC-CRTC Relationship*

Existing federal telecom legislation is vague and outdated, creating an uncertain environment for both suppliers and customers. Regulation was the major source of clientele pluralism in Canadian telecommunications, and also contributed to the more recent emergence of pressure pluralism in some policy areas. Ironically, DOC officials point to the regulator as the state's source of autonomy in

telecommunications, relatively insulated from the political process. At the same time, however, the DOC is attempting to assert more control over regulatory activity, at a time when other ministries are increasingly turning their attention to telecommunications. Parliament's inability to enact legislation bestows wide discretion on the regulator to make policy, which in turn detracts from state autonomy because the regulator's decisions are increasingly open to challenge on grounds of both jurisdiction and policy.

While the DOC and CRTC are theoretically distinct, in practice there is a great deal of overlap in their activities, and increasing tension between them. In theory, the line agency formulates policy and the regulator applies the statutory principles to individual cases. Since the 1970s, the Commission has developed the bulk of policy in telecommunications; only more recently has the DOC become actively involved with policy. The two government bodies have addressed several major policy issues in tandem, with no consultation or coordination.<sup>1</sup> Conflict between policy-setting and adjudicative bodies occurs in other regulated sectors as well. In the Canadian regulatory system, "this studied non-co-operation... results from substantial structural tensions between political accountability and technical competence (Janisch & Kurisaki, 1985: 34). Waverman similarly argues that the

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<sup>1</sup> Some examples include parallel studies on terminal attachment, cellular radio, commercial deletion policy, CATV hardware ownership rules, pay television, satellite communications, major policy reviews of interconnection and enhanced systems policy, and convergence (local distribution networks). In the late 1970s, the DOC developed its own econometric models for Bell Canada and B.C. Tel., an area that clearly falls within the CRTC's mandate. See Waverman, 1982; Janisch & Kurisaki, 1985; Janisch, 1979; Woodrow & Woodside, 1986.



poor record of DOC to establish a policy over an area where it has no regulatory jurisdiction and where an active regulator is involved in policy-setting highlights the problem of divided jurisdiction between rule-making and regulation (Waverman, 1982: 161-62).

The NTA adumbrates CRTC jurisdiction in both telecommunications and broadcasting, and sets out the formal relationship between the Commission and the Governor in Council. Section 64(1) empowers the Governor in Council to

at any time, in his discretion, whether upon petition of any party, person or company interested, or of his own motion, and without any petition or application, vary or rescind any order, decision, rule or regulation of the Commission, whether such order or decision is made *inter partes* or otherwise, and whether such regulation is general or limited in its scope and application; and any order that the Governor in Council may make with respect thereto is binding upon the Commission and upon all parties (Lawrence, 1988: 328).

The DOC's intention to acquire the power to issue directives to the CRTC while maintaining the power of review has met with opposition from the Commission, academics and some societal groups. In reviewing the instances in which Cabinet has invoked the appeals process in telecommunications, Lawrence notes that the Governor in Council is not bound by the rules of natural justice or procedural fairness in performing its functions under section 64(1) of the NTA.

Appeals have increased in recent years, raising concern that the departmental processing of claims "puts all parties who are involved in it on notice that, in seeking to influence the decisions that flow from it, they should employ the techniques, such as lobbying, that are appropriate to the political process." (Lawrence, 1988: 329).

*Provincial governments and divided jurisdiction*

Jurisdiction in telecommunications regulation pertains to all operations undertaken by each company, i.e., the CRTC and its provincial counterparts regulate each of local, interprovincial, and international rates for the companies they regulate. There is no separation, as in the United States between the local and interexchange segments of the market.<sup>1</sup>

Telecommunications clearly does not reflect the "territorial principle" associated with Canadian federalism: "what goes on within a province should be provincial; what is interprovincial or international should remain federal." Instead, we have allocation by company, not by territory or function (Schultz & Alexandroff, 1985: 75).

Prior to 1989, provincial regulators were responsible for the approval of interprovincial rate applications from the carriers they regulate, but generally refrained from interfering with rates set

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<sup>1</sup> In the United States, there is a two-tiered system where federal authorities are responsible for long distance, and state commissions for local and intrastate telecommunication. See Federal-Provincial-Territorial Task Force, 1988: 17-29; and Olson, 1989: 131-138.

collectively by Telecom Canada members. Departmental structures of the provinces were later to emerge and less developed than their federal counterparts, and are more politically oriented. Provincial control of the monopoly carriers, through either ownership or regulatory control, has served each of the three major objectives identified by Chandler as "constituting the enduring themes of provincial politics":

- To facilitate economic development;
- To redistribute economic benefits and power of the private sector; and
- To promote provincial or regional interests at the expense of those outside the province (1985: 269-72).

Quebec seeks control of communications largely for nationalistic purposes, to promote culture and language. Crown ownership of telephone companies in the Prairie provinces - AGT, SaskTel, and Manitoba Telephones - furthered, at considerable cost, expansion of telephone service in sparsely populated areas, reflecting the priority of economic development, but also furthering regional objectives.

