

Politics Watch

Future of Kishida administration after LDP loses all three Lower House by-elections

- Kishida administration to continue for now; if PM steps down, likely to do so at LDP presidential election in Sep
- CDP gaining momentum, but forming coalition seen as one future challenge
- LDP unlikely to soon regain its party strength; continuation of macro policies uncertain if Kishida steps down

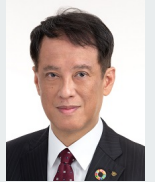
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The ruling Liberal Democratic Party (LDP) lost all three Lower House by-elections held on 28 April.

Conditions surrounding the administration of Prime Minister Fumio Kishida are becoming increasingly difficult. However, when considering the Diet schedule, Kishida's willingness to stay in office, and the impact of the dissolution of intra-party factions, the Kishida administration will likely remain in place for now. If Kishida steps down, he will likely do so at the LDP presidential election in September.

The Constitutional Democratic Party of Japan (CDP) won all three of the Lower House by-elections. The CDP has now consolidated its position as the leading opposition party and continues to gain momentum. If a snap general election were held at this time, we would expect a large increase in the number Diet seats held by the CDP with even a potential change of government coming into focus. For the April by-elections, however, the CDP apparently received considerable support from the Japanese Communist Party. Forming a coalition will likely be a challenge for the CDP.

The LDP does not foresee an immediate recovery for the party's strength. It is unlikely that revisions of the Political Funds Control Act will be enough to shore up the sagging support for the ruling party. Wage increases and income tax cuts are expected to have some positive effects for the LDP, but the current rapid yen depreciation will reduce the effectiveness of those income-boosting measures. Unless there are some major changes to the current situation, Kishida will likely step down as prime minister. In that case, continuation of his macro policies will become uncertain.

LDP loses all three Lower House by-elections

As expected, the LDP lost all three Lower House by-elections. Having said that, the manner in which the LDP lost was harsh. Indeed, the party lost the Tokyo 15th ward and Nagasaki 3rd ward elections by default (did not field candidates).

As for the Shimane 1st ward, the father of the CDP candidate was a former member of the LDP. Apparently, that made it less difficult for conservative voters to vote for the CDP candidate. Still, this was a complete defeat in a ward seen as a major LDP stronghold. Voter distrust seems to be quite strong.

Kishida to remain in office for now; if PM steps down, likely to do so at LDP presidential election in Sep

Calls for Kishida's ouster are likely to intensify within the LDP following this complete defeat in the by-elections. Nevertheless, when considering the limited remaining Diet schedule, the prime minister's strong inclination to remain in office, and the LDP's muddled decision-making due to the dissolving of intra-party factions, Kishida will probably continue leading Japan for now. If the slump in public support continues, Kishida would eventually step down. In that case, it seems likely that he would hand over the reins of power at the LDP presidential election in September.

The first point is the Diet schedule. The regular Diet session will end on 23 June. After the Golden Week holidays, there will only be about one and a half months before the Diet session ends. In particular, unless the Political Funds Control Act is revised to prevent the recurrence of the “politics and money” problem, the LDP will not be competitive in national elections. As such, there is now no time for political wrangling within the LDP to oust Kishida.

The second point is that Kishida’s willingness to continue serving as prime minister seems to remain strong. History has proven that an ouster by those around a prime minister is difficult without expression of his own intention to resign.

Also, Kishida has been quite resilient and does not appear to be overly concerned even though his administration and the LDP’s approval ratings have fallen to dangerously low levels. From Kishida’s perspective, a large income tax cut will increase people’s cash reserves in June-July. Wages will be hiked significantly, even those at small and medium-sized enterprises, so people will feel that their incomes have increased. Kishida is now probably waiting for that tide to turn.

The third point is the fallout from dissolving factions within the LDP. Until now, the LDP had relied on debate among party factions to form official opinions. However, most of the factions in the LDP have now disbanded. It must now determine how to make decisions and manage a party without factions. Even if the LDP tried to oust Kishida right now, the means to do so are not clear cut.

Three years ago, in 2021, the LDP under then-Prime Minister Yoshihide Suga lost all the by-elections held in April. However, it was at the beginning of September that he finally decided not to run in the party president election slated for the end of that month. Kishida would eventually step down if his approval rating continues to slump, but the exact timing will still likely be the party presidential election in September.

CDP gaining momentum, but forming coalition seen as one future challenge

The CDP won all three of the Lower House by-elections held in April. It has consolidated its position as the leading opposition party and is gaining momentum ahead of a likely Diet dissolution for a snap general election. We probably need to consider the possibility of a change in government, but forming a coalition will likely be a challenge for the CDP.

