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# Media Capture and Information Monopolization in Japan\*

Pak Hung Au<sup>†</sup> and Keiichi Kawai<sup>‡</sup>

## Abstract

In this paper, we investigate the unique institution of the Japanese press industry called *kisha* club system, which is deemed as the symbol of media capture by the government, and collusion in the media industry. By tracing through its history, we show how the institution has developed as a result of the government's attempt to control the media, and the media's incentive to use the alluring opportunity provided by the government to limit the rivalry within the industry. We find that the distribution of political power is a major factor behind the collusive press-politics relationship. By providing a simple model that links the distribution of political power and the media capture, we explain why this institutional arrangement has been so persistent in Japan.

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# 1 Introduction

It goes without saying that the so-called fourth estate of government plays vital roles in the policy processes. While most countries have media of some description, their mere existence is no guarantee that they are an effective vehicle for critical scrutiny of the government actions. As Besley, Burgees, and Prat (2002) discuss, the media affect political outcomes through auditing (sorting and discipline), and setting agendas. Many have long noted the lack of those functions in Japanese press.

Japanese press has instigated criticism in recent years with respect to their tendencies and political stances. The common thread running through this criticism is that they are almost identical in their reportage, selection of news, and even in their headlines, makeup, and format. Furthermore, there is a great deal of uniformity in the degree of emphasis attributed to a particular news item and items selected for major treatment being remarkably similar.

The common denominator of their concern is the existence of the press club system called *kisha* club system – literally means reporters' club in Japanese. Kisha club system is deemed as the symbol of media capture by the government, and collusion within the media. It is hard to find similar institution outside of Japan. The unique characteristic of the club system is that it has the defining features of a cartel. Firstly, membership to the club is limited to an exclusive group of news organizations (including major newspapers, broadcast stations, and wire services) that hold a virtual monopoly over news sources. Secondly, there are strict rules governing activities of members which prohibit much of independent and investigative reporting. Lastly, there are strong punishments against violators of these rules and effective means of enforcing them.

The important questions that need to be answered are why this unique institution exists, and is so persistent in Japan. By tracing through the history of *kisha* club system, we show how the institution has developed as a result of the government's attempt to control the media, and the media's incentive to use the alluring opportunity provided by the government to limit the rivalry within the media industry. Therefore, the monopolization of the information is mutually beneficial to the government and the media.

In Section 2, we first look into the organizational structure and the collusive mechanism of the *kisha* club system. In Section 3, we briefly review the historical development of the *kisha* club system. Then we review the nature of political landscape in the postwar era of Japan that nurtured the media capture in Section 4.

The history suggests that the distribution of political power has a great impact on the collusive press-politics relationship. In Section 5, we present a simple model that captures this intuition, and makes precise the socio-economic conditions under which the media are captured.

Besley and Prat (2006) is the first to analyze the media capture phenomenon. Their model analyzes the effectiveness of the political process at weeding out "bad" politicians when there is the risk of media capture. In other words, it identifies the conditions under which media are captured in the face of an adverse selection problem. Their model cannot, however, analyze the effect of political power distribution on the degree of media freedom. More specifically, we construct a model that differs from Besley and Prat (2006) in the following respects: (i) Besley and Prat (2006) considers a one-shot game, while we explicitly take into account the repeated interaction between the media and the

political parties, (ii) in Besley and Prat (2006), the election outcome depends solely on whether bad news about the incumbent politician is reported, while we assume it also depends stochastically on the distribution of political power, and (iii) we restrict the favor exchange between political parties and the media to the release of information only.

In the concluding section, we argue that our model well explains the persistence of the institutional arrangements in the press industry in the postwar era of Japan.

## 2 *Kisha* Club System

**Organizational Structure** A *kisha* club is a formal association of reporters assigned to one beat. Each of the around one thousand different agencies of the government, law courts, police headquarters, political party centers, and major economic organizations in Japan allocates a large room to reporters responsible for covering that agency for their news organizations. This room serves as the base and operation room for the reporters to gather, confirm, organize, and write all the news. Usually, the rooms are located on the second or third floor of government-agency buildings or party headquarters, which are near the office of the head of the particular agency. Depending on the nature of the agency and its importance, each club has anywhere from a dozen to three hundred or more reporters.

According to Feldman (1993), press clubs also exist in other countries, *e.g.*, the National Press Club in the United States. Also a similarity can be found between the press club and the Lobby, a formal association of newspaper and broadcast reporters who work out of the Palace of Westminster in England. It

is considered to be the key mechanism through which a considerable amount of political information from government finds its way into the public domain.

*Kisha* club differs from them in terms of its structure and functional characteristics. First of all, unlike press clubs in other countries, which are organized and sponsored by information sources, *kisha* clubs are organized and managed by news media associations: the Japan Newspaper Publishers and Editors Association (*Nihon Shimbun Kyōkai*). Membership in these clubs, and consequently, access to important news sources, has traditionally been limited to mainstream journalists: around 100 daily newspapers, four news agencies and about 40 broadcasters that belong to the associations of the Japanese media.

