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Money and Politics in Japan

Taniguchi Masaki

EVEN since the political reforms of the 1990s, scandals have remained commonplace in Japanese politics. Here is a brief list:

- Nakajima Yōjirō, a former Defense Agency parliamentary vice-minister, received bribes of ¥5 million from Fuji Heavy Industries and submitted false financial statements on the use of political party subsidies he had misappropriated;
- Nakao Eiichi, a former minister of construction, received bribes of ¥60 million from Wakachiku Construction for his campaign expenditures;
- Yamamoto Jōji, a former representative of the Democratic Party of Japan (DPJ), swindled over ¥25 million from the government by the fictitious employment of policy staff;
- Murakami Masakuni, a former minister of labor and one of the Liberal Democratic Party (LDP) leaders in the House of Councillors, received bribes from KSD, a foundation for small- and medium-sized enterprises, as well as illegal support for his re-election.

What these scandals show is that regulation of political funding alone cannot reduce the expense of Japanese politics or the problems.

associated with it. More money is spent on politics in Japan than in other industrialized countries. Only the United States comes close to spending as much, both countries having candidate-centered electoral systems. In Japan, the differences among parties are vague, and each candidate is obliged to fund his personal campaign organization. The pressure to raise large sums leads some candidates astray. But the expense of Japanese politics is just a symptom of its disease, which is the state of party politics. Focusing only on political funding is to focus only on the symptom.

Before the political reforms, however, one could not even diagnose the symptom. One could only make guesses based upon hints revealed by journalists. With the new Political Fund Control Law and the introduction of the party subsidy system, the problem of Japanese politics from the perspective of money can finally be examined.

THE HISTORY OF THE POLITICAL FUNDING SYSTEM

Regulation of political funding after World War II occurred first in March 1946 with the Ministry of Home Affairs ordinance known as On the Reporting of Election Campaign Spending. According to the ordinance, candidates in the House of Representatives general election that year were to submit statements on campaign spending every seven days after announcement of the election. Similar edicts and ordinances were issued for elections of the House of Councillors and local assemblies.

Today, all candidates are required by the Public Office Election Law of 1950 to make their campaign spending public. Yet, since the limit of the campaign spending is calculated by the number of electorates in the district, candidates deliberately distinguish between expenditures for their campaign and expenditures for daily political activities. In fact, most *sebumi* activities (which take place before the official campaign period) are not included in campaign expenditures, rendering any regulation or analysis based on campaign expenditures alone meaningless.

Legal oversight of campaign spending in Japan was first enacted in the Political Fund Control Law in July 1948. This legal provision continued until the 1975 amendment of the law, which made all political funding as well as campaign spending open to public scrutiny. The emphasis of this law, however, was not regulation but disclosure, and the law was full of loopholes (Fujita 1980):

- The relationship between politicians and reported political groups was not made known;
- If a political group accepted a donation as its membership fee, the name and address of the donor were not required;
- As most spending of political groups was directed to internal subgroups, actual spending remained unknown;
- Of political groups required to submit financial statements to the Ministry of Home Affairs, only 50 percent did so, and of groups required to submit statements to the prefectural Election Administration Commission, only about 40 percent responded;
- The supervising offices—that is, the Ministry of Home Affairs and the prefectural Election Administration Commission—lacked authority to investigate political groups;
- There was no format for reporting expenditures, and the financial statement of one political group could not be compared with that of another group;
- The definition of political group was so vague that “political parties” numbered as many as four thousand, including *habatsu* (factions) and *kōenkai* (personal election committees).

Despite the Election System Council’s five attempts to reform the guidelines for political funding between 1961 and 1967, enactment of new laws was elusive. Only after the public expressed fury at revelations of the role of former Prime Minister Tanaka Kakuei in the Lockheed scandal—he was charged with accepting ¥500 million in bribes—did the government move to amend the Political Fund Control Law in 1975. For a quarter of a century, Japanese politicians had been content to leave problems as they were.

The focus of the amendment of the Political Fund Control Law was to control the direct flow of political money. Three significant changes were instituted: registration of political groups, disclosure, and regulation of donations (Iwai 1990).