For the provinces, policy-setting by the federal regulator has been problematic because provincial interests are accorded the same status as other regulatory intervenors. In this arena, provincial influence in policy decisions that may run counter to provincial interests is relatively weaker than in inter-governmental fora. The CRTC long regulated approximately 70 per cent of the national market, creating spillover effects for other carriers. Federal moves to

increase competition affect the pricing practices and profitability of Bell Canada and B.C. Tel, and consequently of the other Telecom Canada members.<sup>1</sup>

Following the Supreme Court's 1989 decision in the AGT case, confirming federal jurisdiction over telecommunications, expectations that decisive and long-awaited federal action would immediately follow the decision were short-lived. When Communications Minister Marcel Masse introduced Bill C-41 in October 1989 to remove crown immunity from the prairie telephone companies, thereby facilitating federal regulatory control (Globe & Mail, 20 October 1989: B1), provincial communications ministers of the three prairie provinces responded with virulence. The provincial communications ministers publicly charged Masse with betraying the Prime Minister's commitment to co-operative federalism (Network Letter, 30 October 1989: 2). About one month after its introduction, C-41 was put on hold amid media reports that Cabinet would not proceed until provincial consensus had been reached<sup>2</sup>. While Alberta, Manitoba and the Atlantic provinces have reached agreement with Ottawa, Saskatchewan wishes to retain regulatory control over its provincially-owned telco.

Foremost on the broader federal-provincial agenda is Quebec's demand for increased powers over several areas, including communications. According to Stanbury, telecommunications has

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<sup>1</sup> Provincial authorities in Saskatchewan estimated that long-distance competition would cost SaskTel \$34 million each year in lost revenues. Canadian Communications Network Letter, 30 October 1989: 2.

<sup>2</sup> Federal Conservative cabinet ministers from Alberta apparently refused to allow the bill to proceed. See Winnipeg Free Press, 24 November 1989: 1.

been "only one bargaining chip in the larger game of constitutional negotiations." (1982: 9). Assuming that the 1987 Meech Lake Accord would be ratified by all provincial legislatures, observers predicted that federal telecommunications legislation would indeed be tabled shortly thereafter. Quebec Premier Robert Bourassa was quick to respond to the collapse of the Accord, demanding control over immigration, job training and communications. In Quebec, both the provincially-appointed Belanger-Campeau Commission, and the Quebec Liberal Party's Allaire report recommended that Quebec seek control *inter alia* of communications.<sup>1</sup> Ottawa is unlikely to move ahead with its national policy until these issues are resolved, a situation that causes concern among many in the policy community.

#### *Other federal ministries and international bodies*

As the carriage sub-sector converges with other related sectors, so too does telecommunications policy affect a wider range of state actors. According to one DOC official, societal interests

are much more likely to invoke the interests of other departments no matter what we do here, whether it is moving in one direction or the other. From a policy perspective, it is simply because people realize there are other major stakes or questions being affected by what we do in telecom. (Interview, 28 May

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<sup>1</sup> Jean Allaire. (1991) A Quebec free to choose. The report suggested a two-tiered system of regulation, with all intra-provincial communications regulated by the Regie de telecommunications. Federal-provincial relations in communications have been described as a 'mini-Meech'. See Globe & Mail, 5 July 1990: A4.

1990).

Other federal ministries with interests in telecommunications include Consumer and Corporate Affairs, which funds public advocacy and consumer groups, and houses the federal competition bureau. In 1990 the Director of the bureau indicated it would "get more involved with the issue of competition in the regulated sectors of the Canadian economy." (Howard I. Wetston, Director of Investigation and Research, Bureau of Competition Policy. Address to the Canadian Club. Montreal, 12 February 1990). 1990 also witnessed the creation of a new ministry for economic development, Industry, Science and Technology Canada (ISTC), responsible for advocating the interests of the scientific and industrial communities (Industry, Science and Technology Canada, Annual Report. 1989-1990). Identifying IT as a priority economic activity, this ministry has established close ties with ITAC, and is providing support to several industry initiatives. Other federal bodies whose mandates affect telecommunications policy are those responsible for external trade, finance, and science.<sup>1</sup>

At the federal level, consultation occurs on an 'as required' basis, typically prior to legislative initiatives. When inter-departmental agreement cannot be achieved, conflicts spill over into

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<sup>1</sup> The Commission was consulted for technical advice on the privatization of Teleglobe, but neither it, nor the DOC played a prominent role in that decision. Similarly, recent changes in taxation legislated by the Department of Finance translated directly into a Commission-ordered reduction in long-distance rates charged by Bell Canada and B.C. Tel. The federal science ministry is funding 14 Centres of Excellence, contributing tens of millions of dollars to joint industry-university-government research, including the Canadian Institute for Telecommunications Research in Ottawa (TRIO).

the political arena. Cabinet deliberation of telecom issues is occurring with increasing regularity, and on a widening array of issues. According to one telco official, lobbying other federal ministries is now a necessary part of doing business: "We have to make changes to our strategic contacts. Our government relations function could double or triple." (Interview, 2 June 1990).

Horizontal diffusion of federal authority is exemplified by an increasing tendency of both firms and associations to seek support from various cabinet ministers. Resale and sharing of telecommunications services, which is integral to the long-distance competition issue, provides an example of increasing pressure pluralism. Call-Net Telecommunications Ltd., a reseller of private transmission, incurred regulatory restrictions over the question of whether it sells basic transmission services. The Federal Court of Appeal had upheld the Commission's decision to allow Bell Canada's request to discontinue leasing lines to Call-Net. Call-Net won a reprieve from the CRTC decision requiring it to suspend certain of its service offerings, by appealing the decision to Cabinet, identifying this route as the forum where the issue would ultimately be resolved. Industry observers note that Bell failed to recognize the potential for a favourable CRTC decision to be overturned. Notes Richard Schultz:

Now if I was to advise a client on how to lobby, I have a checklist of people and departments, and DOC I would not treat as a dominant player. There is no dominant player in Ottawa now. On the other hand, that does not mean that the industry is dominant; the

industry is in a very weak position  
(Interview, 5 May 1990).

