

Politics Watch

FICC Research Dept

Punishing LDP Diet members for political funds scandal could impact break from deflation

- LDP to punish lawmakers involved in political funds scandal on 4 Apr; Last chance to win back public trust before 28 Apr Lower House by-elections
- BOJ revised its monetary policy in Mar, citing virtuous cycle between prices and wages; But, momentum for higher wages within business community largely supported by Kishida administration policies
- If Apr by-election results and other factors push PM Kishida out of office, expect concerns about interrupting virtuous cycle needed for ending deflation, depending on new PM



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The ruling Liberal Democratic Party on 4 April plans determine punishments for lawmakers involved in political funds scandals. Support for the Kishida administration and the LDP has fallen to dangerously low levels and there are no signs of a rebound for support. This is probably an indication of the public's distrust stemming from the political funds scandal.

The LDP's response until now has not satisfied the public at all. The upcoming disciplinary actions will be the last chance for the ruling party to restore trust before the 28 April Lower House by-elections.

The BOJ revised its monetary policy in March after confirming that a virtuous cycle between higher prices and higher wages has started to turn. However, the momentum for higher wages in the business community has been boosted by the policies of the Prime Minister Fumio Kishida's administration.

If Kishida's party loses all three of the 28 April Lower House by-elections, that could set into motion earnest efforts to oust the prime minister. If this leads to Kishida stepping down, there could be serious concerns that the virtuous cycle toward overcoming deflation will be interrupted, depending on his successor.

Support for Kishida Administration and LDP stalls due to political funds scandal

Opinion polls conducted in March by various media outlets showed that the approval ratings for the Kishida administration and the LDP remained at a low level considered to be within the so-called political "danger zone." Also, there are no signs of an imminent upturn for support.

One reason for the Kishida administration's sinking approval ratings is likely the decline in real incomes for average citizens as prices of raw materials and crude oil soar while the yen depreciates, resulting in higher prices.

On top of that, the LDP's political funds scandal has accelerated the decline in support for both the Kishida administration and the LDP. The biggest issues that the public tends to reject are first consumption tax hikes followed by political funds scandals. It is easy to imagine that politicians are misusing their power to pocket money and enjoy lavish lifestyles while the common people are struggling to make ends meet.

LDP's response until now has not satisfied public at all

What the public wants to know regarding this scandal is who was in charge, as well as when and by what means were political slush funds created. The public also wants clarification as to whether or not the political funds entailed tax evasion. They also want the legislators involved to be severely punished.

The LDP's response to date has completely failed to satisfy the public.

In January Kishida announced the dissolution of his political faction. Other factions followed suit and disbanded. However, the Aso and Motegi factions remain in place. There is no unified response within the LDP and the truth behind the scandals remains clouded.

The LDP conducted questionnaire surveys and hearings targeting its members, but the core problems were not revealed.

Party rules were revised at the 17 March LDP convention. The penalties for lawmakers involved in political funds scandals were strengthened. However, these are measures for future infractions, not a response to the current scandal.

From start to finish, those lawmakers who attended the Upper House and Lower House political ethics committees explained that they knew nothing about the scandal and were not involved with any transgressions.

Disciplinary steps last chance to restore trust before 28 Apr Lower House by-elections

Campaigning for the 28 April Lower House by-elections will officially start on 16 April. So, the disciplinary actions slated for 4 April will be the last chance to assuage the public's distrust before the by-elections.

The first point of interest is the extent to which the entire scandal will be revealed. Prime Minister Kishida repeatedly stated that he cannot take disciplinary actions without first knowing the full extent of the problem. He conducted his own hearings with the legislators and other parties involved. So, any decision to hand down punishments this time would mean that the entire scandal is now known.

The second point of interest is whether the public will be satisfied by the severity of any punishments. The prosecutor's office completed an extensive investigation and established cases against the parties involved, which is legally problematic. As such, the "legal" aspects have been handled for now. That said, even if those lawmakers likely to be punished by the LDP are not facing any "legal" problems, the real issue is the degree of "political" responsibility they must accept in consideration of the public's anger.

Former LDP Secretary General Toshihiro Nikai announced his own decision to not run in the next Lower House election. The 2 April edition of the *Nikkei* reported that the LDP is considering recommending that party members Ryu Shionoya and Hiroshige Seko, from the Abe faction, leave the party, which is the second harshest punishment. 39 people are reported to be targeted for disciplinary actions.

However, opposition parties, eager to damage the LDP politically, are simply demanding that those involved in the scandal should resign (harshest punishment). It will be interesting to see if recommending that two members leave the party will be enough to quell the public's anger. There are concerns that the public's expectations will not be satisfied unless Kishida himself is punished (prosecutors have charged the Kishida faction's treasurer) or national tax investigation is conducted.

Lower House by-elections will be held in April and many media reports indicate that the LDP will not be able to field its own candidate in Nagasaki. There is also the question of whether the LDP candidate in Tokyo can partner with the Tokyo Metropolitan Government's "Citizen's First" campaign. In Shimane, the Constitutional Democratic Party of Japan has a well-known former Lower House member running in the by-election, while the LDP's new candidate is reported to be struggling (20 Mar *Mainichi Shimbun*, others).

Risk of disrupting virtuous circle toward overcoming deflation if Kishida steps down

The BOJ made a major monetary policy shift at its 19 March Monetary Policy Board meeting. The Bank apparently concluded that the wage increases from the 2024 labor-management negotiations will likely exceed that of the previous year with a virtuous cycle between higher wages and higher prices starting to turn.

However, this virtuous cycle has been largely supported by the policies of the Kishida administration, in addition to monetary policy. It seems that the persistent efforts of the Kishida administration have changed the awareness of large and small/medium-sized business owners in terms of hiking wages ([Macropolicy Insight: Kishida administration providing various support for higher SME wages \[25 Mar 2024\]](#)).

At a press conference on 28 March, when the FY24 budget was approved by the Diet, Kishida said, "We have a historical opportunity to make a full exit from deflation." Meanwhile, Kishida further stressed the need for policy support, saying, "Japan is still only halfway to ending deflation" and "now is a critical moment that only comes along once every few decades." Kishida has present policies for raising wages and strengthening the earnings power of small and medium-sized enterprises, where 70% of all workers are employed, while doing everything possible to implement comprehensive and multifaceted measures on that front. That is the biggest key.

In Nagata-cho (district in Tokyo where the Diet and the Prime Minister's residence is located, so synonymous with lawmakers), Kishida is seen as being largely insensitive in a good way. He is expected to continue working tirelessly to win re-election as LDP president in September, unfazed by the current approval ratings slump.

Still, Kishida will unlikely be the "face" (leader) of the LDP for next year's Upper House election or for the Lower House elections this year or next year. If there is growing momentum for the view that a "new face" should be chosen at the LDP presidential election in September, Kishida will struggle to maintain his post. If Kishida were to step down, there could be the risk of interrupting the virtuous cycle, which has been helping to end deflation, depending on the policies of his successor.

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