Concerning the first change, the 1975 Political Fund Control Law defined six kinds of political groups, requiring all to be accountable to either the Ministry of Home Affairs or the prefectural Election Administration Commission. By this measure, the actual activities of political groups were to be now stipulated. As regards disclosure, the new law compelled all political parties and political groups to submit financial statements in a specified format. If a political group neglected to fulfill this responsibility twice, it would lose its status as a political group;

accordingly, the submission rate of financial statements rose dramatically to 90 percent.

But the most important change was the regulation of donations. The 1948 Political Fund Control Law did not limit the amount of political donations as long as they were reported in the financial statements. Politicians were therefore free to enjoy cozy relationships with companies. To prevent such abuses, the 1975 Political Fund Control Law set limits on the political donations that a company or an individual could make within a year. Companies and trade unions could donate no more than ¥150 million a year (¥100 million to political parties and individual politicians, and ¥50 million to other political groups, such as factions). Also, there was a ceiling put on each donation: companies or individuals could donate no more than ¥1.5 million to one political group or politician.

Although the 1975 Political Fund Control Law removed many loopholes, it still contained glaring defects. If the donation did not exceed ¥1 million, political groups were not required to disclose a donor's name and address. There was, furthermore, no limit on the number of political groups a donor could give to. Politicians thus could receive a large sum of money and yet mask the donor's identity. Consider the following example: Company X wants to donate ¥10 million to Politician Y. If Politician Y set up ten political groups and each accepted ¥1 million from Company X, Politician Y had no obligation to report Company X's name in the financial statements of his ten political groups.

The other problem was fundraising events, which were rampant and eluded the limits placed on political donations. Since there was no regulation regarding fundraising events, the admission price of tickets to these events became a way to make an undocumented contribution. The price of tickets rose rapidly, but unlike political donations, they were taxable, thus causing people to grumble.

With the Recruit scandal in the late 1980s, there was call for further reform of the political funding system. To obtain favorable consideration of measures relating to employment concerns, the Recruit Co., Ltd., whose business was providing personnel to corporations, distributed unlisted shares of the stock of its subsidiary, Recruit Cosmos, to specific politicians. Recipients included not only influential members of the LDP but also opposition leaders and bureaucrats. An outraged public saw the capital gains of these shares, after the stock was brought to market, as the equivalent of a bribe. Although only two politicians were

arrested for their role in the scandal, others who had accepted contributions in the form of Recruit shares—including Prime Minister Takeshita Noboru and Minister of Finance Miyazawa Kiichi—bore the brunt of public criticism. In the 1989 election for the House of Councilors, the LDP lost its majority for the first time in thirty years.

To ease the public's anger, the government and the LDP began to look into political reform. Organizations like the Wise Men's Committee on Political Reform and the LDP Political Reform Committee were set up in January 1989. After discussions in these two organizations, the Eighth Election System Council drafted a series of measures that the government of Kaifu Toshiki introduced to the Diet as political reforms: an amendment to the Public Office Election Law to change the electoral system, an amendment to the Political Fund Control Law, and a bill to enact the Political Party Subsidy Law.

Election system reform split the LDP in the early 1990s, leading to the overthrow of the LDP administrations of Kaifu and Miyazawa. Under Hosokawa Morihiro's non-LDP coalition government in 1994, the bills for political reform finally passed the Diet. Except as regards the forbidding of company donations, opposition to reform of the political funding system proved to be less fierce than opposition to reform of the election system, which continued to be a source of serious contention. Laws governing the political funding system in Japan today, such as prohibiting gifts from politicians on ceremonial occasions and expanding the guilt-by-association rule (as will be discussed later), were also introduced in the 1990s.

CURRENT POLITICAL FUNDING SYSTEM

Under the 1994 Political Fund Control Law, monetary and other contributions to individual politicians by other than political parties are forbidden. Companies may not make donations to political groups other than political parties, *seiji shikin dantai* (political funding groups specified by political parties), and *shikin kanri dantai* (fundraising groups specified by politicians). (Under the 1999 amendment to the law, *shikin kanri dantai* are prohibited from accepting company donations as well.) Each politician is allowed to set up only one fundraising group.

Fundraising events are also now regulated, and steps have been taken

toward greater transparency by lowering the minimum donation required for disclosure from ¥1 million to ¥50,000. Thus, in the above example of Company X and Politician Y, a large loophole has been closed. Since only one fundraising group of Politician Y can legally receive donations from Company X under the new law, Company X cannot donate more than ¥500,000 to Politician Y. Even if Politician Y chose to hold a fundraising event, a company donation that ostensibly would have been for tickets to the events could not exceed ¥1.5 million. Moreover, since all donations over ¥50,000 and tickets to events over ¥200,000 would be disclosed in Politician Y's financial statements, Company X could no longer donate more funds without anyone's knowing.