International trade and telecommunications organizations directly influence policy development in Canada. Telecom figures prominently in trade-in-services negotiations and agreements, restricting the range of policy options available to domestic governments. The International Telecommunications Union (ITU), particularly through its consultative committees (CCITT and CCIR) develops international protocol for areas such as standards (e.g. terminal equipment, network architecture), functional and operational aspects of service provision and access. The Type I/Type II licensing scheme announced by the DOC can be viewed as an attempt to safeguard domestic control over the basic telecom public infrastructure, and was linked to bilateral trade negotiations preceding the implementation of the Canada-U.S. Free Trade Agreement. GATT negotiations on trade-in-services will also affect Canada's ability to control its domestic telecom policy. Proponents of increased competition argue that global realities will force the hand of Canadian policy-makers, and remedy domestic inertia.

Basically what (trade officials) have said is that you've been guaranteed outcomes from the telecom service industry that are competitive outcomes. You don't have to organize it as competition, but you can no longer cross-subsidize, etcetera. The entire area of domestic telecommunications policy is now being circumscribed by a group of bureaucrats in foreign trade, and thank God. Maybe we'll get something done (Interview,



29 May 1990).

The overview of the market structure and policy developments in chapters 1 and 3 identified the major actors and interests in the telecommunications carrier sector, and the exogenous variables - technology, economy, and constitutional division of powers - that shape policy options in carriage policy. While these exogenous factors have created pressure for change, this chapter demonstrates that policy preferences, defined by Coleman and Atkinson as the range of options that can be supported by a given set of institutions, are shaped by how these institutions structure rationality and discourse (1989:4-5). Rationality is determined by institutions, economic conditions, and also by values and attitudes of those in the policy community. In telecommunications, market conditions favouring competition and deregulation will not alone shape policy preferences; the structures and patterns of state-society interaction evolve shifting conceptions of the public interest. Similarly, the division of power in communications between the federal and provincial levels of government will be resolved by negotiation, not by judicial interpretation.

In addition to a weakly developed associational system, the dominance and independent action of individual firms mitigates against integration among societal interests. Large firms act very much as single players on issues of policy that affect their interests, exercising their corporate muscle through ownership and multiple modes of political intervention including lobbying firms, direct contact between senior executives and state actors, associational

activity, litigation and the regulatory process. The associational system appears to be reorganizing to achieve a more realistic representation of the IT segments, but does not perform an integrating function.

Without clearly enunciated policy objectives in legislation, state autonomy is denied. In telecommunications, this is evident in both vertical jurisdiction (federal-provincial), and horizontally across federal ministries and agencies. Lacking a statutory definition of basic concepts, objectives and philosophy, other state actors make incursions into telecommunications with increasing regularity. This, in turn, opens avenues of intervention by societal interests. Weak state capacity coupled with low organizational development of societal interests yields pressure pluralist policy networks, which are not conducive to the implementation of anticipatory policies. Chapter 5 assesses in detail the types of policy direction that pressure pluralism is likely to produce in Canadian telecommunications.

## CHAPTER 5

## Policy Networks and Policy Outcomes

Comparing business-government relations across economic sectors, Coleman distinguishes between the ability of a given societal interest to influence decisions made by politicians, and to exercise delegated state power to "respond autonomously to its own demands." (1988: 170). Canadian telecommunications offers an example of how the ability of private interests to translate economic into political power can change over time. These carriers, and particularly Bell Canada, continue to wield tremendous influence over domestic policy, working in clientele networks where their expertise and support are needed by the state. Clientele networks operate in policy areas such as spectrum and local distribution networks. As policy shifts from technical to socio-economic considerations, however, the monopoly carriers are no longer able to block access to the locus of policy-making by virtue of their economic and technical strengths. Discussing a successful regulatory intervention, one competitive supplier points to the combined effects of market and government developments on the carriers' role in determining policies.

...absent our (regulatory) intervention, ... (Bell)  
would probably have put a significant

number of companies out of business. That's a very real and concrete example of the CRTC (relying on other inputs) ... as the markets open up and become more competitive, there is no way that they can understand the dynamics of that market. And thank God they don't pretend to understand it. They do really rely on inputs from the various parties to finally make a determination on what the public interest is. ... I first intervened in a case in 1972, and Bell Canada owned that room. They owned the Commissioners, in my view, and they owned the room. There was nothing you could do about it. And that is significantly different today (Interview, 30 May 1990).

Growth of the policy community in the carriage sector has essentially followed the same path that Coleman argues has occurred in other policy sectors, and the changes to date bear a striking resemblance to those of the Canadian payments system in the financial sector. This expansion altered the stable relationships that existed until the 1970s and, in telecommunications, is producing a transition from a closed to an open policy community.

The transition from a closed to an open policy community can be attributed to several factors. The combination of weak state structures and high co-ordination among the monopoly carriers through Telecom Canada produced a clientele policy network. Since regional monopolies were accepted, the policies that emerged from this network were industry structure neutral. But reactive decision-making by government and the carriers also contributed to pressure for broader participation. By the early 1970s, technological and

economic developments had encouraged potential competitors and business users to challenge the carriers' control of facilities and available services. Technology broke the hold of the telephone monopolies on end-to-end service, and it soon became evident that the extensive system of cross-subsidies that had contributed to universal service at low costs could not accommodate a competitive pricing structure.

