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Volume 20, 2011 - [Issue 2](#)

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Between a Rock and a Hard Place: The Grand Coalition's Response to the Economic Crisis

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Pages 227-242 | Published online: 10 Aug 2011

Cite this article <https://doi.org/10.1080/09644008.2011.582100>

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Abstract

The German grand coalition's track record with regard to managing the financial crisis is mixed. The government has spent enormous amounts of money to prevent a breakdown of the banking system and to cushion the effects of the recession. It was at least partially successful as these programmes indeed prevented collapses of banks as well as bank runs, kept unemployment relatively low and somewhat mitigated the recession. Nonetheless, at least some of the crisis policies lacked coherence, particularly with regard to the bank rescue packages. The reason is that even in the face of a systemic banking crisis and a GDP decline of 5 per cent, programmatic differences between the coalition partners have not disappeared and became manifest in government policies.

Notes

Andreas Busch, *Banking Regulation and Globalization* (Oxford: Oxford University Press, 2009), p.247.

Bank for International Settlements, 79th report (Basel: BIS, 2009), chapter 4; OECD, *OECD Economic Outlook, Interim Report March 2009* (Paris: OECD, 2009), pp.17ff.

See Statistisches Bundesamt, Press release No.174, 14.05.2010, available from http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Presse/pm/2010/05/PD10__174__51,templateId=renderPrint.psml

Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (SVR), *Die Zukunft nicht aufs Spiel setzen. Jahresgutachten 2009/2010* (Stuttgart: Metzler, 2009), p.46.

Cf. Christoph Egle and Reimut Zohlnhöfer, 'Die Große Koalition – eine "Koalition der neuen Möglichkeiten?"', in Christoph Egle and Reimut Zohlnhöfer (eds), *Die zweite Große Koalition. Eine Bilanz der Regierung Merkel, 2005–2009* (Wiesbaden: VS, 2010), pp.11–25.

Manfred G. Schmidt, 'Germany: The Grand Coalition State', in Josep M. Colomer (ed.), *Comparative European Politics* (New York: Routledge, 2008), pp.58–93.

Reimut Zohlnhöfer, 'Destination Anywhere? The German Red–Green Government's Inconclusive Search for a Third Way in Economic Policy', *German Politics* 13/1 (2004), pp.106–31; Thomas Saalfeld, 'Conflict and Consensus in Germany's Bi-cameral System: A Case Study of the Passage of the Agenda 2010', *Debatte* 14 (2006), pp.247–69; Andreas Busch, 'Schröder's Agenda 2010: From "Plan B" to Lasting Legacy?', in Alister Miskimmon, William E. Paterson and James Sloam (eds), *Germany's Gathering Crisis. The 2005 Federal Election and the Grand Coalition* (Basingstoke: Palgrave Macmillan, 2009), pp.64–79.

Angela Merkel, 'Policy statement (Official translation)', available from http://www.bundesregierung.de/nn_6516/Content/EN/Regierungserklaerung/2005/11/2005-11-30-policy-statement-by-federal-chancellor-dr-angela-merkel-in-the-german-bundestag.html (accessed 7 Sept. 2009).

See Reimut Zohlnhöfer, 'New Possibilities or Permanent Gridlock? The Policies and Politics of the Grand Coalition', in Silvia Bolgherini and Florian Grotz (eds), *Germany after the Grand Coalition. Governance and Politics in a Turbulent Environment* (New York: Palgrave, 2010) for an overview, and the chapters in Egle and Zohlnhöfer (eds), *Die zweite Große Koalition* for the details.

Jeremy Leaman, 'Germany Country Report', in Bertelsmann Stiftung (ed.), *Managing the Crisis. A Comparative Assessment of Economic Governance in 14 Economies* (Gütersloh: Bertelsmann Foundation, 2010), p.3.

See Bank for International Settlements, 79th Report, p.91; Leaman, 'Germany', p.21.