Within each *kisha* club, reporters generally share the same access to resources. All reporters witness the same events, and receive the same briefings and handouts on their assigned beat. All are exposed to news sources at the same time, which are usually conveyed either during formal press conferences or in relaxed background briefings held regularly by top officials. The reporters in each club take turns handling administrative tasks as secretaries. Their work includes mediation and coordination between the reporters and the sources of information they are covering, and related organizational matters. More important tasks of the secretaries are to collect the questions that reporters intend to ask especially in advance of press conferences to be aired live on television, present these questions to the sources, and negotiate who gets to ask which questions. In return for their efforts, each secretary gets the privilege of asking one of the first questions.

**Collusive Nature & Punishment Mechanism** In the clubs, reporters are bound by certain rules and those who violate these rules will be punished

for “damaging the press club’s friendship and honor.” Punishments sometimes take the form of exclusion from the club. The specific rules vary, but always are aimed at preventing friction between news sources and reporters, and preventing news sources from feeling discomfort or irritation. According to de Lange (1998) and Feldman (1993), most *kisha* clubs have a “blackboard agreement.” Each club has a blackboard listing upcoming events related to the agency being covered. It includes scheduled meetings of the head of the agency, planned press conferences and announcements about topics to be discussed. The “blackboard agreement” stipulates that reporters will not write stories based on the information on this board, including, for example, the fact that an official is scheduled to explain a particular issue a few days later. Many have deemed this “self-censorship” as one of the most noteworthy aspects of *kisha* club system.

These rules and protocols force reporters to conform with colleagues in rival news organizations, and to cooperate while looking for newsworthy stories. They often discuss current events among themselves, reaffirming their understanding of the news, exchanging information, and collectively composing an outline of the story they will all file.

**Concerns & Criticism for *Kisha* Club system** Many authors have criticized this *kisha* club system. In fact, Japan ranks 35th in the press freedom ranking from FreedomHouse (2008):

More than half of the national newspaper market share is controlled by “the big three”: the *Yomiuri Shimbun*, the *Asahi Shimbun*, and the *Mainichi Shimbun*. There is considerable homogeneity in reports, which relate the news in a factual and neutral man-

ner.....Concerns remain regarding the lack of diversity and independence in reporting, especially in political news. The problem is perpetuated in part by a system of *kisha kurabu*, or journalist clubs, in which major media outlets have cozy relationships with bureaucrats and politicians. Exposés by media outlets that belong to such clubs are frowned upon and can result in the banning of members from press club briefings. Journalists therefore tend to avoid writing critical stories about the government, reducing the media's ability to pressure politicians for greater transparency and accountability. Most of Japan's investigative journalism is conducted by reporters outside the press club system. In recent years, the exclusivity of the clubs has eroded as foreign journalists with press cards from the Ministry of Foreign Affairs are now guaranteed access to most official press conferences; according to the International Press Institute, the last significant *kisha kurabu* to bar foreign reporters is the one that deals with the affairs of the emperor and his family. However, with the exception of Nagano, where former governor Yasuo Tanaka abolished the prefecture's press clubs, Japanese magazine reporters, online writers, and freelance journalists remain essentially barred from club briefings, even as observers. [FreedomHouse (2008)]

Similar concerns abound. For example, de Lange (1998) describes:

[t]here seemed to be an uncanny similarity in the way different newspapers wrote about current affairs, whether it be a newspaper from the left, centre or right of the political spectrum. It seemed to me that the majority of articles not only resembled each other in



the choice of topic, but also in tone and perspective....[o]ne thing that is all major Japanese newspapers have in common despite their purported difference of editorial opinion, is their reliance on news generated by the press club.

This institution shaped the unique press-politics relationship in Japan. By reinforcing their close ties with official sources while restricting competition among reporters, Japanese media have built a unique relationship between politicians and news outlets. Instead of anticipating stories and shaping emerging news, the Japanese press primarily responds to an agenda of political discourse that has already been set. As many have pointed out, the existence of *kisha* club system seems to be mutually beneficial for politicians and media in Japan, making it easier to control the access to and the dissemination of information about political events, as well as limiting rivalry among the media companies.

### **3 History of Japanese Press & *Kisha* Club**

In this section, we briefly review the history of Japanese press. This chapter is based on Coughlin (1952), de Lange (1998), Freeman (2000), and Yamamoto (1989).

#### **3.1 Prewar Days**

When the *bakufu* collapsed and civil war began in January 1868, the Meiji government had to loosen the censorship just for its name's sake since "Meiji" literally means the rule by enlightenment. Hence, in early years of that era,

they could enjoy a limited amount of freedom of speech.

Even so, the new Meiji leadership soon realized that the press freedom did more harm than good to the nation's primary goal. Hence, once they came to power, the Meiji government took various measures to kill or tame the journalism through providing them financial stability, as well as using legal and extralegal means to control the press. Because of these efforts, Japanese journalists did not gain widespread access to government agencies.

**Establishment of *Kisha* Club: Information Cartel** The first-ever *kisha* club was set up in the fall of 1890. In anticipation of the opening of the Diet, a number of journalists from Tokyo newspapers formed an association called "the Group of Journalists for Diet Access (*Gikai Deiri Kishadan*)."<sup>1</sup> To coordinate efforts to demand access to the Diet, journalists from local and regional papers soon joined their Tokyo colleagues to form a new association, the Newspaper Journalists' Club.