To compensate for the diminished donations and to promote the healthy development of political party activities, a political party subsidy system was introduced. That is, so as to circumvent the cultivation of cozy relationships between companies and political parties, the government granted subsidies to political parties that had a minimum of five members in the Diet or that had obtained over 2 percent of the vote in the previous election. Approximately ¥30 billion (¥250 per capita) was distributed, divided according to each party's share of votes and Diet seats.

Concerning election campaigns, the guilt-by-association rule was expanded. Previously, a candidate's culpability for corrupt practices within his campaign was limited to the acts of his executive campaign manager, chief cashier, local campaign managers, relatives, and secretaries. According to the new Public Office Election Law, the acts of lower level managers were also included in this rule. If determined to be guilty by association, a candidate would find his election invalidated and he would be prohibited from running for the office in the same district for five years. Further, to ensure its effectiveness, the law stipulated that judgment be rendered in such cases within one hundred days.

MEASURING POLITICAL FUNDS

Under the new political funding system, how much money are political parties and politicians allowed to collect, and in what ways can they use these funds? As explained above, political groups were required to register at either the Ministry of Home Affairs or a prefectural Election

Administration Commission, depending on their geographical activity. The financial statement reported to the Ministry of Home Affairs constituted the national part of political funding, while the statement to the prefectural Election Administration Commission constituted the local part of political funding.

By summing both financial statements, the total amount reported in 1997 was ¥307 billion, triple the amount reported twenty years earlier. This rapid rise in political funds is notable as, in this same period, the consumer price index did not even double.

In 1996, the Japanese Communist Party (JCP) collected the most funds of all political parties: ¥30.4 billion. Following were the LDP at ¥26 billion; the Kōmeitō (Clean Government Party), ¥13.1 billion; the New Frontier Party (NFP), ¥12.2 billion; the Social Democratic Party (SDP), ¥9.7 billion; and the DPJ, ¥4.1 billion.

The larger part of the JCP's revenue was proceeds from its daily bulletin, *Akahata* (Red Flag). In any case, these figures reflected only the economics of the headquarters of each party. As regards the LDP, its main arena of activity was the party's local branches and election committees for representatives. If the economics of the local branches and the election committees were included in the above figures, the LDP would certainly be at the top. The DPJ, the third largest party in the House of Representatives, was sixth in rank since it was only founded in September 1996. Its largest source of revenue was its debt to the Hatoyama brothers, Yukio and Kunio, primary promoters of the DPJ.

Under the new law, the sources of LDP revenue changed dramatically. In 1996, its largest income was the political party subsidy; ten years earlier, it had been donations from companies and individuals. While this trend may be seen at the headquarters level, it is more prominent among other parties, which have fewer affiliated companies and groups. For example, the NFP, which was the second largest party in the Diet, depended on the subsidy for about 80 percent of its revenue. This development follows what occurred in Sweden, where even the most bourgeois parties virtually stopped accepting company donations after the introduction of party subsidies in 1965.

Notwithstanding these changes in political revenue, the composition of the LDP's political spending has not altered greatly. There has been a minor increase in grants to local branches, stemming from the political party subsidy delivered to the headquarters. This can also be seen in the NFP, DPJ, and SDP, where the subsidy has substituted for

the limited donations given to individual politicians. The JCP, on the other hand, has refused to accept the political party subsidy, claiming that it would lead to government intervention. The organizational expenditure, which is largest in the LDP, includes a grant for the candidates endorsed for representatives and a bonus to Diet members. In 1996, LDP Diet members accepted an average of ¥12 million each.

As regards fundraising by politicians, a 1999 study by Sasaki, Yoshida, Taniguchi, and Yamamoto documented the activities of 384 representatives who won their seats in the 1996 general election, including 84 representatives who had lost but were "revived" through proportional representation.

As a rule, a politician is able to set up the following three kinds of political groups:

- one fundraising group, to which companies can donate no more than ¥500,000 a year;
- local party branches, whose presidents are concerned politicians; and
- personal election committees, to which companies cannot donate.