Peer Steinbrück, 'Rede zur Einbringung des Bundeshaushaltes 2009', in *Deutscher Bundestag, Stenografischer Bericht*, 16. Wahlperiode, 174. Sitzung, 16 Sept. 2008, p.18548; cf. Henrik Enderlein, 'Finanzkrise und große Koalition: Eine Bewertung des Krisenmanagements der Bundesregierung', in Egle and Zohlnhöfer (eds), *Die zweite Große Koalition*, pp.238-40.

At that time, a volume of €35 billion was agreed upon of which private banks took over €8.4 billion (see Enderlein, 'Finanzkrise', pp.245-6). In the course of the crisis, however, much more public money had to be used to rescue HRE (see below).

See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (SVR), *Die Finanzkrise meistern - Wachstumskräfte stärken. Jahresgutachten 2008/2009* (Stuttgart: Metzler, 2008), p.117.

For an in depth description cf. *ibid.*, pp.156-64.

E.g., in the UK only bonuses were limited, while in the US management salaries of over \$500,000 were subject to a special tax (but were allowed); cf. Enderlein, 'Finanzkrise', p.247.

See <http://www.soffin.de/de/soffin/leistungen/massnahmen-aktuell/index.html> (accessed 19 Aug. 2010).

Cf. Bundestag printed matter 16/12100.

For a detailed discussion of the German bad bank scheme cf. OECD, *OECD Economic Surveys. Germany* (Paris: OECD, 2010), pp.89-90 and SVR, *Die Zukunft nicht aufs Spiel setzen*, pp.125-30.

OECD, Economic Surveys. Germany, p.90.

Large amounts of tax money would only be needed if a transferring bank would nevertheless go bankrupt.

SVR Die Zukunft nicht aufs Spiel setzen, p.127; OECD, Economic Surveys. Germany, p.90.

See Enderlein, 'Finanzkrise', pp.246-7.

Participating banks may issue preferential shares which are somewhat exempt from future liabilities, however. This is hoped to allow participating banks to attract new capital.

See Leaman, 'Germany', p.26.

For the details cf. SVR, Die Zukunft nicht aufs Spiel setzen, pp.220-22.

See <http://www.bmwi.de/BMWi/Navigation/Wirtschaft/Konjunktur/Konjunkturpakete-1-und-2/wirtschaftsfonds-deutschland,did=314662.html> (accessed 19 Aug. 2010).

See Enderlein, 'Finanzkrise', pp.241-2.

Data taken from OECD, Economic Surveys. Germany, pp.63-4.

Data taken from SVR, Die Zukunft nicht aufs Spiel setzen, p.65.

See OECD, Economic Outlook, Interim Report, p.110. In contrast to these data, Klaus Armingeon compares the difference between the average cyclically adjusted deficits in 2008 and 2009 with those in 2006 and 2007 to measure discretionary fiscal policy choices. According to his data, the German fiscal policy stimulus was only very small, actually among the smallest of the 35 OECD and EU member states he compares; cf. Klaus Armingeon, 'National Fiscal Responses to the Economic Crisis: Domestic Politics and International Organizations', Paper prepared for the Seventeenth International Conference of Europeanists, Montreal, Canada, 15-17 April 2010. Armingeon's measure is not without problems, however: e.g., he corrects for the effects of automatic stabilisers which introduces a heavy bias into the data since countries with strong automatic stabilisers do not need large discretionary fiscal packages anymore. Therefore, it is not surprising that the OECD, Economic Outlook, Interim Report, p.118,

finds an inverse relationship between the size of fiscal packages and the strength of automatic stabilisers.

E.g. cf. Peer Steinbrück's speech at the first reading of the relevant bills: Deutscher Bundestag, Stenografischer Bericht, 16. Wahlperiode, 215. Sitzung, 27 March 2009, p.23375.

See OECD, Economic Outlook, Interim Report, p.132, for this interpretation.

Leaman, 'Germany', p.24.

See OECD, Economic Outlook, Interim Report, p.110.