The sources of this transition include socio-economic changes in the sector itself, which have transformed the nature of telecommunications, and a decision by the federal government to increase its presence and to encourage broader participation of organized interests in the policy-making process. Strong linkages between telecommunications and other social and economic sectors draws other actors - both state and societal - into the policy community, placing a premium on both public and private sector co-operation (Woodrow & Woodside, 1986: 117). The combination of diverse interests and high stakes in telecommunications policy has produced changes in the nature of value debate, which renders integration exceedingly difficult. The socio-political context has changed considerably: long treated as a public good, telecom services are now seen by some businesses and competitors as a commodity. This raises not only allocative, but redistributive pricing issues among those in the policy community. Foreign firms are now vying for a share of the Canadian market, and the integrating forces among the common carriers are giving way as they are confronted with the territorially uneven effects of competition within their respective operating territories.

Governmental structures are also in a state of flux. Contributing to expansion of the policy community was the decision by the federal government during the late 1960s to increase its presence and encourage broader participation by societal interests in decision-making. State involvement in telecommunications also is increasingly pluralistic: federal-provincial conflict over communications jurisdiction escalated during the 1970s and continues to impede policy development, and in Ottawa, bureaucratic pluralism is increasingly offering avenues of influence to societal interests.

Coleman argues that clientele policy networks that operate in a regulatory sphere encourage consensus and support among affected parties, "thereby diminishing the emphasis on monitoring and enforcement and reducing the administrative costs to the state".<sup>1</sup> In a more competitive telecom environment, however, this type of "regulatory bargain" is less stable. The monopoly carriers, believing they may be forced to compete "with one hand tied behind their backs" now question the effect of regulation on their bottom line. The state, rather than delegating self-regulating functions, is moving to assume control over decisions about industry structure. While Telecom Canada members continue to make the majority of decisions about the technical and operational aspects of the network, the state is working to inject more openness by providing multilateral fora for the exchange of information among the various interests. It also seeks to establish control over the association as a whole.

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<sup>1</sup> See Thomas L. Ilgen (1985). Between Europe and America, Ottawa and the provinces: Regulating toxic substances in Canada. Canadian Public Policy. 37(4): 587. Quoted in Coleman, 1988: 209.

As the federal Department of Communications moves to assume jurisdiction over all the major carriers in Canada, the relationship between the Department of Communications and the CRTC is also being redefined. The Supreme Court of Canada's 1989 decision affirming federal jurisdiction in telecommunications does not provide political direction to the federal and provincial governments in finding consensus on fundamental structural issues, and their respective roles in fostering effective communications systems for their constituents. Information providers are turning their attention to international markets; maintaining a foothold on the international scene requires an ability to effect high levels of service quality, innovation, price competitiveness and standardization.

In its effort to assume control over legislative and administrative decision-making, the DOC is also looking to the international stage. Can existing policy structures provide the necessary support? Pressure pluralism has permeated the regulatory process, and the norms of procedural fairness and openness are firmly established. Even where elements of corporatism characterize the departmental process in its use of advisory councils, this will not easily translate into the structures necessary to cultivate international markets. Rather the types of support structures available in clientele networks are usually linked to the international race for markets. Few would foresee increased access by any member of the policy community to clientele networks.

These variables all speak to changing patterns of power and influence in the policy community, and raise the question of whether the Canadian carriage sub-sector is organized for planned positive

adjustment. Woodrow and Woodside describe federal decision-making as an "unstable triad" comprising federal departments, the federal regulator and the societal interests that seek access to the core of policy-making (1986: 117). Longer-term planning is hindered by the diversity of interests - both state and societal - and the politicization of issues in the policy process. This has, in turn, increased the need for accommodating and building consensus among competing interests through the political process. Atkinson and Coleman suggest that technological destabilization of the production cycle may warrant consideration of a more anticipatory approach to policy-making than is possible in pressure pluralist networks (1989: 87).

Despite increasing pluralism in both state structures and societal interests, the transition from clientele to pressure pluralism is not complete. Organized interests effectively use strategic interventions in challenging information the carriers present to regulators, and government is reluctant to proceed with an initiative that does not have broad support. But the monopoly carriers continue to possess significant influence, providing most of the evidence on which regulatory decisions are based, and utilizing their technical strength to influence the course of iterative policy-making. Seeking societal support to consolidate its own role in establishing policy, the DOC draws the monopoly carriers more closely into policy formulation than it does other interests in the policy community.

At both the federal and provincial levels, the state defines policy objectives based on its conception of the public interest. This is evidenced, in part, by the policy variations among federal and



provincial authorities, and their relationships with the carriers and other interests. Federally, the state possesses sufficient autonomy to identify a public interest, and to contemplate policies that would further its objectives. But despite the considerable policy-making room it enjoys because of conflicting societal interests, its autonomy is delimited by the alliance of societal interests with other state institutions, and contradictory policy objectives.

