

THE WASHINGTON POST – 30 APRILE 2026

The American economy's biggest problem? Running out of workers

di Matthew Lynn

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The American economy has so many challenges right now that keeping track of them all can be exhausting. But here are a few: The price of gas is soaring, no one really knows if President Donald Trump's tariffs are legal or illegal, an artificial intelligence bubble is running out of control on Wall Street, and the budget deficit is so large no one wants to think about it.

And yet the biggest challenge is structural. The United States is [running out of workers](#) at the same time that it decided to close its doors to the immigrants who traditionally kept the whole machine running.

Construction sites are [in need of laborers](#), farms [can't find pickers](#), and restaurants [are short](#) of kitchen staff. None of these are glamorous jobs, but they are essential ones. The economy does not run on chief executives and software engineers alone. It runs on the vast, unglamorous army of people who build things, move things, clean things and serve things.

That army is shrinking.

It is not hard to see why. An economy where [nearly one-fifth](#) of the labor force is foreign-born has suddenly decided to cut off the supply of new workers. [Net immigration](#) fell from 2.7 million people to about 1.3 million between July 2024 and June 2025. It has [fallen further](#) since then and may well be running at zero, or below, by now. Visas have been denied, people are leaving, and many more have decided not

to come. The videos on social media of aggressive Immigration and Customs Enforcement agents have done their job.

We can all argue about whether this is right or wrong. Conventional wisdom tells us that immigration is always good for the economy. But countries [such as Britain](#) and Germany have recently managed to combine [historic levels](#) of immigration [with stagnant growth](#). The Econ 101 crowd may be sticking to a textbook that is badly out of date. But one point is clear: If you are going to slash the number of migrants, you need to make sure your existing population is working as hard as possible.

The trouble is, Americans are doing the opposite. At the same time immigration has collapsed, the workforce participation rate [is abysmally low](#). It hit [61.9 percent](#) in March, which, excluding the pandemic of 2020-2021, is the [lowest since 1977](#). The Bureau of Labor Statistics projects it will fall by another 1.5 percentage points over the next decade. Even more worryingly, the decline is driven in part by 16-to-24-year-olds working less, which hardly bodes well for the future. The U.S. now has fewer immigrants and fewer Americans working as well. It hardly takes a doctorate in economics to figure out that is a big, big problem.

One solution would be to throw open the doors again. Many employers, who are always in favor of excess cheap labor, are arguing [for precisely that](#). Hand out a million visas and the problem will be solved, right? Well, perhaps.

A better way of fixing the problem is to get more Americans working.

This is not an impossible task. The [One Big Beautiful Bill Act](#) includes a couple of minor steps in the right direction. It provided a new tax deduction for people over 65, and made tips effectively tax-free, which will make service work more rewarding. It is a start, even if only a minor one.

But why stop there? If the goal is to keep older Americans in the workforce, why not give employed retirees a lower income tax rate? That would provide a meaningful incentive to work, have a huge impact on the labor supply and might even pay for itself. After all, it is possible that many Americans retire not because they are exhausted, but because they no longer find it financially worthwhile. Change the math, and some of them will work longer.

The same logic should work at the other end of the age spectrum. Young Americans are drifting out of the workforce, perhaps in part because they are [staying in school longer](#), and possibly because they feel that baby boomers are hogging all the best jobs. But financial incentives may play a role too. A targeted tax deduction for under-25s in their first jobs would make starting a career more financially attractive.

Finally, there are parents. Only 71 percent of [American mothers work](#), compared with 92 percent of fathers. Sure, juggling kids and a career is tough, but there are plenty of ways the government could help. The [economics of child care](#) are brutal: Placing a toddler in day care consumes a greater percentage of a couple's income in the U.S. than most developed nations. Loosening staff-to-child ratio regulations, lowering educational qualifications and perhaps [integrating AI](#) into child care could go a long way toward changing that.

As is often the case, the Trump administration has half a good idea but implements it so chaotically that it falls apart in practice. America needed a reduction in immigration. It was what voters asked for. But that must be combined with a coherent policy for getting Americans back to work. Right now, the White House is barely even trying.