By specifying the groups, summing their financial statements, and offsetting the donations among them (because they are counted as income twice), the study calculated the substantial amount of each politician's revenues and expenditures. The average income of LDP representatives was ¥131.72 million, while that of NFP representatives was ¥108 million and that of DPJ representatives was ¥40.02 million. In the LDP, fundraising groups were the core organization, collecting 57 percent of revenue; in contrast, in the NFP district party branches earned 53 percent of revenue.

The fact that the revenue of about half of the NFP branches depended on grants from the headquarters suggests the NFP's party-centered electoral strategy. In comparison, since the DPJ, which was founded in September 1996, could not establish many branches in that year, the revenue of DPJ representatives was inevitably candidate-centered. (Even in January 1998, the DPJ had only 126 branches, while the LDP had 5,642 branches.)

Since party branches are able to accept company donations of more than ¥500,000, politicians will determine which purse to put the funds into, depending on the size of the donation. Large donations over ¥500,000 are to be made to political party branches, and smaller donations go to fundraising groups. Also, LDP and NFP representatives

often hold fundraising events to make up for shortfalls. For personal election committees that cannot accept company donations, fundraising events provide a reliable resource, as does the transferred income from fundraising groups and political party branches.

The data in 1997 were as follows: The average income of LDP representatives was ¥105.54 million (fundraising groups, 66 percent; party branches, 23 percent; election committees, 11 percent). For NFP representatives the average income was ¥60.92 million (fundraising groups, 63 percent; party branches, 28 percent; election committees, 9 percent), and for DPJ representatives it was ¥33.16 million (fundraising groups, 75 percent; party branches, 15 percent; election committees, 11 percent). The DPJ had been working to establish its party branches, which accounts for the increase in percentage; in contrast, with the LDP and NFP, the share of the party branches decreased. The income of NFP branches showed a 70 percent decrease from the previous year, which reflects NFP's circumstances at the time: successive secessions and its dissolution in December (*Asahi Shimbun* 31 August and 1 September 1999).

The example of the political revenue received by the late Prime Minister Obuchi Keizō in 1996 is a case in point. Like other Diet members, Obuchi controlled three kinds of political groups: the fundraising group of the Society for the Study of Future Industries; the party branches of the LDP Fifth District Branch of Gunma and the LDP Hometown Development Promotion Branch; and the election committees of Keishin Kai and the Election Committee for Obuchi Keizō. The Society for the Study of Future Industries seemed to be the core organization in Tokyo, while the Election Committee for Obuchi Keizō managed other groups in Obuchi's district in Gunma Prefecture.

Since the Election Committee for Obuchi Keizō could not receive donations from companies, large amounts of money were transferred into it from Obuchi's fundraising group and LDP branches. Notably, the entire revenue of ¥43 million of the LDP Hometown Development Promotion Branch, whose ordinary expenses were zero, was transferred to the Election Committee for Obuchi Keizō and to Obuchi himself (for election campaign costs, which is legal). At the time of its founding, the Hometown Development Promotion Branch listed as its address the same address as Obuchi's office in Takasaki—a testament to its role as a dummy organization to collect donations from companies.

EVALUATION OF POLITICAL FUNDING SYSTEM REFORM

How can the political funding system reform in the 1990s be best evaluated? If one looks at improvements, it is apparent that corrupt practices were drastically decreased by the expanded guilt-by-association rule. According to a November 1996 survey by the *Asahi Shimbun*, 321 of 471 representatives reported that campaign spending had been reduced under the new election and political funding system.

By limiting the number of political groups that can accept company donations, the relationship between politicians and reported political groups has become much clearer. Consider again the case of Company X and Politician Y. Nine of the ten political groups that Politician Y set up to accept anonymous donations from Company X under the 1975 Political Fund Control Law—known as *yūrei dantai* (ghost groups) because they had the same office, the same clerks, and no substance—lost their utility and were dissolved.

This reform had further influence on the activities of factions of the LDP. Since factions are not classified as political parties or fundraising groups, they are no longer able to collect donations from companies and distribute the funds to their members. To get around this regulation, the fundraising groups of the leaders of each faction often distribute money to the junior members. This development can be viewed as either the degeneration of highly institutionalized faction politics in the 1980s or the generation of “leadership PACs [political action committees]” in Japan. As one ex-prime minister himself conceded to the author, faction leaders could no longer force their members to accept factional decisions through the power of money. A result of this is the ongoing pluralization of the LDP’s factions.