See OECD, OECD Revenue Statistics 1965–2007 (Paris: OECD, 2008), p.93 (Table 2).

See Enderlein, 'Finanzkrise', p. 243.

See OECD, Economic Outlook, Interim Report, p.106.

See Bank for International Settlements, 2009, p.113.

Leaman, 'Germany', p.18.

See Statistische Bundesamt: Press release No.099, 12 March 2010, available from http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Presse/pm/2010/03/PD10_099_811.psmI

See Leaman, 'Germany', p.28.

For further critical arguments against the scrapping bonus cf. Leaman, 'Germany', p.13.

For the following cf. SVR, Die Zukunft nicht aufs Spiel setzen, pp.224–6.

OECD, Economic Surveys. Germany, p.12.

Ibid., pp.26–7.

Kathrin Dümig, 'Ruhe nach und vor dem Sturm: Die Arbeitsmarkt- und Beschäftigungspolitik der Großen Koalition', in Egle and Zohlnhöfer (eds), Die zweite Große Koalition, pp.291–2.

Bundesagentur für Arbeit, Der Arbeits- und Ausbildungsmarkt in Deutschland. Monatsbericht März 2010 (Nürnberg: BA, 2010), p.9.

See Enderlein, 'Finanzkrise'.

OECD, Economic Outlook, Interim Report, p.123.

BVerfG, 1 BvR 119/09, 26 March 2009.

See Enderlein, 'Finanzkrise', pp.246-8.

See Nicole Herweg and Reimut Zohlnhöfer, 'Das Verhältnis von Markt und Staat unter der Großen Koalition: Entstaatlichung in der Ruhe und Verstaatlichung während des Sturms?', in Egle and Zohlnhöfer (eds), Die zweite Große Koalition, pp.266-8.

See Spiegel Online, available from

<http://www.spiegel.de/wirtschaft/0,1518,628067,00.html> (accessed 20 May 2010).

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<http://www.faz.net/s/RubD16E1F55D21144C4AE3F9DDF52B6E1D9/Doc~EA00D934ED77A4E89844E36D1D74F9E49~ATpl~Ecommon~Scontent.html> (accessed 20 May 2010).

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For an in-depth analysis of how the economic crisis affected the 2009 Bundestag election and how voters thought on the crisis policies of the government see Reimut Zohlnhöfer, 'The 2009 Federal Election and the Economic Crisis', German Politics 20/1 (2011), pp. 12-27.

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Ibid. Infratest dimap came to somewhat similar results in November 2008, See Infratest dimap, ARD-DeutschlandTrend November 2008, p.5, available from <http://www.infratest-dimap.de/umfragen-analysen/bundesweit/ard-deutschlandtrend/2008/november/> (accessed 9 June 2010).

Forschungsgruppe Wahlen, Politbarometer November II 2008.

Forschungsgruppe Wahlen, Politbarometer März I 2009 (44 per cent in favour, 50 per cent against), Infratest dimap, ARD-DeutschlandTrend April 2009, p.9, available from <http://www.infratest-dimap.de/umfragen-analysen/bundesweit/ard-deutschlandtrend/2009/april/> (accessed 9 June 2010) (43 per cent in favour, 51 per cent against), Forschungsgruppe Wahlen, Politbarometer Mai I 2009 (33 per cent in favour, 61 per cent against).

According to Forschungsgruppe Wahlen, Politbarometer Juni 2009, only 18 per cent of the voters approved of government help for Arcandor while 77 per cent opposed. Similarly, 64 per cent of respondents were against a loan for the mail order firm Quelle which belonged to Arcandor, while 31 per cent were in favour. With regard to automotive supplier Scheffler/Continental, 65 per cent of the respondents argued it would be better not to intervene while only 28 approved of government help; cf. Infratest dimap, ARD-DeutschlandTrend March 2009, p.4, available from <http://www.infratest-dimap.de/umfragen-analysen/bundesweit/ard-deutschlandtrend/2009/maerz/> (accessed 9 June 2010).

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