Compared to its major trading partners, significant government direction or support for high-technology sectors is lacking.<sup>1</sup> The DOC's efforts to impose some order on policy-making by consolidating its legislative and administrative control is interpreted by some as merely a power grab. Canada - like the U.S.- they argue, lacks the capacity and legitimacy for sectoral planning, and the government should rather devote more of its resources to consensus-building (Schultz, 1988: 29; Interview with H.N. Janisch, May 1990). However, business has an equally important role to play in achieving the organizational capacity to build consensus among its players, particularly as Canadian industry positions itself for global markets. A weak state is hard-pressed to surmount the divisive forces within the carriage sub-sector, and exacerbates conflict by its failure to act.

Macropolitical factors play a decisive role in telecommunications policy. Unlike other Canadian infrastructure industries such as the railways, government at the federal level did not participate directly in the formation of the public telecommunications network. Rather, it sanctioned regional

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<sup>1</sup> The telecommunications satellite sub-sector is a notable exception. See Atkinson & Coleman, 1989: 103-112.

monopolies and instituted direct economic regulation to prevent abuse. History reveals a relationship between state and society that has an enduring impact on both the structure of the industry, and the accepted norms of policy-making within the sector. Coleman finds that

(past) policies may limit later options of state officials by denying them the use of particular policy instruments. So may traditional mechanisms of processing claims ... that outlive their rationale, but whose violation at a later date raises cries of illegitimate policy-making. Societal interests are also constrained by past policies; programs that treat particular interests within the sector differently, and so reduce common problems and interests, are likely to undermine collective action at a later date (1990: 316).

The effect of economic structure on political intervention by business also reveals the embedded nature of the 'adversarial' industry culture. Technology diffusion requires transparency in communications systems - only maximum interconnectivity developed through agreement on common standards can capture for society the benefits of information technology. Here the argument for consensus is clear. International competitiveness and success in harnessing the benefits of high technology mandate the suppression of proprietary attitudes among information suppliers. As noted in Chapter 4, the DOC has implemented corporatist-type arrangements through advisory councils to achieve decisions on standards, the participants knowing that standards will be imposed by government

should they fail to reach consensus. Its ability to effect corporatist policy-making is limited, however, to specific aspects of telecommunications where its mandate is clear.

The diversity and competition of societal interests, combined with a lack of state capacity to implement policy objectives explain the absence of a comprehensive associational system. Federal-provincial conflict over constitutional jurisdiction has indirectly shaped collective action by societal interests: because it has dominated the telecommunications agenda since the early 1970s, federal-provincial issues have diverted federal attention and resources from the substantive issues of industrial and social policy. Facing a policy-weak state, the sector need not develop a level of organizational capacity sufficient to counter state initiatives. As long as intergovernmental conflict perpetuates the status quo, competitive pressures will remain somewhat constrained by legislative barriers, and federal policy will continue to emerge incrementally through regulatory decisions.

Should the federal Department of Communications succeed in consolidating legislative and administrative control over telecommunications, the carriers may find greater incentive to organize. Several factors suggest that the DOC will succeed in strengthening its position only in small measures. International developments in trade and telecommunications policy will exert ever increasing changes on the domestic regime, precluding some policy options and encouraging others. A decision by Quebec to vacate the field of communications appears unlikely, as is the possibility of Quebec alone retaining control over the sector without some federal

concessions to the other provinces as well. Horizontal diffusion across the federal level of government is increasing as officials responsible for other areas of public policy find their objectives are affected by information technology.

The above serve to explain, in Coleman's terms, "why particular outcomes emerge", and also "how policy innovation and change might be brought about." (1990: 325). In telecommunications, the combination of divergent and weakly organized sectoral interests with weak state structures explains the absence of a federal telecommunications policy, and why the DOC has invested more resources in seeking to consolidate its authority than addressing the more substantive policy issues. Telecom Canada members can no longer assume that their interests are viewed as congruent with the public interest, nor can the association's present structure facilitate policy development. The monopoly carriers, as a result, have failed to take advantage of some opportunities. There is no possibility for an industry association until the issue of competition is resolved, and beyond that, it is uncertain whether the carrier industry as a whole can achieve the organizational capacity to identify common objectives.

Despite its broad vision, DOC has been unable to succeed with an anticipatory approach to policy. Policies at the federal level tend to be narrow and poorly integrated, failing to address the growing interdependencies of telecommunications with related sectors. Overall, the state lacks sufficient autonomy and concentration of decision-making necessary to realize its objectives. At the federal level, state autonomy derives from the CRTC's relative insulation

from the political process. Indeed, federal policy since the late 1970s consists largely of decisions emanating from the regulatory process. But this insulation is fragile; increasing political pressure on the communications minister from the user community and other federal ministries is drawing regulatory decision-making into the political milieu. Nor is the regulatory process designed to facilitate longer-term planning.

The DOC's attempt to assert its role has met with limited success for several reasons. First, it has been far too ambitious given the history of telecommunications in Canada. Federal government involvement in building the Canadian telecommunications infrastructure was minimal compared to its role in other sectors that contributed to nation building because the interests of the monopoly carriers largely served the public interest. The Department's resources were initially devoted to technical matters and federal-provincial relations, shifting towards social and industrial policy in the 1980s. This shift, however, has been tempered by uncertainty about the degree and scope of legitimate government intervention in what DOC officials describe as the "carriers' network". Telecom Canada members established the basic character of the network, its pricing structure, and the wealth redistribution facilitated by its RSP. State involvement has been essentially non-existent in the computer sector and fairly limited in the cable sub-sector, raising questions about the legitimate, or practical reach of government intervention in IT

Second, any attention given to telecommunications by Cabinet is fraught with the same conflicts and ambivalence evident in the

bureaucratic sphere. The forces of conflict and ambivalence within the bureaucracy generate inertia at the political level as well. While other ministries are becoming more involved in telecom, they too are plagued by conflicting interests in the policy community, and related of federal-provincial issues.<sup>1</sup> The failure of Parliament to pass telecom legislation has reflected, in part, the fact that the Canadian system, for most Canadians, has worked very well; politicians have little incentive to move the issue up on their crowded Parliamentary agenda unless they perceive a problem. Communications is not a major portfolio; it, and its standing committee are dominated by their responsibilities for culture.