The transparency of political funds—how much politicians receive from whom—has increased since the disclosure threshold was lowered from ¥1 million to ¥50,000. For example, former LDP Representative Yosano Kaoru’s political groups—the LDP First District Branch of Tokyo and Shunzan Kai (Yosano’s fundraising group)—received donations of approximately ¥57 million in 1996. Of this amount, the names and addresses of donors for over ¥49 million were made public in financial statements. If the disclosure requirements of the 1975 Political Fund Control Law had been applied, Yosano would have needed only to disclose donations amounting to ¥8.5 million. In this case, the transparency

brought by the amendment afforded about six times greater visibility.

However, problems remain unresolved, even as new problems are revealed. As was the case with Obuchi's LDP Hometown Development Promotion Branch, local party branches often function as a way around the regulation of company donations. Especially in conservative parties, the money collected by party branches is usually used not for promotion of the party but for the activities of individual politicians. This "soft money" takes advantage of the gap between the concept of party-centered reform and the actual circumstances of party branches.

Also, like the LDP Hometown Development Promotion Branch, when the funds collected at a party branch are transferred to another political group, such as a fundraising group (or vice versa), a party branch functions in a money-laundering capacity by masking the real relationship between income and expenditure. Yet, to limit political party activities by law may be unconstitutional. If that is proven to be the case, consolidated accounts of each politician's groups—fundraising groups, party branches, and election committees—should be introduced to disclose the substance of money flow.

The system of disclosure for political funding remains far from foolproof. Many representatives file financial statements of their fundraising group with the Ministry of Public Management, Posts and Telecommunications, while their party branches file their statements with the prefectural Election Administration Commission. If the public wished to look at these statements, travel to each of the forty-seven prefectures would be necessary. There is no central institution—and no computerization of the system—that can serve as a clearinghouse for financial disclosure. Furthermore, the receipts that are the basis of the financial statements are unavailable for examination. The scandal surrounding Nakajima Yōjirō did not surface until an ex-secretary blew the whistle on him for false receipts in his financial statements. But with such information systematically kept from the public, suspicion and cynicism regarding politics in Japan persist.

SOME IMPLICATIONS

What do these changes portend for what might be called the "Y2K problem" in the Japanese political funding system? Article 9 of the supplementary provision of the 1994 Political Fund Control Law stipulates:

“A measure to forbid donations by companies, trade unions, and other groups to fundraising groups will be taken five years after enforcement of this law.”

Although the prohibition on company donations was opposed by some members of the LDP, the decision by Prime Minister Obuchi, in tandem with pressure brought to bear by other political parties, made the prohibition a part of the law in January 2000. As admirable as the intent may have been, however, this amendment has wrought its opposite effect.

To deal with the stringency of the amendment, the LDP subdivided its local branches so that LDP members of a prefectural or municipal assembly would be able to accept company donations. With this loophole, the only change created by the amendment was a repainting of the signboard of local fundraising groups to identify themselves as local party branches. The prohibition on company donations was thus only nominal, and the effectiveness of the overall regulation has been hampered.

Moreover, the much-sought-after goal of transparency was eroded. Because of the measures taken by the LDP, the number of party local branches will increase drastically. In the city of Shizuoka, for example, which constitutes the first district of the House of Representatives, four more LDP branches for members of the prefectural assembly will be established. With the existing two LDP branches—LDP First District Branch of Shizuoka for a candidate for the House of Representatives and LDP Shizuoka City Branch managed by members of the Shizuoka municipal assembly—there now can be six party branches in the city, each free to accept company donations.

Although a party has the right to organize itself as it sees fit, a party with such an excess of atomized, individually owned branches does not deserve to be a public institution. Nor is there a limit to the number of party branches a politician can form, or an obligation to identify which branch he controls. If a politician establishes a party branch in the name of someone else (for example, a spouse, secretary, or supporter), the opportunity to shield the true nature of political spending from the public increases.

If politicians feel the need to accept donations from companies, they should persuade the public of this fact. The goal of political funding system reform is not to abolish political funding but to enforce an accountability of political activities. Pretending to agree to the prohibition on

company donations while enjoying its loopholes is not responsible political behavior. This lack of accountability is in no small way reason for the current distrust of politics. While fears of a Y2K computer problem passed without serious incident, the Y2K problem of the Japanese political funding system festers and awaits resolution.

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