Germany Breaks With Its Clubby Business Past
Mark Landler

It has become a familiar tableau in Germany during this season of scandal, even if the names of the disgraced and the details of their misdeeds change from one case to the next.

On Monday, the police fanned out across Germany, raiding the homes and offices of suspected tax evaders in Munich, Frankfurt, Hamburg, and Stuttgart. They carted away boxes of documents, adding to the mountain of evidence in a tax evasion case that is only the latest sensational scandal here.

From the investigation of bribery at Siemens to the prosecution of illicit conduct at Volkswagen, the German business world is undergoing what amounts to a painful national cleansing process — trying to rid itself of patterns of behavior that, it is finding, are not accepted in an increasingly global economy.

“We’re seeing a change of spirit,” said Jan Pieter Krahnen, director of the Center for Financial Studies at the University of Frankfurt. “Things that were once tolerable are no longer acceptable.”

Tax evasion was never legal in Germany, unlike, say, payoffs to foreign officials, which were not only lawful but tax deductible as recently as 1999, a point sometimes raised by those sympathetic to Siemens.

But tax experts say many Germans have long viewed it as a form of sport to avoid their country’s high tax rates by sheltering their money in havens like Switzerland, Austria, Luxembourg and Liechtenstein, the Alpine principality that is the focus of this investigation.

“A lot of Germans are not aware this is a serious crime,” said Manuel René Theisen, a professor of tax law at the University of Munich. “And the sense of it being a game is true on both sides: The state is looking for the people’s money, and the people don’t want to give it up.”

Now, though, such ethical laxity is colliding with the new boldness of German tax authorities. Prosecutors have obtained arrest warrants for as many as 700 suspected tax frauds, officials here said, using data on a computer disc that had been stolen from the LGT Group, a banking company in Liechtenstein.

The tax scandal has already claimed one of the most prominent corporate leaders in Germany, Klaus Zumwinkel, who was apprehended in a raid last Thursday on suspicion that he used Liechtenstein to evade 1 million euros, or $1.46 million, in taxes. He resigned the next day as chief executive of the German postal service.

Prosecutors said little about the targets of the raids Monday, which cut across the country and included the Frankfurt and Munich offices of Metzler, a centuries-old private bank that caters to rich customers.

“We do not give any information on places or actions,” said a spokesman for the prosecutor in Bochum, Germany, whose office is coordinating the investigation. “We do not want to create a scavenger hunt.”

But with talk that sports stars and other celebrities may be involved, the case is likely to keep Germany in thrall for weeks. Chancellor Angela Merkel of Germany said she would raise the issue with Liechtenstein’s prime minister, Otmar Hasler, when he visits Berlin this week. And the mere threat of prosecutions may be enough to prompt some tax evaders to confess.

Andreas Böhm, a partner at a Berlin law firm, Böhm Law Office, said that since Thursday, twice the normal rate of people had asked about reporting their own tax evasion. They ranged from small fry to high earners who genuinely have something to fear, he said.

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“Some people want to clean their conscience and sleep better,” Böhm said. “Others want to avoid going to jail.”

Germany’s top individual tax rate is roughly 45 percent, comparable to other European countries like Spain and Italy. But an extra church tax can push the total rate to half of a high-earning person’s income.

Even more than the Siemens and Volkswagen corruption cases, the tax scandal is stoking bitterness toward the German business elite, whom many ordinary Germans view as greedy and unaccountable.

A study released here Monday said that the compensation of senior German executives rose 17.5 percent in 2007, at a time of stagnant wage growth, according to the Kienbaum executive search firm.

At Siemens, the engineering giant, investigators uncovered “suspicious payments” of 1.3 billion euros, which they say they believe may have used over the years as bribes to win foreign contracts. The company’s chief executive and chairman lost their jobs in the ensuing furor.

At Volkswagen, the personnel chief, Peter Hartz, pleaded guilty to paying off the carmaker’s union leader to win his support for company policies. Volkswagen also financed visits to prostitutes, according to prosecutors. Mr. Hartz received a two-year suspended sentence and a fine.

“The clubby atmosphere still exists in Germany,” Mr. Krahnen said, “but it is disappearing quickly. We’re going in the direction of a more level playing field, more capital-market-oriented.”

The public struggles in Germany are in marked contrast to its neighbors, France and Italy. In France, where a lone trader at Société Générale is under investigation for running up huge losses, raising question about its controls, the bank’s board and the French business elite rallied around the chief executive, Daniel Bouton.

By one account, Germany’s drift toward global standards began with reunification in 1990, which imposed a colossal financial burden on the country. It ultimately spent more than $2 trillion to rebuild the East’s tattered infrastructure, requiring it to become a net importer of capital.

For German corporations, the change meant that investors in London and New York, rather than Frankfurt, wielded greater influence. And these investors wanted to know that the German business style was evolving away from its clubby roots toward something they recognized.

“Unification meant that Germany had to play by the rules of international capital markets,” said Paul Achleitner, chief financial officer of Allianz, the German insurer, during an interview before the scandal broke.

Germany’s blue-chip companies — Siemens and Volkswagen, among them — were wrenched abruptly into this new era of shareholder rights and stricter corporate governance. But the wealthy, family-owned companies that form the backbone of Germany’s manufacturing base — the so-called Mittelstand — have experienced the change in a much milder form.

The German news media have reported that no prominent executive from a German blue-chip company was implicated in the scandal. If that turns out to be true, experts said, a reason may be that these executives have more experience with the exigencies of global norms and ethics.

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The widespread tax evasion may also reflect a generally sour mood in Germany, one in which many sides feel like the victims, said Ulf Posé, the president of the Ethics Association of German Business, a group formed in 2002 to address moral questions for business in a global era. That conviction, he said, stems from people’s penchant for comparing themselves to their peers. Executives can look to Britain and the United States and see salaries far greater than in Germany. Lower-earning Germans, in turn, look at their own society and see rising inequality.

“You have this kind of behavior when taxpayers feel they are treated badly,” Mr. Posé said. “This happens in small and large form in Germany.”

Deutsche Post Names Chief

FRANKFURT — The supervisory board of Deutsche Post named Frank Appel, head of its logistics and international mail division, as chief executive on Monday, succeeding Klaus Zumwinkel, who resigned during a tax evasion inquiry.

Mr. Appel, 46, has a contract running until Oct. 31, 2012. The supervisory body also agreed to extend the contract of the chief financial officer, John Allan, by two years until the end of 2010, the company said.

Mr. Zumwinkel, 64, had led Deutsche Post for 18 years.

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