In Chapter 2, I surveyed telecommunications developments in other industrialized nations, and argued that despite widely different philosophies about the respective roles of state and society in harnessing the benefits of the information economy, Canada compares with its major trading partners by its failure to reach consensus on the basic principles that will guide this sector into the 21st century. The concepts of policy community and policy networks applied in this study to the Canadian carrier sub-sector point clearly to some of the reasons for the lack of consensus required to devise anticipatory policies.

The carrier sub-sector is attempting to maximize the benefits available from expansion and fragmentation of markets. At the same time, the transition from a closed to an open policy community has

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<sup>1</sup> Prior to the Supreme Court decision in the AGT case, federal and provincial communications ministers reached an accord that would have transferred some communications responsibilities to the provinces. That agreement collapsed when Marcel Masse re-acquired the communications portfolio.

replaced clientele with pressure pluralist networks as the dominant relationship among policy actors. However, pressure pluralist networks cannot produce the type of anticipatory policies that may be warranted by such shifts in the industry cycle (Atkinson & Coleman, 1989: 87).

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## *APPENDIX A: Association Interview Schedule*

### SECTION I: Membership

1. How many local, provincial, or regional (Atlantic, Western, etc.) branches exist for members in your association? How many members are in each of these branches?

	Number	Number of Members
--	--------	-------------------

- A. Local
- B. Provincial
- C. Regional

- 1.1 How are these branches related to your association? For example, do local branches affiliate directly with you or do they affiliate through a provincial or regional branch?

- 1.2 Do any of these territorial branches have their own constitutions? Which ones?

2. By my estimate, your association organizes as its core group of active producer members the following industry category as defined by the Standard Industrial Classification used by Statistics Canada. (SIC 4811). Is our estimate accurate? If not, what should be added/subtracted from the above industry description?

3. How many product-defined sections or divisions does your association have for members? What are these sections or divisions and how many members are in each of these?

- 3.1 Do any of these product-defined sections or divisions have their own constitutions? Which ones?

4. I would like to have some estimate of how membership in your association has evolved over the past fifteen years. Could you give us an estimate of the number of active or full members there were in each of the following categories at the beginning of years 1975, 1980, 1985, 1990?

- A. Individual owners, partnerships, firms or corporations.

- B. Individual persons

- C. Other associations

5. How many members left your association during each of these years?

6. Have any members of your association in the past fifteen years been

sanctioned for being in conflict with association policy?

7. In your view, is your association in competition with any other association for members?
  - 7.1 If so, which association(s) is that ?
  - 7.2 What specific product-type members are being sought by both associations?
8. In terms of the number of firms that could potentially be in your association, what proportion of this number are actually members?
9. In terms of the total sales of the industry you represent, what proportion of this total is accounted for by your members?
10. How often does the membership as a whole convene to discuss association business?
11. Is membership in the association legally compulsory for firms in a particular market?
12. What are the five largest firms in terms of sales who are full active members of your association? (Canadian)

## SECTION II: Executive and Board of Directors

13. What is the association's main executive body, the Board of Directors, an executive committee of the Board, or some other body?
14. (IF APPLICABLE) Thinking back to the various territorial branches you described in question 1, are these guaranteed representation on the association's major executive body?
  - 14.2 I am interested in the voting rights these territorial representatives might have on the association's major executive body. Which of the following statements is the best description of those rights?
    - ☐ 1. The representatives of each territorial group have the right to veto any major decision.
    - ☐ 2. Decisions are made by majority vote with each territorial branch having votes proportionate to its numerical strength.
    - ☐ 3. Decisions are made by majority vote with each territorial branch having one vote.
    - ☐ 4. Decisions are made by majority vote with members expected to vote as members of the association at large and not along territorial lines.

14.3 Thinking still about these territorial branches, I am interested in how much authority they have in your association. Which of the following statements describes their authority best.

☐ 1. These branches have formally specified areas of responsibility and in those areas they can make their own decisions and enter into formal relations with other groups.

☐ 2. These branches have formally specified areas of responsibility and in those areas they can make their own decisions and enter into formal relations with other groups subject to approval by the association's major executive body.

☐ 3. These branches are delegated areas of responsibility by the major executive body from time to time but have no formal areas of their own.

☐ 4. These branches have no formal areas of responsibility but must be consulted when decisions are made on particular subjects.

☐ 5. These branches have no formal areas of responsibility. The association's major executive body is free to take all decisions but may consult the branches from time to time.

15. (IF APPLICABLE) Thinking back now to the various product-defined sections or divisions you described in question 3, are these guaranteed representation on the association's major executive?

15.1 If so, are these representatives elected by the membership at large or are they elected separately by their group constituents?

15.2 I am interested in the voting rights these product representatives might have on the association's major executive body. Which of the following is the best description of these rights?

☐ 1. The representatives of each product group have the right to veto any major decision.

