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How Should Progressives Respond to the Next Recession?

By Zehra Khan

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How Should Progressives Respond to the Next Recession?

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By Zehra Khan

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Introduction

President Donald Trump inherited a historically strong economy when he took office in January. But rather than build on that strength, the Trump administration has implemented an erratic agenda that has only made the US economy more fragile, more unequal, and more vulnerable to future shocks and downturns.

Within his first year, President Trump has launched frenzied trade wars on global allies that have [upended supply chains](#), [raised input costs](#) for US businesses, and [driven up prices](#) for consumers on everyday goods—from cars to groceries. His budget plan guts federal science funding by [roughly one-third](#), which will sap American innovation and ultimately [depress growth](#) in the long term. His regressive tax cuts for corporations and the ultra-wealthy will [balloon the national debt](#) without meaningfully boosting investment or wages. And his moves to enact policies like [mass deportations](#), [mass layoffs of federal workers](#), and [deep cuts to vital programs](#) like Medicaid and the Supplemental Nutrition Assistance Program (SNAP) all seem more aimed at destabilizing working families than strengthening the foundations of our economy. Taken together, the Trump administration's reckless policies risk steering the country straight into the next recession.

If that happens, policymakers are not in uncharted territory. The last major downturn, induced by the COVID-19 pandemic, was met with a recovery that proved to be the fastest [since World War II](#). That success was no accident. It showed us that when policymakers act boldly—with rapid fiscal relief, expansive monetary policy, and targeted support for workers and families—the economy can recover quickly and broadly. Policymakers should use those lessons, including what they've learned about inflation risks, as a starting point for any future recession responses.

Quick, Robust Fiscal Stimulus for Families

The United States has been responding to recessions with fiscal stimulus for nearly a century, beginning with the New Deal in the 1930s. More recently, stimulus measures have become a standard policy to revitalize the economy, from the Bush-era tax cuts in 2001 to the American Recovery and Reinvestment Act (ARRA) in 2009 to the multiple relief packages enacted in 2020–21 during the COVID-19 crisis.

But not all stimulus is [built equally](#) [PDF]. For example, tax relief has [been shown](#) to do less to boost the economy than direct government spending. Thus, while the Bush tax cuts in 2001 and 2003 were marketed as a way to spur growth after the dot-com recession, these cuts [failed](#) to grow the economy, widened deficits, and exacerbated income inequality. In 2009, ARRA provided about \$831 billion in targeted support over 10 years, but over time this stimulus was widely seen as [too small and too slow](#) to fully address the scale of the financial crisis. Not only was ARRA undersized, but about 35 percent of the stimulus went to less-effective tax relief. With unemployment high and demand weak, the limited scope of the stimulus left many families struggling, slowing the recovery.

The Obama administration operated assuming that it could simply return to Congress to request more aid if initial efforts fell short. But that assumption proved shortsighted, as political appetite for additional stimulus quickly waned; in fact, the government pivoted to deficit reduction even while the economic data still favored more stimulus. This experience highlighted the need to go bigger with stimulus up front in the face of future recessions—trusting that if the economy overheats, the Federal Reserve can [step in](#) to cool things down.

The 2020–21 response marked a significant departure from previous minimalist approaches, recognizing that rapid, large-scale fiscal stimulus is essential for a strong rebound and leaving real-time inflation management primarily to monetary policy. The Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan (ARP) provided roughly \$4.1 trillion in direct, rapidly deployable aid to families, businesses, and states. The bills sent universal relief checks to individuals and expanded critical support programs, including the biggest-ever expansion of unemployment insurance, an expanded child tax credit, an eviction moratorium, and rent relief.

These expansions prevented millions of families from plummeting into financial free fall and jump-started a historically strong [economic recovery](#). Unemployment fell at record speed, labor force participation increased, long-term unemployment declined, and GDP growth outpaced forecasts. The poverty rate dropped to historic lows, and the economy avoided the [long-term scarring](#) typical of deep recessions. Not only did the US recovery outpace peer economies' in returning to and exceeding pre-pandemic trends, but it also kept [millions out of poverty](#) and broke a decades-long streak of permanent economic losses from recessions.

