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# Germany's Shadow Economy

## Undeclared work is growing, but remains moderate

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May 2, 2025

At the beginning of the year, I addressed the topic of [citizen's income](#) (known as "Bürgergeld" in German) in this column. Undoubtedly, one of the most emotionally charged issues in Germany's economic and social policy. My conclusion after analyzing the data was that hopes for significant cost savings through a reform of citizen's income are unattainable. Conservative parties, in particular, had argued during the election campaign that a reform could be used to finance investments. This is not only due to the composition of the recipients of citizen's income, who typically do not consist of hordes of able-bodied slackers, but primarily of people who are not allowed to work (children, teenagers, Ukrainian refugees) or cannot work (lack of qualifications, disabilities), or indeed those who are working but earning insufficiently and need to supplement their income.

Now, the upcoming coalition has agreed on the "abolition" of the citizen's income, as the Chancellor's party triumphantly announced. In reality, it's more of a rebranding. Old wine in new bottles. Because abandoning an orderly procedure for securing the minimum subsistence would be unconstitutional. Germany's Federal Constitutional Court has [ruled clearly](#) on that.

Of course, there are always cases of social fraud. How could there not be with millions of recipients? The state cannot simply tolerate abuse at the expense of taxpayers. Who would doubt that? But we must keep things in perspective. The estimated costs of citizen's income fraud amount to about €270 million per year (2022). That's significant. But it pales in comparison to the estimated €100 billion that the treasury loses every year due to tax evasion, through offshore accounts, organized tax avoidance, or – very importantly – undeclared work.

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**Old wine in new bottles**

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**Undeclared work is a bigger problem than social fraud**

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Germany's undeclared work in the middle of the pack

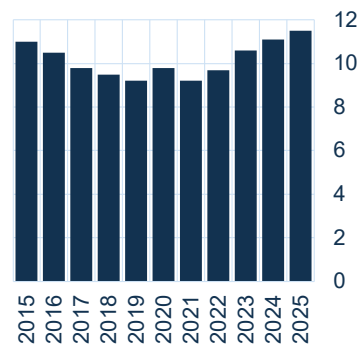
Which brings us to the topic at hand. I rarely received as much feedback as I did on the analysis of citizen's income mentioned. But I almost expected that. By far the most frequent objection was that it is all well and good that with work one has more in their pocket than a recipient of citizen's income. But the gap is too small. Therefore, more is earned by those who combine citizen's income with undeclared work than those who honestly toil for 40 hours a week at minimum wage. That is, of course, true. But it is less a problem of citizen's income than of undeclared work. And who doesn't have anecdotes from their extended circle of acquaintances about household services offered and paid for under the table? But of course, that only happens to others, never to oneself!

But how big is the problem really? The answer to this question is necessarily fraught with great uncertainty, since undeclared work is, by definition, immeasurable as it takes place in the shadows. Nevertheless, there is established economic research on the topic that estimates the extent of undeclared work.

Figure 1 shows that there is a slight upward trend in the volume of undeclared work in Germany. When the government introduced citizen's income in 2023, informal employment relationships increased. Researchers attribute the rise in recent years to the poor economic situation. Therefore, it is not conclusively proven that citizen's income has fueled undeclared work.

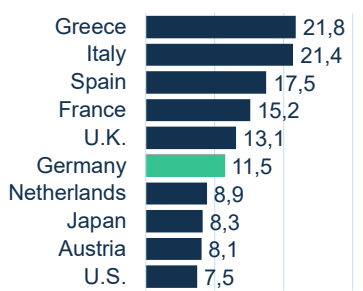
The problem of undeclared work is indeed serious, but it is not excessively prevalent in Germany (see Figure 2). Undeclared work is illegal and must be combated. But what also needs to be combated are generalizations that spread supposed hearsay knowledge.

Fig. 1: Germany's Shadow economy (% of GDP)



Source: Institute for Applied Economic Research University of Tübingen, LBBW Research

Fig. 2: Shadow Economy 2025 (% of GDP)



Source: Institute for Applied Economic Research University of Tübingen, LBBW Research

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