☐ 2. Decisions are made by majority vote with each product group having votes according to its strength (numerical or sales).

☐ 3. Decisions are made by majority vote with each product group having one vote.

☐ 4. Decisions are made by majority vote with members expected to vote as members of the association at large and not along product lines.

15.3 Thinking still about these product groups, I am interested in how much authority they have in your association. Which of the following statements describes their authority best?

\_\_\_1. These groups have formally specified areas of responsibility and in those areas they can make their own decisions and enter into formal relations with other groups.

\_\_\_ 2. These groups have formally specified areas of responsibility and in those areas they can make their own decisions and enter into formal relations with other groups subject to approval by the association's major executive body.

\_\_\_3. These groups are delegated areas of responsibility by the major executive body from time to time but have no formal areas of their own.

\_\_\_ 4. These groups have no formal areas of responsibility but must be consulted when decisions are made on particular subjects.

\_\_\_5. These groups have no formal areas of responsibility. The association's major executive body is free to take all decisions but may consult the groups from time to time.

16. How many directors did the association have in the following years?
17. How long formally is the term of office of a director? Are these formal limits extended often through repeated elections of given individuals?
18. Which of your directors are from the five largest firms described in question 12? How long have these firms been represented on your Board of Directors?

### SECTION III: Committees

- \*19. Please list below the names of the committees active in the association, what their tasks are, and how frequently they meet. Enclose in parentheses after the name the number of members on the committee.

<u>Committee Name</u> (size)	<u>Committee Task</u>	<u>Frequency</u>
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### SECTION IV: Permanent Staff

26. How many individuals are employed full-time by the association? How does this number compare to previous years?
27. How many individuals are employed part-time by the association? How does this number compare to previous years?
28. What tasks have been assigned to each member of the staff employed in 1990? Please list in order of time spent on each.

30. Who selects and appoints members of the permanent staff?
32. How many of the association's staff possess a university degree?

SECTION V: Internal association activity.

38. What kinds of information are collected by the association from members? Please include here any surveys carried out by the association or sponsored by the association.
40. Please mark the Y (yes) or N (no) to indicate whether your branch engages in the listed activity.

- |   |   |     |  |
|---|---|-----|--|
| Y | N | 1)  | Organization of social events  |
| Y | N | 2)  | Organization of recreational activities  |
| Y | N | 3)  | Fund-raising for charities   |
| Y | N | 4)  | Provides information or assistance to government bodies  |
| Y | N | 5)  | Represents industry to legislative bodies  |
| Y | N | 6)  | Represents industry to cabinet ministers   |
| Y | N | 7)  | Represents industry to regulatory agencies   |
| Y | N | 8)  | Represents industry to political parties   |
| Y | N | 9)  | Represents industry to taxation agencies   |
| Y | N | 10) | Represents industry to technical agencies  |
| Y | N | 11) | Represents industry to scientific agencies   |
| Y | N | 12) | Engages in public relations on behalf of the industry's image as a whole, e.g. advertisements  |
| Y | N | 13) | Promotion of industry products through cooperative advertising   |
| Y | N | 14) | Foreign trade promotion  |
| Y | N | 15) | Promotion of industry-specific research and development  |
| Y | N | 16) | Commercial arbitration   |
| Y | N | 17) | Establishment of quality standards   |
| Y | N | 18) | Testing  |
| Y | N | 19) | Licensing  |
| Y | N | 20) | Registration of patents  |
| Y | N | 21) | Administration of government programs or funds   |
| Y | N | 22) | Negotiation of binding agreements on minimum wages and conditions  |
| Y | N | 23) | Coordination of member actions in investment or disinvestment  |
| Y | N | 24) | Coordination of members' occupational training   |
| Y | N | 25) | Coordination of members' violation of industry agreements on wage rates  |
| Y | N | 26) | Coordination of lock-outs by members   |
| Y | N | 27) | Coordination of hiring and firing practices of members such as trying to control the pirating of skilled workers from one member firm to another |
| Y | N | 28) | Coordination of members' competitive practices.  |
41. Specific services offered by the association. For each service offered, mark with an "A" if members can get this service from an **alternative**

source and what this source is. Mark an "L" if the service takes place under some kind of legal authorization, exemption or monopoly. Mark "NM" if the service is also made accessible at a special price to members.

- 1) Technical publications
- 2) Commercial publication
- 3) Exhibitions
- 4) Individual consulting services on technical and economic matters
- 5) Market research
- 6) Operation of joint research laboratory
- 7) Current information on economic development of the industry
- 8) Price and bid information
- 9) Industry cost studies
- 10) Packaging and shipping
- 11) Credit information
- 12) Collection service
- 13) Trade practice conferences
- 14) Standard business forms and contracts
- 15) Combatting unfair competition
- 16) Cooperative selling
- 17) Insurance assistance
- 18) Legal services (excluding labour relations)
- 19) Library service
- 20) Patent cross-licensing or pooling
- 21) Used machinery exchange
- 22) Cooperative buying
- 23) Advice on labour relations
- 24) Representation in labour court proceedings
- 25) Strike insurance
- 26) Training courses for workers
- 27) Training courses for foremen
- 28) Training courses for junior and middle management
- 29) Training courses for senior management
- 30) Placement service

#### SECTION VI: External Relations with Government

42. What are the three government departments at the federal level with which your association has the most frequent contacts? Please indicate the sections within the departments you deal with and whether you or the government usually initiates the contact.

