

Politics Watch

FICC Research Dept

LDP fundraising scandal could hamper break from deflation

- Investigation into ruling LDP's fundraising scandal has come to a close for now; ruling LDP avoids worst-case scenario, but summary indictment of Kishida faction's former treasurer is noteworthy
- PM Kishida focusing on overcoming deflation, especially wage hikes exceeding rising prices
- Efforts to break from deflation could stall if Kishida held accountable as former head of punished faction, thus limiting his ability to push for higher wages



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On 19 January, the Special Investigation Department of the Tokyo District Public Prosecutors Office decided to file criminal indictments over a fundraising scandal engulfing the ruling Liberal Democratic Party (LDP), thus bringing its criminal investigation to a close for now. In terms of punishment, the LDP avoided the worst-case scenario, but the summary indictment of the Kishida faction's former treasurer is noteworthy. Prime Minister Fumio Kishida continues to focus on breaking Japan free from the grip of deflation, particularly his recent efforts to realize wage hikes that outpace rising prices. If Kishida is held accountable as the former head of the faction that was punished, and if restrictions are placed on his ability to push for higher wages (including resigning before his term in office is over), efforts to finally overcome deflation could be hampered.

Kishida aims to buoy his administration by using wage hikes as near-term trump card

There have been reports that Kishida intends to remain in office despite the LDP's widening fundraising scandal. His administration's approval rating has already fallen below the so-called "danger zone." However, we remember that during his policy speech at last fall's extraordinary Diet session, Kishida described his top policy priority in simple terms, saying, "economy, economy, economy." In his New Year's message as well, he announced that the government will first and foremost achieve "wage increases that exceed price hikes" without fail, focusing its policy on overcoming deflation. If real personal income turns positive due to the combination of wage increases and income tax cuts, economic hardships for Japanese people will ease. That in turn could raise hopes for an approval rating recovery. Kishida's enthusiasm has helped to drive momentum for wage increases in the business community as well.

Most LDP Diet members avoid charges, but prosecutors building case against Kishida faction's treasurer

There were some concerns that Kishida could accept responsibility and immediately resign if the Tokyo District Public Prosecutors Office's special investigations led to the filing of charges against numerous LDP Diet members, including party executives.

As of 19 January, prosecutors were building cases targeting three Diet members and one treasurer in the Abe faction of the LDP. Executive officers in the Abe faction, however, were not indicted. One treasurer of the Nikai faction was also charged, as previously reported. Furthermore, at the height of the investigation, it was suddenly reported that a case against the Kishida faction's treasurer was being built. That report proved to be accurate. Kishida's responsibility for the inappropriate accounting practices of the faction he chaired until recently has made the political situation even more challenging.

Will Kishida's responsibility impact momentum for spring wage talks, overcoming deflation?

Support for Kishida's administration had been on a downward trajectory since last year, but surveys conducted by Kyodo News, NHK, and Jiji Press at the beginning of 2024 showed a temporary halt to that downward trend. Perhaps the respondents liked how Kishida continued working throughout the New Year's holiday to coordinate earthquake relief efforts for the Noto Peninsula.

That said, opposition parties will certainly press hard on the issue of political fundraising at the next ordinary Diet session, set to convene on 26 January. The first question is whether the public will accept the LDP's explanations as well as any new plans to reform political fundraising and factional issues put forward by the LDP. Furthermore, the public's view of Kishida may change depending on whether the issue of his responsibility as the head of a faction is brought up.

The keys to survival for the Kishida administration will be (1) how the public perceives the political fundraising scandal and (2) whether wage hikes that exceed rising prices can be realized. Especially over the near term, if Kishida, who has been trumpeting higher wages, is unable to move vigorously forward before the annual spring labor-management wage negotiations, efforts to overcome deflation could take a hit. That said, we still expect corporations to meaningfully increase wages, regardless of the political situation, viewing this as an issue for the business community overall and for the future of Japan.

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