Government officials eventually allowed the creation of a special room within the Diet where journalists could gather to receive official news. This room is generally recognized as Japan's first official *kisha* club. In acceding to the establishment of such a club, the government insisted on two rules: (i) only those national daily papers and news agencies licensed by the government that have published continuously for at least two years would be allowed the access to the Diet proceeding, and (ii) only twenty gallery tickets per Diet session are issued.

The first rule enabled the government to exclude new newspapers whose political leanings were still unknown, and newspapers that had been banned or suspended during previous two years. The limited access forced the members

of the club to decide among themselves which journalists and newspapers would have the access. This resulted in the exclusion of the regional and small papers. Consequently, the establishment of the first *kisha* club gave Tokyo-based newspapers the alluring opportunity to prohibit their rivals from having access to information and sources, and monopolize information among themselves.

**Media Capture** The period from 1890 to 1910 saw the establishment of *kisha* clubs in other organizations other than the Diet, including various government agencies, parties, and police headquarters. These clubs began to formulate rules and sanctions to regulate club members and their elite sources. Then suddenly, around 1910, virtually all government agencies saw the formation of *kisha* clubs. By 1925, there were twenty-seven clubs in Tokyo and many more in the prefectures. By 1931, the number in Tokyo had risen to fifty-one, and soared to eighty-four by 1939.

Yamamoto (1989) ascribes the sudden increase of *kisha* clubs to a policy introduced by then Prime Minister Katsura. A series of newspaper articles critical of the treaty he signed at Portsmouth at the end of the Russo-Japanese War resulted in a riot, which ended his first cabinet. By the time Katsura established his second cabinet, he recognized the opportunity *kisha* clubs offered for controlling what news was reported, who reported it, and how. Consequently, government agencies under his administration began a coordinated effort to embrace journalists. In addition to being supplied with information, journalists were also furnished with money, liquor, and women. Gradually, the Japanese press began to print fewer articles openly critical of the government, and newspapers began to look more and more alike. According to Yamamoto (1989).

It was from this time that the clubs changed from bare waiting rooms to comfortably furnished, amiably staffed quarters for the gathering of news. The switch from exclusion of to patronage of the press clubs, then, was the clever stratagem of a prime minister who had become wise in the ways of controlling men's minds. Indeed, far from excluding journalists from their midst, the ministers, bureau chiefs, and other key officials of the Katsura administration suddenly started offering lavish entertainment for the club members several times a year. As Tetsu Nyoizen put it in *Shin-kōron*, "money, liquor, and women" were temptations that few men have ever been able to resist, and Katsura's government had "learned to exploit these three great magic powers with consummate skill, to the point that they have anesthetized the consciences of today's reporters and castrated them with surgical skill." As a result, journalists "fill their papers with nothing but news that makes the government look good." [Yamamoto (1989)]

According to Freeman (2000), the defining characteristics of the current *kisha* clubs were already in place by this time. (1) They had exclusive rules. (2) Members made agreements with each other and with their sources about what to publish and when to publish it, practicing self-censorship or group self-censorship when necessary. (3) Smaller and provincial papers and magazines were excluded. (4) The clubs had spread to locations outside of the Tokyo area, particularly to government offices in provincial areas. (5) They had begun to operate independently of their companies, yet increasingly in cooperation with their official sources.

## 3.2 During Wartime

**Direct Control of Media** In the early 1930s, Japan saw the rise of militarism. In September 1932 representatives from a number of key government ministries met and established an “information committee (*joho iinkai*)” to coordinate the release of government information to the press.<sup>1)</sup> Originally, it was an extralegal organization, and therefore the committee relied on a variety of informal mechanisms, including “administrative guidance” and “consultations,” to keep unfavorable news out of print and to influence the reporting of important stories.

In July 1936, the committee was placed under the control of the prime minister’s office and renamed the Cabinet Information Committee (*Naikaku Joho Iinkai*), then became the Cabinet Information Bureau (*CIB*) a year before the outbreak of the Pacific War. The CIB served as an important source for official reports on the war, and a key point of contact among newspaper management, the *kisha* clubs, and the Japanese state.

Once the Pacific war began, the government introduced a series of measures to control the press, making the clubs an important part of the wartime propaganda machine. Several key national daily newspapers allied with the government to reduce the number of competitors in the industry. In 1941 the managers and editors of the major national newspapers in Japan formed the Japan Newspaper Union (*Nihon Shimbun Renmei*) to work with government officials to overhaul the newspaper industry and bring the press clubs under their joint control.

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<sup>1)</sup>This included the Ministry of Foreign Affairs, Army Ministry, Navy Ministry, Ministry of Education, Home Affairs Ministry, and Communications Ministry.

**Oligopolistic Control by National Newspapers** The number of newspapers declined precipitously as they were merged to form a “one-province-one-paper” system, which aimed to limit to one the number of competing papers in all the prefectures and administrative units except Tokyo, Osaka, and Fukuoka. As a result, by 1943, of the 1,200 daily papers, 500 weekly magazines, and more than 10,000 irregularly published newspapers that had existed in 1937, only 55 remained.