There was a time when the CDP almost lost its position as the leading opposition party to Nippon Ishin (Japan Innovation Party). However, this time the CDP won all three by-elections. Nippon Ishin candidates for the by-elections in Tokyo and Nagasaki lost to the CDP candidates by wide margins. Nippon Ishin must now try to get back on track.

On the evening of 28 April, the night of the election results, CDP representative Kenta Izumi said in an interview, “I would like to call for the dissolution of the Lower House at an early date.” Izumi seemed confident that the next general election would result in a considerable increase in the number of Diet seats held by his party, with possibly even a change of government coming into focus. While support for the CDP itself has not risen much, the party has become a landing spot for the disaffected who do not want to vote for the LDP.

However, during the by-elections, the party appears to have received considerable support from the Japanese Communist Party. The Japanese Communist Party withdrew the candidate it had decided to field for the Tokyo by-election. They reportedly supported the CDP candidates in their respective constituencies as well. Cooperation with the Japanese Communist Party seems to have worked this time. However, will the Nippon Ishin and/or

the Democratic Party for the People form a coalition or cooperate with the CDP? This point will be a future issue.

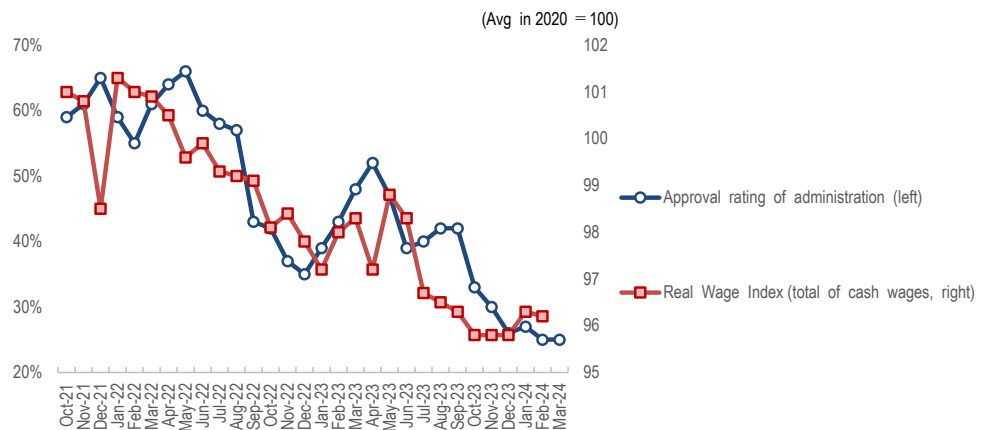
Kishida’s LDP struggling to restore party’s strength

The LDP has failed to find a way to recover its strength. The electorate was not satisfied with the proposed Political Funds Control Act revisions. Wages are rising and income tax cuts are planned, but there are concerns that such income gains could be undercut by the rapid yen depreciation. The dissolution of factions is likely to change the behavior of LDP legislators ahead of the party’s presidential election. If Kishida is forced to resign, continuation of his macro policies would no longer be guaranteed.

The LDP’s proposed amendments to the Political Funds Control Act have been strongly criticized by opposition parties and the media. If the system of joint accountability (legislators also held accountable when their treasurers break the law) is too strict, legislators will spend too much time overseeing their treasurers, which would hinder their political activities. If corporate and group donations are banned, legislators would not be able to secure funds for their political activities, which would be one practical problem. However, being understood by the electorate will likely become more difficult in an atmosphere that does not tolerate any kind of financial impropriety on the part of politicians.

Wage increases and income tax cuts are expected to have some positive effects for the LDP. That said, there are concerns that the further depreciation of the yen will cause real wages to decline again. Politically, there is no time for a “wait-and-see” approach regarding the view that price increases due to the first force (effects of passing on higher costs to prices) are temporary. In addition, those living off their pensions are far removed from the benefits of wage increases, while price hikes will only cause them pain.

Chart 1: Approval Rating, Real Wage Index



Source: Nikkei opinion survey, Ministry of Health, Labour and Welfare’s Monthly Labour Survey; compiled by Daiwa.
Note: Real wage index is seasonally adjusted value of total cash wages at establishments with five or more employees.

The behavior of LDP Diet members could change ahead of the next party presidential election due to the dissolution of factions. Diet members will no longer be bound to factions and they will not receive financial support from factions. They may become more inclined to choose a party president based on personal judgment and with popularity among the public as a top priority. If the approval rating does not rise, it will become increasingly difficult for Kishida to remain as prime minister. At this juncture, we have no idea who the next prime minister might be and what kind of policies he or she might formulate. There is no guarantee that the Kishida administration’s macro policies, which are designed to create a virtuous cycle of higher prices and higher wages along with stimulating the private sector, will continue.

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