42.1 How often are you in contact with these departments?

43. What are the three government departments at the provincial level with which your association has the most frequent contacts? Please indicate the sections within the departments you deal with and whether you or the government usually initiates the contact.

43.1 How often are you in contact with these departments?

44. What are the three government agencies, boards or commissions with which your association has the most frequent contacts? Please indicate whether you or the government usually initiates the contact.
46. Does the association either directly or through subsidiaries administer government programs, distribute subsidies, etc. (for example, grants for occupational training)?
- 46.1 (IF YES) Which programs are these?
47. Does the association have a legal right to be consulted by government departments or agencies on specific matters?
- 47.1 (IF YES) What matters are these?
48. In the past two years, how many times has your association been consulted by a government department, or commission?
- 48.1 What are the three most recent consultations of this kind?
49. In your view, is any government department, agency, board or commission particularly dependent on the association for information?
- 49.1 (IF YES) Please give the most appropriate examples.
50. Over the past three years, what specific activities have the association asked its members to perform in order to support association representations to government?

#### SECTION VII: External Relations with other Organized Groups

51. Does the association negotiate collective agreements with trade unions on behalf of its members?
- 51.1 (IF YES) How many and with what bargaining units?
52. Please name other associations with which your association maintains cooperative relationships. Please describe the nature of the relationship such as formal or informal alliances, joint task forces, joint ventures, sharing of professional staff, overlap of elected leaders for example. In this context, list all your cooperative relationships one by one, give names and purposes of joint arrangements, name partners and indicate the amount of resources in terms of man-hours or dollars invested.

<u>Number</u>	<u>Nature of Relationship</u>	<u>Partner(s)</u>	<u>Resources</u>
	<u>Invested</u>		

SECTION VIII: Finances

53. Do all active or full members of the association pay the same dues or are dues assessed based on a graduated scale?
- 53.1 If dues are assessed based on a graduated scale, describe the details of the scaling procedure.
54. What happens when a member either does not pay or under pays his dues?
- 54.1 Can you cite any examples of members being expelled or being taken to court for failing to pay their dues?
55. Does your association have any special discount in dues for large firms in order to promote their remaining in the association? Can you cite examples of this practice?
56. Do any territorial branches or product sections/divisions of the association collect their own dues?
- 56.1 If so, what procedures exist for distributing these funds between the branch and the association?
58. What proportion of the association's annual revenues comes from the dues of the five largest firms?
59. What is your estimate of the total sales of members for the past five years?
- 1985  
1986  
1987  
1988  
1989
60. What proportion of the annual expenditures of the association is spent on full-time staff?
61. What are the three activities of the association that absorb the largest share of the association's annual expenditures? Please list these in order.



## *APPENDIX B: Participants in the Study*

### *Companies*

- 1) Bell Canada.
- 2) Alberta Government Telephones (Personal interviews; archival research).
- 3) British Columbia Telephone (Personal interviews; archival research).
- 4) Unitel Communications Inc.
- 5) ed tel.

### *Associations*

- 1) Telecom Canada
- 2) Information Technology Association of Canada (Norman Cheeseman, Director, Public Affairs; Robert Crow, Director of Research).
- 3) Canadian Business Telecommunications Alliance (Brian Callihoo, President; Graham Davies, Executive Director; John Davies, former Executive Director).
- 4) Association of Competitive Telecommunications Suppliers (Don Braden, President).
- 5) Consumers Association of Canada (Lynn Arlington).
- 6) National Anti-poverty Organization.
- 7) Canadian Federation of Independent Business (Catherine Swift, Vice-President, Research and Chief Economist).
- 8) Communications Competition Coalition (Monty Richardson, Executive Director).
- 9) Canadian Independent Telephone Association (Karen Kurtz, General Manager and Secretary).
- 10) Canadian Bankers Association (Phil Hogg, Assistant Director, Systems; Manuel Silva).

### *Government Agencies*

- 1) Federal Department of Communications; Telecommunications Policy Branch.
- 2) Canadian Radio-television and Telecommunications Commission.
- 3) Government of Alberta; Technology, Research and Telecommunications.

- 4). Director of Investigation and Research, Bureau of Competition Policy, Federal Department of Consumer and Corporate Affairs.
- 5) Council of Maritime Premiers (Fred M. Waller, Senior Co-ordinator).

### *Unions*

- 1) Telecommunications Workers Union (Sid Shniad, Staff Economist, Researcher and Education Director).
- 2) International Brotherhood of Electrical Workers.
- 3) Alberta Federation of Labour.

### *Individuals/Consultants*

- 1) Carman Baggaley (Price Waterhouse, Toronto).
- 2) Gregory Kane (Telecom lawyer, Ottawa).
- 3) Eamon Hoey (Telecom consultant, Toronto).
- 4) Ken Engelhart (Unitel Communications Inc. and former counsel with CBTA).
- 5) Dr. Hudson Janisch (University of Toronto).
- 6) Dr. Richard Schultz (McGill University).
- 7) Dr. Vincent Mosco (Carleton University).
- 8) Dr. Thomas McPhail (University of Calgary).
- 9) Doug Cruikshank, Mackenzie Davis (Former presidents, Canadian Telecommunications Carriers Association).
- 10) Tony Cashman, author of Singing Wires, and telephone industry historian (Alberta).

Note: Some individuals representing companies and government agencies granted interviews on the condition of anonymity. Their names do not appear on this list.