The union also worked with the government and standardized club regulations, and forced adoption by the clubs to “carry out the national mission of the press in cooperation with the government.” Under the new regulation, club journalists were required to report to the union any violations of news story and photography agreements, and any slander or libel of the club by a club member. In the event of a violation, club regulations provided for the imposition of the following sanctions: warning, suspension, expulsion, or cancellation from the reporters’ list.

### **3.3 Postwar**

**Reestablishment of *Kisha* Clubs** After Japan’s defeat in 1945, the Occupation authorities quickly abolished wartime press controls and removed all governmental barriers to the free flow of information in Japan. But *kisha* club system underwent no essential change.

The Supreme Commander for the Allied Powers (SCAP), General Douglas MacArthur, kept the media organizations and *kisha* clubs basically intact. According to Freeman (2000), it was based on the wrong assumption that just abolishing legal barriers to democracy, including the major press law enacted

in 1909, would be enough to guarantee a free press. Despite the removal of wartime constraints by SCAP, most of the prewar *kisha* clubs were soon reestablished. The membership was limited to those companies that had belonged to the clubs before or during the war, and only one or two of many newspapers founded immediately after the war were allowed to join them. "In a fiercely competitive and rapidly expanding postwar news field, the tightly monopolistic control which a few newspapers held over the Reporters' Clubs gave them a decisive edge," according to Coughlin (1952).

Newly established papers had no direct access to the main resource, the official government information, and therefore, they could not succeed in conveying quality news. Even the nation's number two news agency at that time, the *Jiji Tsushin*, was excluded from all but a few of the clubs. Coughlin (1952) argues that severe shortages the nation was experiencing at this time, and the state's ability to requisition goods for which journalists (and other citizens) had a need helped the government to maintain a considerable degree of control over club activities.<sup>2)</sup>

Eventually, the General Headquarters (GHQ) came to recognize the danger of allowing the government to remain in control of the press. In November 1945, SCAP backed a group of club journalists who were attempting to gain access to the committee meetings of the House of Peers. After the government refused to respond to their demands for access, SCAP forced the House of Peers to make the committee meetings accessible to the press, just as the Lower House already had. However, this movement allowed the access to the Diet only to

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<sup>2)</sup>"The government's hold on the Reporters' Clubs increased in direct ratio to the various shortages, as government ministries passed out rationed cigarettes, free train passes, tinned food, shoes, uniforms and so on to the club members." [Coughlin (1952)]

those journalists who first of all had access to the clubs.

**Attempts of GHQ** At the same time, the General Headquarters (GHQ) started to realize the undemocratic nature of many club practices. SCAP sought to influence over *kisha* club rules; especially the clubs' ability to expel members who refused to follow them. Freeman (2000) reports an incident that happened in May 1946. The managing editor of a major newspaper, *Yomiuri-Hochi*, the vice-president of the newspaper federation, and a journalist from the same paper took part in a food demonstration sponsored by the Communist Party. In an effort to get the prime minister to increase the supply of food, they pitched a tent in front of the prime minister's residence for a few days.

Not long after this incident, club members in the prime minister's office club (the *Kantei* club) expelled the newspaper from the club, claiming that its journalists had impaired the honor and dignity of the club. The expulsion of the paper did not last long because SCAP officials forced the club to reinstate the paper as soon as they learned about the incident. Major Imboden, the SCAP official responsible for reforming the Japanese press, criticized the club's action as follows: "Any action by anybody, official or non-official, which denies access by any legitimate newspaper to governmental news sources cannot be reconciled with the democratic concept of a free press. It is a disappointment to the Press and Publications division that the Japanese press, which has a paramount interest in the establishment and maintenance of freedom of access to news, has failed to use its power to make impossible any such restriction of this freedom as apparently has been imposed on the *Yomiuri*. What is tolerated in regard to one newspaper may be inflicted later on any newspaper. It is hoped that the Japanese press will act immediately to correct this situation



in order to make it unnecessary for some other agency to act in its behalf.” Although the club complied with SCAP’s demands by lifting its restrictions on the newspaper in question, it did not lift the ban on the two individual journalists. This move was supported by Major Imboden as he felt that the club “had a right to discipline its individual members as long as such action did not affect the operation of an entire newspaper.”

**Consolidation of *Kisha* Clubs** A number of incidents involving the press clubs over the next three years led Major Imboden to inform the newly formed Japan Newspaper Publishers and Editors Association in August 1949 that it either had to reform the press clubs or dissolve them altogether. In an attempt to appease SCAP, the association defined clubs as organizations “for friendship and socializing,” and not for news-gathering. The policy statement they announced has remained in force until the present day.

However, bringing such a fundamental change about in practice proved less easy. Far from what GHQ had envisioned, the policy statement only created a sharp discrepancy between *kisha* clubs defined on paper and what was taking place in reality. Since then the nature of *kisha* club system has remained unchanged as we have argued repeatedly. The question is how we can explain the preservation of this institutional arrangement. For this purpose, we need to review the nature of Japanese politics in the next section.

