

# The Balance Sheet of the Grand Coalition (September 17, 2009)

## Abstract

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The author of this piece analyzes the work of the Grand Coalition in retrospect. He describes its reforms, praises its handling of the global financial crisis of 2008, and concludes that ending the culture wars in the social policy arena was one of its greatest accomplishments.

## Source

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### How it Was

*Fewer unemployed, solid crisis management, stronger families – the balance sheet of the Grand Coalition is impressive.*

To understand all the Grand Coalition has achieved, we need only recall the year 2005. At the time, Germany was wondering whether its best years were behind it; its political parties were staging an election that they presented as crucial for the fate of the country, and the federal president was serving as an ambassador of doom. Looking back now, this is a Germany that seems like a foreign country. Four years later, Germans have not even been panicked by an unprecedented economic collapse, exorbitant national debt, or the prospect of mass layoffs.

The Grand Coalition's psychological crisis management apparently worked well. This is surprising, since the psychological preconditions of the alliance were anything but promising. Never before in the history of the Federal Republic had there been a coalition that came into being against the wishes of its partners. Even the first alliance between the CDU/CSU and the SPD in 1966 was established voluntarily, in response to the very first indications of the fading of the Economic Miracle. Otherwise, the CDU/CSU and the SPD have always regarded each other as political opponents. Their disputes shaped the political conflicts of the Federal Republic but less so their resolution. And now the two opponents were suddenly supposed to work together creatively. [...]

The argument that a Grand Coalition can be useful in solving “grand” problems was merely an attempt to turn mutual aversion into an ethics of responsibility. Such inflated claims were immediately repudiated, but the partners secretly hoped that the mandatory alliance would ultimately be good for a few surprises. The newly appointed chancellor referred to the antagonistic entity over which she presided as “the coalition of new possibilities” or, more modestly, as “the coalition of small steps.”

A history of the Grand Coalition could easily be written as a history of its conflicts. The background din of quarreling and insinuations droned on throughout the legislative period. Healthcare, layoff protection, unemployment benefits, the Anti-Discrimination Act, the minimum wage, the domestic deployment of the Bundeswehr, counterterrorism – the list of disputes in which factual disagreement was combined with longstanding reservations is almost endless. Now that the Grand Coalition is facing elections and its possible end, it is curious that it is constantly being reprimanded for concord and insufficient debate. But what is even more surprising is that a partnership marked by such strife was able to accomplish so much in the end.

### A Small Economic Miracle

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Not only the mood, but also the situation has changed. During the first three years of the Grand Coalition, before the financial crisis, it really seemed as though political leaders could influence the course of the country. The Grand Coalition managed to reverse trends in the areas of public finance, economic growth, and unemployment. The decline in joblessness was nothing short of spectacular. Under Chancellor Gerhard Schröder, there were five million unemployed in February 2005. This figure fell to 4.6 million at the beginning of the Grand Coalition and to less than 3 million in the autumn of 2008. Growth far exceeded the average rates during the past decade, there was leeway for lowering non-wage labor costs, and the Social Democratic finance minister was justified in hoping that he would be able to submit a balanced budget in the not-so-distant future. [...]

The most frequently heard objection to the coalition's consolidation strategy was that the 3% increase in the value-added tax would prove poisonous to the economy. As is well known, things turned out differently. The economy grew by 2.5 percent in 2007 – the year of the biggest tax hike in the history of the Federal Republic of Germany. Higher taxes and additional revenue from the booming economy provided a basis for consolidating public finances. In addition, the coalition passed unpopular cuts to a variety of subsidies, including the allowance for first-time homebuyers, the tax exemption for interest income and capital gains, and the commuter allowance. Since the CDU and the SPD had unanimously defended the lowering of the commuter allowance against attacks from parties as diverse as the Left Party and the CSU, it was bitterly disappointing to see this legislation struck down by the Federal Constitutional Court. But it has been even more disappointing to see that the careful course set by the Grand Coalition for a sustainable financial policy has now ended in the record debt levels necessitated by the financial crisis. By instituting a debt ceiling, the two large mainstream parties have at least pursued their intention of enshrining a responsible financial policy in the constitution, but this will not be reflected in the budget figures for the coming years.

### **An End to Reforms**

The SPD and the CDU/CSU brought hardly any projects from their pre-2005 reform phase to the Grand Coalition. The SPD suffered too severely from the consequences of its Agenda 2010 policies; the CDU/CSU from its near defeat in 2005. The only policy that breathed the spirit of radical reform was the raising of the retirement age to sixty-seven. Once again, the SPD acted against its supporters' direct interests in an effort to make the solidarity system fit for the future. This marked a turning point, since the SPD no longer had the strength to continue down the path of self-destruction for the common good. In addition, Angela Merkel had lost all desire for radical reforms even before she could have begun tackling them in the autumn of 2005. The CDU/CSU preferred to overtake its coalition partner on the left, as in the controversy over the extension of unemployment benefits. [...]