Of course, any discussion of the pandemic recovery must also grapple with the central and ongoing concern of inflation, which has understandably shaped how policymakers and the public assess recession policy. There is a legitimate and ongoing debate about how much inflation was driven by stimulus versus other factors—such as pandemic-related supply disruptions, the war in Ukraine, and corporate price gouging. On the supply side, bottlenecks in shipping and energy constrained production just as demand surged, while on the demand side, elevated household savings fueled a sharp rebound in spending that outpaced supply. Some analysis suggests that [roughly one-third](#) of inflation stemmed from supply shocks—such as shipping delays and energy and food disruptions from Russia's invasion of Ukraine—and [demand-driven pressure](#) accounted for much of the remainder. These demand effects were unusually pronounced in the pandemic's wake, as spending [swung sharply](#) from goods to services and then back again, coupled with significant shifts between [housing and nonhousing](#) price pressures. At the same time, analysis shows that corporate price gouging contributed significantly, with [some estimates](#) attributing over half of inflation in mid-2023 to markups that persisted even after costs fell. Taken together, these dynamics created a uniquely challenging inflation environment. Despite the confluence of shocks, inflation had largely moderated by late 2024, averaging near or below [2 percent](#) for the second half of the year.

Inflation risks should be carefully considered in both fiscal and monetary responses, but, in most recessions, striking the right balance does not and should not stand in the way of bold, necessary action. This is especially important when viewed through the lens of political feasibility. As 2009 illustrated, returning to Congress for additional aid, even when economic conditions clearly warrant it, can be prohibitively difficult—especially as budget deficits [predictably](#) increase during recessions. That difficulty makes it even more important to get the [scale and structure](#) of policy right from the outset, erring on the high side of stimulus and trusting that, in most situations, if the economy does begin to overheat, the Federal Reserve has the ability to identify when to step in and cool it down. The Fed also possesses far [stronger tools](#) to cool an overheating economy than it does to stimulate a weak one. Looking forward, monetary policy that balances the goals of price stability and full employment brings significant, lasting benefits, and fiscal policy should be designed to complement it, not prematurely undercut it.

Direct and Flexible Aid to State and Local Governments

A strong response should prioritize direct aid to state and local governments, giving them the flexibility to address urgent and evolving needs on the ground. Unlike the federal government, states and municipalities face much stricter [balanced-budget rules](#) and, in downturns, are forced to borrow at punishing interest rates. Without federal stimulus, they are often forced to slash services and scale back public investment at the moment when people need them most.

History shows the costs of underfunding. In 2001, the federal government provided no significant direct aid to local governments, pushing states and municipalities to manage budget shortfalls by cutting education, health services, and infrastructure spending. In 2009, ARRA included around \$144 billion in state and local aid, but it proved insufficient to prevent deep public-sector cuts, slowing the recovery by years and leaving lasting scars on schools, infrastructure, transit systems, and social services.

The [consequences of this austerity](#) over time have been profound: the hollowing out of public higher education and the resulting [college affordability crisis](#), the expansion of [regressive judicial fines and fees](#), and the chronic underfunding of new and critical [infrastructure projects](#), all pursued as desperate measures to generate revenue and patch budget holes in times of crisis.

By contrast, the pandemic response—mainly through the American Rescue Plan—demonstrated the power of [robust, direct, and flexible aid](#). States and localities had unparalleled discretion to quickly channel funds toward their most pressing needs, from public health and housing stability to small business support, education, and broadband access. But beyond providing immediate relief, the flexible funds from the ARP allowed state and local governments to think creatively about how to spark a more expansive trajectory for economic opportunity and growth, which [states and cities modeled across the country](#). For example, ARP funds enabled Charleston, West Virginia, to open a community grocery store in an underserved Black neighborhood; allowed the Merrimack Valley Regional Transit Authority in Massachusetts to eliminate bus fares and expand service; and backed Johnson County, Iowa's \$400,000 investment in wage theft co-enforcement with the Center for Worker Justice of Eastern Iowa, building on research that documented widespread violations. Flexible federal aid enabled state and local governments to not just weather the crisis, but also experiment with bold initiatives that expanded access to education, housing, and transportation—laying the groundwork for more inclusive long-term growth.