## **4 Nature of Japanese Politics & News Gathering**

In this section, we briefly review the political landscape and press-politics relationship in the postwar ear of Japan.

**One-and-a-Half-Party System (1955-1993)** Postwar Japan used to be described as a country with an one-and-a-half party system (all opposition parties counted for half against the Big One, the Liberal Democratic Party (LDP)). From 1955, the LDP, considered to be a “catch-all” party, has monopolized political leadership for more than three decades. Many authors argue that part of the ruling party’s success in staying in power for so long has been its ability to provide, as a “catch-all party,” at least minimal satisfaction for all the sectors supporting it. The party enjoyed a dominant position in the Diet, over cabinet, and government offices. Major policy decisions inevitably revolve around the LDP and its internal political processes.

In contrast, the opposition parties appeared to be weak and incompetent. The opposition, headed by the Social Democratic Party of Japan (SDPJ), has not been successful in offering a viable alternative to LDP policies. As a result, the party had no appeal to a growing number of voters or to the general public as a whole. One of the reason was their adherence to their traditional ideologies and basic support groups. They were therefore resistant to changes, appeared less efficient and fated to permanently remain opposition parties without the slightest interest in assuming power. A major problem for the opposition had been the difficulty in bridging the different stances of various parties, especially with regard to the Japan-US Security Pact and the Self-Defense Forces, and in forming a coalition of parties that could snatch political leadership away from the LDP. SDPJ failed to offer convincing policy proposals, and voters snubbed its stance of political negativism and ambiguity of the party platform.

While the LDP monopolized political power from 1955 to 1993, only a handful of party leaders determined policy matters, personnel matters, and

strategies. Therefore, during that era, reporters had to focus their efforts only on few individuals, *e.g.*, faction leaders, key ministers, and other veteran politicians who were close to the top people. Reporters tended to attach great importance to such information, and the mass media would use it as a news item and cited them daily in their political stories. Well aware of reporters' dependence on them for information, experienced Diet members took advantage by controlling the perspective of the news that reached the public according to Feldman (1993).

**Changes in the Political Landscape (1993-2009)** The year 1993 marked the end of 38 years of continuous single-party ruling by the LDP, and the start of a new era of coalition governments. In August of 1993, a coalition of anti-LDP parties formed a government, which only lasted eight months. In spite of its fleeting life-span, it was followed by a string of governments consisting of various combinations of political parties.

The LDP did regain power in 1994, but only in partnership with allies in coalition governments. Since 1993, no single party has managed to steer the government of Japan.<sup>3)</sup> Throughout the decade that followed the historic fall of the LDP's monopoly of the power, authority was no longer in the hands of a limited number of politicians, and the situation gradually started to change. This was inevitable because a number of parties are now partners in a government dominated by the LDP. It has no choice but to discuss and adjust its stance on issues in order to get measures passed. As a result, members of the various ruling coalitions have engaged in debate and negotiation on policies and legislation.

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<sup>3)</sup>This paper was written before the election in 2009 when the Democratic Party of Japan (DPJ) took over. This paper's point of view reflects our understanding at the time it was written.

Feldman (2004) points out that a few factors also redirected reporters' attention and altered their selection of information sources. Among those, the major reorganization of the central government ministries and agencies that took place in January 2001 was substantial. Because not only did it affect the political news sources to which reporters gave their attention, but it necessitated structural and logistic adjustments on the part of the media as ministries and agencies were re-configured.

As before 1993, even the largest opposing party has not been an effective alternative to the LDP. The current biggest opposing party, the Democratic Party of Japan incorporates members from a wide spectrum of political backgrounds, which makes it hard for the party to achieve consensus on sensitive policy issues like amending the Constitution, and be effective.<sup>4)5)</sup> Nevertheless, the DPJ has become a major opposition force at least in terms of its size.

The history suggests that a high probability of the LDP being re-elected makes it more likely that the media are captured. In other words, the distribution of political power has a great impact on the degree of media freedom. Therefore, in the next section, we present a model that captures the following intuition: a strong political power makes the ruling party easier to maintain a

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<sup>4)</sup>In 1993, Ichiro Ozawa, a former secretary general of the LDP, bolted from the party with fellow lawmakers, leading the LDP to temporarily fall from power. Also in 1993, another group of lawmakers defected from the LDP and created New Party Sakigake, whose members included the current leader of DPJ Yukio Hatoyama. In 1996, some key members quit Sakigake, and established the DPJ, which also included many SDPJ members. Two years later, the DPJ expanded further to group together smaller forces that had left Shinshinto, a major opposition force that had been created at Ozawa's initiative in 1994. The party achieved its current makeup in 2003, when Ozawa's Liberal Party, which was formed in the wake of Shinshinto's dissolution, joined the DPJ.

<sup>5)</sup>Some critics also point out that some DPJ lawmakers are more conservative than their LDP counterparts on some issues.

friendly relationship with the media.

## 5 Model

### 5.1 Setup

Time is discrete and infinite,  $t = 0, 1, 2, \dots$ . There are three types of players in the game: a strong political party (denoted by  $S$ ), a weak political party (denoted by  $W$ ), and  $n$  news companies. All political parties' abilities are commonly known, *i.e.*, there is no adverse selection problem. In each period, only one political party is ruling, and the strong party is ruling at date 0.