Afterward, the coalition no longer worked on structural reform. On the contrary, it temporarily disabled the demographic factor in the equation for calculating social security in order to pass an unplanned increase in benefits. The reform of compulsory long-term care insurance was far less comprehensive than had originally been hoped for. But it was the dispute over healthcare that perhaps most spectacularly demonstrated the coalition's inability to carry out reforms. [...]

### **More Tolerant, More Liberal, More Ecological**

But the actual change brought about by the Grand Coalition was also in the arena of social policy. It was surely the SPD-Green coalition that ushered in a new era by reforming the citizenship law, immigration policy, and same-sex partnerships after assuming power in 1998. But given the hostile relations between the two camps, the SPD-Green decisions were like an opening salvo in a new, ideologically charged era. Seemingly unspectacular new policies such as the citizenship law or Schröder's green-card initiative suddenly proved highly explosive. It was only the Grand Coalition that put an end to these culture wars.

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It was Merkel's CDU that disarmed ideologically and whose ministers now fought for more modern positions in family policy and immigration policy. In its effort to court and engage with its tradition-minded followers, the CDU/CSU forged a new sociopolitical consensus that SPD-Green reform policies had been unable to produce on their own.

The party that stuck longest to the fiction that Germany was not an immigration country is now pursuing an aggressive integration policy under Wolfgang Schäuble. And under Ursula von der Leyen, the traditional image of the family is no longer the guiding light of German family policy.

This new consensus promoted by the CDU/CSU demonstrates how a Grand Coalition can work: through its partners' willingness to take risks. Much like the SPD in its Agenda 2010 phase, the CDU/CSU has embraced a more modern social policy as a member of the Grand Coalition. After 2003, the SPD learned that changes like this are not necessarily rewarded at the polls and are sometimes even punished. Today, the CDU/CSU must feel some trepidation when it considers the capability of its more conservative constituency to be mobilized. [...]

There used to be a sounding board for ideologically charged issues in every election, but after four years of the Grand Coalition this sounding board has ceased to exist. Agitation against foreign nationals is only a marginal phenomenon. Even the polemical attacks against environmental and climate protection policies – once typical of the anti-green tone taken by both coalition parties – have long become outdated. At the end of this legislative period, the country seems more tolerant, more liberal, and more ecological than at the start. Whereas the first Grand Coalition from 1966 to 1969 was formed in a polarized society, the second has been an exercise in détente.

### **The Horrors of the Crisis**

Psychological conditions had therefore been good until the financial crisis broke out after the Grand Coalition's third year in office. It would not have been surprising if the worst economic crisis since the 1930s had unhinged the economy-obsessed Germans. When, at the height of developments, the chancellor and her finance minister unexpectedly went before the public and guaranteed savings deposits in Germany, no one knew whether their efforts would calm the population or really cause panic.

When the global collapse suddenly transformed the state into a prominent player, it seemed as though the Grand Coalition had been forged for a second time. Was this not the kind of challenge that would give this unusual alliance an opportunity to really show what it was made of? At any rate, it can be said that the partners never acted more unanimously or with greater resolve than when faced with the horrors of the unfolding crisis. In a series of lightning quick actions, they steered a bank rescue package through the parliament and passed the first economic stimulus program, a rescue fund for teetering companies, and then a second stimulus package. The SPD had always been fond of pinning the "Social Democratic" label on the Grand Coalition led by Angela Merkel, but now that a CDU chancellor was nationalizing banks and saving ailing car brands, it suddenly seemed amazingly fitting.

The Grand Coalition succeeded in stabilizing the German banking system, softening the blow of the economic collapse, and shoring up the labor market. The politicians continue to look back on these achievements with a kind of disbelieving pride. The cash-for-clunkers program may very well prove to be nothing more than a several-billion-Euro delay of the inevitable car industry crisis, and rescuing Opel may turn out to be a case of market-distorting interventionism without any prospect of economic success, but such skepticism today hardly detracts from the dizzying success of the Grand Coalition's crisis managers. So far they have managed to guide the country through the crisis remarkably well. Despite their modesty, this has been a kind of heroic political experience.

But the anti-confrontational satisfaction exuded by successful political leaders is just one aspect of the

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current election year, which is also marked by a lack of communication between these leaders and the people. There is a widespread suspicion in the public that the real dimensions of the crisis are not yet known. But this is the very terrain that the governing parties are trying to avoid in their election campaigns. Perhaps they know just as little about what is in store for the country as their voters. Yet there might be something misleading about the calmness with which these voters are accepting the well-worn election mottos. The Grand Coalition can present a tolerable balance sheet, and yet the two large parties – and not only the ailing SPD – could pay a heavy price on September 27. In return for four fairly successful years of work.

Source: Matthias Geis, “So war’s!”, *Die Zeit*, no. 39, September 17, 2009.

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Recommended Citation: The Balance Sheet of the Grand Coalition (September 17, 2009), published in: German History in Documents and Images, <<https://germanhistorydocs.org/en/a-new-germany-1990-2023/ghdi:document-4079>> [March 06, 2026].