Opportunities to Go Further

The federal government should view recession responses as opportunities to innovate with economic policy. When lending is cheap and additional public spending is needed to stimulate demand, government has a unique ability to direct dollars toward projects that both speed recovery and reshape the economy for the better—all with less downside risk than when labor markets are strained. The response in 2009 emphasized “shovel-ready” projects that provided a useful starting point, but it underinvested in deeper structural transformation. By contrast, the pandemic response learned from that experience, building on immediate relief with ambitious investments through the Bipartisan Infrastructure Law (BIL), the Inflation Reduction Act (IRA), and the CHIPS and Science Act. Together, these bills combined the goal of ensuring adequate stimulus with the need to make investments that modernize our physical and digital infrastructure, strengthen domestic manufacturing in critical industries, and accelerate the clean energy transition.

Targeted support for workers facing disruption from the clean energy transition could offer policymakers a high-return use of federal resources. [History shows](#) that workers and regions left behind by structural shifts, whether from trade liberalization or energy transitions, often endure long-term stagnation when policies do not fairly compensate for the losses. In the next recession, using stimulus to provide wage and benefit replacement along with retraining assistance to displaced fossil fuel workers can help prevent whole communities from experiencing economic free fall. This kind of spending also has the potential to be less inflationary than broad-based stimulus, since it shores up income for a relatively small group while ensuring that the costs of decarbonization do not fall disproportionately on vulnerable regions and workers. Recognizing the need to

balance effective stimulus with inflation concerns, policymakers should build in thresholds for higher spending on programs like these.

Policymakers should also use downturns to test new ownership and financing models that can reshape markets in the long term. In the context of housing, government could invest in building [public housing](#) [PDF] rather than simply incentivizing private developers. Because a public developer would not need to generate a private-sector rate of return, rents and prices could be set substantially lower, with any modest surplus reinvested into future construction. This approach would not only expand supply but also promote affordability in the long run.

Here, policymakers should also experiment with dedicated programs to address the shortage of skilled labor in housing construction, which has continued to [drive up costs](#). The construction workforce has never fully recovered since the 2007 housing market collapse, with [projections suggesting](#) the industry is short at least 500,000 workers. Applications to trade schools for carpenters, electricians, and plumbers have [fallen](#) nearly 50 percent, further tightening the pipeline of skilled labor and raising the cost of building. Without intervention, even public housing investments risk being hamstrung by labor shortages. To prevent this, Congress or state governments should establish a [dedicated workforce development initiative](#) [PDF] for the building trades, attracting and retaining workers in a critical industry.

Finally, recession responses should go beyond sector-specific interventions to tackle structural imbalances across the economy—especially ones that impede future growth. Excessive market power and extractive business models have [inflated prices](#) [PDF], [suppressed wages](#), and [stifled innovation](#) [PDF]. The Biden administration took transformative steps to institutionalize and [promote competition](#) across the economy, but more must be done. That begins with ensuring that the Federal Trade Commission (FTC) and the Department of Justice, which both have near economy-wide jurisdiction, have the funding needed to vigorously enforce the laws of fair competition. The FTC, for example, has fewer staff than it did in 1980, even though the economy has become vastly larger and more complex in the intervening 45 years. Adequately funding these agencies would strengthen their ability to litigate cases and have the largest impact, creating [cascading benefits](#) like making our supply chains more diverse and resilient, bringing down costs for essentials, and clearing the way for innovative new firms to compete and grow.

Conclusion

The next recession is not inevitable—but if it comes, policymakers have the tools and the knowledge to respond swiftly and effectively. The pandemic-era response showed what is possible, displaying the immense economic benefits of responding with sufficient urgency and scale. It demonstrated that policymakers should prioritize robust, well-timed fiscal stimulus that directly supports families, workers, and state and local governments; empower the Fed to address inflation by supporting full employment rather than prematurely sacrificing worker gains; and use the recovery to build long-term economic resilience, just as the Bipartisan Infrastructure Law, CHIPS and Science Act, and Inflation Reduction Act began to do in the years following the pandemic.

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