All players discount future payoffs by a common discount factor  $\delta$ . The objective of the political parties is to maximize the probability of getting elected. The ruling political party can transfer benefits to the news companies through granting them exclusive interviews and access to its press conferences. The total value of the "bribe" that the ruling party can legally transfer to news companies is  $I$ , which is costless for the ruling party. It will be shared equally among news companies that receive this favorable treatment. If a party is not ruling, it has no feasible way to grant favors to the news companies.

News companies' objective is to maximize profit. In each period, a scandal about the ruling party is revealed to the ALL news companies with probability  $q$ . The news companies, upon learning a scandal about the ruling party, can decide whether to report it to the public or not. If a party is not ruling, no bad news or scandals about it can be learnt by the news companies.<sup>6)</sup> The market value of a scandal is  $M$ . If more than one news company report the scandal,  $M$

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<sup>6)</sup>Alternatively, we can assume that only news about the ruling party carries market value to the news companies.

is shared equally among the revealing news companies.

For the analysis to be nontrivial, it is necessary that  $I > qM$ , for otherwise, the ruling party is never able to bribe any news company.

At the beginning of each period, an election is held. The election outcome depends probabilistically on the news reported by newspapers and the relative strength of each party. When the strong party is ruling, the probabilities of it getting re-elected are (i)  $\Pr(S|\emptyset) > 1/2$  when no bad news is revealed to the public, and (ii)  $\Pr(S|B_S)$  when bad news is reported, respectively. On the other hand, when the weak party is ruling, the strong party is elected in the following election day with probability (i)  $\Pr(S|\emptyset)$  if no scandal about the ruling weak party is reported; and (ii)  $\Pr(S|B_W)$  if a scandal about the weak party is reported. Since bad news is detrimental to the chance of being elected, we have  $\Pr(S|B_S) < \Pr(S|\emptyset) < \Pr(S|B_W)$ . For simplicity, we assume all these probabilities are stationary over time.<sup>7)</sup> We designate the ratio  $\alpha \equiv \Pr(S|B_W) / \Pr(S|\emptyset)$  as the measure of how detrimental a scandal about the weak party is to its reelection probability. We assume  $\alpha$  is a constant larger than 1. This assumption enables us to use  $\Pr(S|\emptyset)$  as a measure of how uneven the political power is distributed.

The strong party, in order to facilitate its collusion with the news industry, may set up or promote the setting up of a press club. Within the press club, the news companies can perfectly monitor each other's action: any attempt to report a scandal will be promptly detected by other news companies. If reporting the scandal is against the interest of the press club as a whole, the attempt to report the scandal will be deterred by other members of the club.

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<sup>7)</sup>Implicitly assumed is that the probability of each party getting elected depends only on the news reported in the most recent period. In other words, the voters' memory is bounded to one period.

Therefore, the press club is essentially a cartel in news-reporting.

The weak party, being the opposition party at date 0, is the victim of media capture. Therefore, it advocates abandoning the press club and promises media freedom if elected.<sup>8)</sup> Due to reputation concerns which is not explicitly modeled here, it will enforce its promise if elected. Thus, when the weak party is ruling, the press club is abandoned. We also assume that weak party cannot collude with any subset of news companies because of its pro-press-freedom campaign promise.

The timing of the game is as follows. At the very beginning of the game, the strong party decides whether to set up a press club or not. Afterwards, in each subsequent period  $t$ ,

1. The strong party, if it is ruling, decides to which news companies it grants the benefit  $I$ .
2. A scandal about the ruling party may be revealed to all news companies (An event that happens with probability  $q$ ).
3. If the news company learns the scandal, it decides whether to report it or not.
4. Conditional on the news reported to the public, the election outcome is probabilistically determined.

We shall solve for subgame perfect equilibriums of the repeated game described above. If there are multiple equilibriums, we assume that, the strong party, being the ruling party at date 0, is able to coordinate players to play the equilibrium most favorable to it.

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<sup>8)</sup>In 2009, the leader of the largest opposing party, the DPJ, announced that they will dismantle the *kisha* club system once they become the ruling party, which ironically no media have reported.

## 5.2 Analysis

Below, we make precise the condition under which the collusion between the strong party and news companies is sustainable. The implicit contract stipulates that (i) the news companies should not report any bad news about the strong party, and (ii) in exchange the strong party will grant the news companies exclusive interviews and access to its press conferences when it is ruling.

Under the setup of the model, one can conceive the following three possible press-politics relationships:

1. No press club is formed and every news company is free;
2. No press club is formed but the strong party attempts to capture the media;
3. A press club is formed and colludes with the strong party.

