

Germany: Economic and political impact of the floods

It will still take some time to fully measure the full impact of the devastating floods in the Western parts of Germany (as well as in Belgium and the Netherlands). Often, the impact on the total economy stands in no comparison with the human suffering. In Germany, it would not be the first time that a natural disaster becomes a political game-changer



Flooding in Monreal, Germany

Last week, parts of North Rhine Westphalia and Rhineland Palatinate were flooded by heavy rains and rivers overflowing. The human suffering is and will be enormous. According to official reports, some 100 people died, some 1,000 people are still missing, and homes, stores and infrastructure have been destroyed. While no price or costs can be put on human suffering, the questions which always arise after these kind of natural disasters are on the overall implications for the economy and, two months ahead of the federal elections, on politics.

Economic impact

It will still take a while to really take stock of the economic damage. Looking back at past natural

disasters and the damage as estimated by the insurance industry shows that the floods in 2002 have so far had the most severe economic impact with an estimated insurance damage of 4.5bn euro (some 0.1% of GDP). Industrial companies, which are located at the Rhine River, have so far not been hit by the floods. As a consequence, the total economic impact should remain limited; even though the existential impact on the retail or hospitality sectors, which have already suffered enormously under the lockdowns should definitely not be underestimated. The bitter irony of these kind of natural disasters often is that the rebuilding of homes and infrastructure could have a positive impact on GDP growth going forward. In the end, GDP growth is a flow and not a stock measure.

Political impact

With only two more months to go until the federal elections, such natural disasters can have a crucial and trend-setting impact, both in terms of personal appearances for the leading candidates as well as for the hot topics for the final months of the campaign. As regards appearances, many politicians, spin doctors and political observers still remember the 2002 floods in the Eastern parts of Germany. Back then, incumbent chancellor Gerhard Schröder was clearly behind in the polls against his challenger Edmund Stoiber from the CDU. When the floods started, Schröder moved quickly, put on his rubber boots, immediately travelled to the hit regions and made it seem like he was on top of things. Stoiber only showed up with a delay and had put on a blue shirt and no rubber boots. These tv pictures made Schroeder the hands-on manager of the country, giving him an enormous boost in the polls and eventually had him win the elections.

CDU chancellor candidate Lachet's popularity could benefit from the floods.

Following these examples, CDU chancellor candidate Armin Laschet, who is also the minister-president of North Rhine Westphalia showed up immediately at the scene. If the rebuilding of the region goes swiftly and unbureaucratically, Laschet's popularity could benefit from the floods. SPD chancellor candidate and current finance minister Olaf Scholz was also quick in announcing financial help for the region. As the state Rhineland Palatinate is governed by the SPD, Scholz and the SPD could also benefit from the flood. In general, times of crisis are always moments in which the executive branch's popularity can benefit, not the opposition's popularity. This is a dilemma for the Greens. While obviously, the Greens as no other party could benefit from the visible consequences of climate change, their role as opposition part doesn't give nice tv pictures at the crisis scene. The Greens will have to wait until the end of the imminent crisis management, hoping for a more fundamental discussion on how to tackle (the impact of) climate change. It could be maybe the final chance for the Greens to let the entire debate behind on blown-up resumes or possible plagiarism in a book of their chancellor candidate Annalena Baerbock. Remember that in 2018, the heat wave and a long period of drought helped the Greens rise in the polls.

This is not the first time in German politics that a natural disaster turned out to be an unexpected game-changer.

All of this means that the human catastrophe cannot be put into numbers. For the entire economy, the damage from the current floods should be limited. However, we will carefully watch political developments in the coming weeks as it wouldn't be the first time in German politics that a natural disaster in the summer ahead of an election turned out to be an unexpected game-changer.

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