If a press club is formed, the whole news industry essentially acts as a single decision maker, which decides whether to collude with a political party or not. Collusion is facilitated because there is now only one incentive constraint instead of  $n$  constraints in the absence of a press club. The logic is similar to that of Besley and Prat (2006).<sup>9)</sup>

### 5.2.1 Scenario 1

If every news company is independent, then each company's payoff is  $V^{ind} = Mq/n$ . This is because a scandal is detected with probability  $q$ , in which case,

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<sup>9)</sup>If  $q$  is endogenous, there is another reason why press club facilitates collusion: within the press club: any observable deviation, i.e. an attempt to collect and report bad news about the ruling party, is promptly detected and deterred. The press club, as a device for perfect monitoring among the news companies, lowers the choice of  $q$ .



the companies share the market value  $M$  equally. Given the ruling party is not bribing the news companies, the news companies do not conceal the scandals they learn. Correctly anticipating this, it does not pay for the party to bribe the news companies. In other words, repeated play of the static Nash equilibrium is a subgame perfect equilibrium of the repeated game. The probability of winning a election for the strong party is  $(1 - q) \Pr(S|\emptyset) + q \Pr(S|B_S)$  when it is ruling; and  $(1 - q) \Pr(S|\emptyset) + q \Pr(S|B_W)$  when it is not ruling.

### 5.2.2 Scenario 2

Suppose no press club is formed but the strong party attempts to capture the media. Let  $V_s^{np}$  be the value of a news company when the strong party is ruling, assuming that collusion between the news company and the strong party is sustained. In order to achieve media capture, the ruling party must collude with every individual news company in the industry. Therefore, the maximum benefit that the ruling party can grant a news company in any successful collusive scheme is  $I/n$ . Consequently,  $V_s^{np} \leq I/n$ .

The heaviest punishment that can be imposed on a deviating news company is a reversion to the repeated play of the static Nash equilibrium described in scenario 1 above. Thus, a necessary condition for the sustainability of collusion between the strong party and a news company is

$$\begin{aligned} V_s^{np} &\geq (1 - \delta) \left( \frac{I}{n} + M \right) + \delta V^{ind} \\ &= (1 - \delta) \left( \frac{I}{n} + M \right) + \delta \frac{Mq}{n}. \end{aligned}$$

Since  $V_s^{np} \leq I/n$ , the above inequality holds only if

$$n \leq \frac{\delta(I - Mq)}{M(1 - \delta)}.$$

In other words, when the news industry is relatively large, i.e.,  $n > \frac{\delta(I-Mq)}{M(1-\delta)}$ , collusion is not sustainable without a press club. Intuitively, the reason why collusion cannot be sustained in the absence of a press club is that with  $n$  separate relational contracts in place, the deviation profit gained by an individual company is high: it grabs the whole market if it reports the scandal exclusively. This difficulty is particularly severe when  $n$  is large. Therefore, any media-government collusion requires the setting up of a press club when  $n > \frac{\delta(I-Mq)}{M(1-\delta)}$ . Below we limit our attention to such a case.

### 5.3 Scenario 3

Suppose a press club is formed, and it colludes with the strong party. Recall the strong party is pro-press-club and the weak party is pro-press-freedom. Whenever the strong party is ruling, the press club is in place and the collusion between the press club and the government is in effect. Whenever the weak party is ruling, the press club is dismissed as abandoning the press club is part of its campaign promise.

If the strong party manages to collude with the media industry, the probability that the strong party wins an election is  $\Pr(S|\emptyset)$  when it is ruling; and  $(1 - q)\Pr(S|\emptyset) + q\Pr(S|B_W)$  when it is not ruling. Comparing these probabilities to those in scenario 1, it is apparent that the strong party prefers an equilibrium with collusion.

Let  $V_s^p$  be the value of a news company when the strong party is ruling and

$V_w^p$  be the value when the strong party is not ruling. These values are given by

$$V_s^p = (1 - \delta) \frac{I}{n} + \delta [\Pr(S|\emptyset) V_s^p + (1 - \Pr(S|\emptyset)) V_w^p],$$

and  $V_w^p = (1 - \delta) \frac{M}{n} q + \delta \left\{ \begin{array}{l} [q \Pr(S|B_W) + (1 - q) \Pr(S|\emptyset)] V_s^p \\ + [q(1 - \Pr(S|B_W)) + (1 - q)(1 - \Pr(S|\emptyset))] V_w^p \end{array} \right\}.$

The incentive compatibility constraint for not reporting bad news about the strong party reads

$$\begin{aligned} V_s^p &\geq (1 - \delta) \left( \frac{I + M}{n} \right) + \delta V^{ind} \\ &= (1 - \delta) \left( \frac{I + M}{n} \right) + \delta \frac{Mq}{n}. \end{aligned} \quad (5.1)$$

**Proposition 1** *A necessary and sufficient condition for the sustainability of media capture by the strong party is given by*

$$\begin{aligned} \Pr(S|\emptyset) &\geq C(I, M) \\ &\equiv \frac{1 - \delta}{\delta(I/M - q)(1 + q\delta(\alpha - 1)) - q\delta(1 - \delta)(\alpha - 1)}. \end{aligned}$$

**Proof.** The values  $V_s^p$  and  $V_w^p$  can be re-written as

$$\begin{aligned} V_s^p &= \frac{(1 - \delta) \frac{I}{n} + \delta(1 - \Pr(S|\emptyset)) V_w^p}{1 - \delta \Pr(S|\emptyset)} \\ V_w^p &= \frac{(1 - \delta) \frac{M}{n} q + \delta [q \Pr(S|B_W) + (1 - q) \Pr(S|\emptyset)] V_s^p}{1 - \delta [q(1 - \Pr(S|B_W)) + (1 - q)(1 - \Pr(S|\emptyset))]} \end{aligned}$$

Combining the above two equations, we get

$$V_s^p = \frac{1}{n} \frac{I \{1 - \delta [1 - \Pr(S|\emptyset) - q(\Pr(S|B_W) - \Pr(S|\emptyset))]\} + \delta(1 - \Pr(S|\emptyset)) Mq}{1 + q\delta(\Pr(S|B_W) - \Pr(S|\emptyset))}.$$

Substituting this into (5.1) gives the result. ■

We have the following immediate corollary.

**Corollary 1**  *$C(I, M)$  is strictly decreasing in  $I$ , and strictly increasing in  $M$ .*

According to Corollary 1, it is easier to sustain collusion when  $I$  is large, and  $M$  is small.

The establishment of a press club is mutually beneficial for the strong party and the news companies: the strong ruling party always prefers media capture to a free press because its reelection probability is enhanced when the public does not hear any bad news about its ruling. The news companies also benefit from the implicit collusion because their payoff is higher than being an independent press, as can be easily seen from the incentive compatibility constraint (5.1).

Combining the analysis in scenario 2 and 3 above, we see that when  $n$  is big enough, a press club is necessary to establish media capture. A similar result is obtained in Besley and Prat (2006), which shows that media pluralism provides effective protection against capture. However, our analysis shows that the mere existence of a press club is not sufficient to guarantee media capture. A further necessary condition (and sufficient in our simple environment) for the sustainability of media capture is a large value of  $\Pr(S|\emptyset)$ , *i.e.* a sufficiently uneven political strength distribution.

**Remark 1 (Election Outcome)** *When the strong party is ruling, its reelection probability is  $\Pr(S|\emptyset)$  in the presence of media capture, and  $(1 - q)\Pr(S|\emptyset) + q\Pr(S|B_S)$  without media capture. According to Proposition 1, whether media capture occurs in equilibrium depends on whether  $\Pr(S|\emptyset)$  exceeds the threshold value  $C(I, M)$  or not. The equilibrium election outcome may therefore be very sensitive to  $\Pr(S|\emptyset)$ , especially when it is close to  $C(I, M)$ .*

**Remark 2 (Social Welfare)** *Since we assume every political party is of the same ability, there is no welfare gain with a more transparent government in our model.*

*However, it is possible to extend the model by incorporating a rent-seeking decision by the ruling party. Then, it is clear that an opaque government is detrimental to the public's welfare. Moreover, the media can affect political outcomes through setting agendas. If it is captured, this function is lost, leading to a further decrease in social welfare.<sup>10)</sup>*

## 6 Conclusion and Discussion

In this section, we discuss how the model presented above explains the persistence of the institutional arrangements in the press industry in the postwar era of Japan.

**1955-1993** It is commonly believed that to the average Japanese, the LDP is the party responsible for Japan's prosperity in postwar era. In fact, all the dramatic change since the end of World War II is a tribute to the stability and efficiency the government has provided under the leadership of the LDP. In contrast, the opposing parties were believed to be weak and incompetent. In our model, this is translated to the large value of  $\Pr(S|\emptyset)$ , the high probability that the LDP is reelected when there is no bad news reported. The satisfaction of the general public about the LDP politics can also be interpreted as small  $M$ , a low market value of scandals.

In addition, while the LDP monopolized political power from 1955 to 1993, only a handful of party leaders determined policy matters, personnel matters, and strategies. Therefore, reporters tended to attach great importance to information from those leaders. The reporters' reliance on those information can be

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<sup>10)</sup>We appreciate an anonymous referee for raising this point.

interpreted as a large value of  $I$ .

According to Proposition 1 and Corollary 1, the large value of  $\Pr(S|\emptyset)$ , the small value of  $M$ , and the large value of  $I$  are conducive to the cozy relationship between the LDP and the media. They also explain the persistence of *kisha* club systems before 1993.

**1993-2009** In 1993, the 38 years of single-party ruling by the LDP ended. This is said to be the result of two huge political scandals that are revealed by the media which are outsiders of the *kisha* club system, and the burst of the bubble economy. As a result, Japanese people started to question the superiority of the LDP-style politics. Since then, no single party has managed to steer the government of Japan, *i.e.*, the unquestionable hegemony by the LDP has ended. In the language of our model, the probability of reelection without bad news  $\Pr(S|\emptyset)$  has dropped, and the market value of scandal  $M$  has increased. Furthermore, in addition to the structural change mentioned in section three, the Japanese people saw the tremendous increase in the political influence wielded by “young” Diet members, which can be interpreted as a decrease in  $I$ .

According to Proposition 1 and Corollary 1, the smaller value of  $\Pr(S|\emptyset)$ , the larger value of  $M$ , and the smaller value of  $I$  make the collusion between the LDP and the media industry, as well as the monopolization of information by the *kisha* club system is becoming harder to sustain.

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