

A Proposal for the Income-Targeted Distribution of ARPA funds in Brattleboro

Introduction

Although COVID restrictions are behind us, the economic effects of the virus cannot be simply cancelled. The announcement by Congressman Peter Welch that the town of Brattleboro will be receiving \$3.3 million in federal stimulus funds was welcomed with enthusiasm. As he put it, “Brattleboro knows what it’s had to deal with.” Brattleboro has dealt with economic strain on individual and communal levels. The ARPA funds present an opportunity to give the local economy a shot in the arm which can propel it quickly through recovery and onto growth. Specifically, it presents an opportunity to relieve economic stress among households least able to bear it, and give them the resources to recover and play a vital role in the local economy. This proposal aims to do just that by advocating the dispersal of the stimulus funds to Brattleboro households with income below the median. This equates to roughly 1650 out of the 3300 households in Brattleboro each receiving a one-time payment of \$2000.

This proposal is broken into two sections. The first provides an explanation and rationale for the direction of these funds to low income households. The second describes and evaluates methods of dispersing the funds.

Why Income-Targeted?

One of the distinct manners in which the nature of direct federal stimulus payments has changed over the course of three rounds has been their increased means-testing. While all single filers under \$75,000 and joint filers under \$150,000 received the full amounts (\$1200, \$600, and \$1400, respectively), the phase-out of payments to high-income earners and income limits more generally have been steadily reduced; while the first payments capped out at \$198,000 per married couple, the most recent payments capped out at a mere \$160,000. This more focused targeting was by design. Direct stimulus payments are an expensive proposition, and the more universally they are dispersed, the more expensive they get. Moreover, the velocity with which the funds circulate through the macroeconomy diminishes considerably for higher income households; the consumption needs and wants of a household earning \$150,000 per year are largely already met, whereas those of households earning \$50,000 have not been. Therefore, high income households receiving stimulus payments are more likely to save them (a low-velocity option), while low income households are more likely to spend them (a high, and potentially very high, velocity option). Thus, focusing the stimulus payments on low and middle incomes results in a greater boost to consumption (and consumption-led economic growth) per dollar spent.

Brattleboro must engage in even more focused targeting with its stimulus funds, for several reasons.

The first is that there is simply not that much money to go around. There are roughly 9000 adults in Brattleboro, dispersed across roughly 3300 households. Giving every adult in Brattleboro an equal payment would yield \$365 per person; giving an equal payment to each household would yield \$1000. In either case, the results, while undoubtedly appreciated to varying degrees by all recipients, would be minor. High income households would barely notice a difference in their standard of living, while low income households would spend every dollar (and wish for another 3-5 payments). A \$1000 per household payment to all households would raise median income in Brattleboro by approximately 2.6%.

Compare this with the impact of issuing equal payments to each household below Brattleboro's household median income (by definition, the poorest half of all households). Brattleboro has a poverty rate of 20.9%, and a median household income of about \$38,000. Equal payments to sub-median income households would amount to \$2000 each. This would increase the standard of living of all recipients by a minimum of 5% per household, with many seeing their annual income rise by far more in percentage terms. Moreover, over 40% of all recipients would be below the poverty line. Such a large stimulus payment, in the hands of Brattleboro's poorest households, would not merely fight poverty directly, but also ensure that the payments are rapidly spent in the local economy. Thus, all would benefit from a healthier and more equal economy, and those with the most need would benefit most directly.

Second, such a targeted measure is important when one considers Brattleboro's economy in comparison with the state as a whole. Brattleboro has clear strengths and weaknesses, and this form of stimulus addresses each. The strengths include a high rate of college education among residents, and a more equal distribution of income than the state as a whole. These strengths reflect a natural tendency towards a middle class economy, and are at odds with Brattleboro's weaknesses, especially its lower per capita and median income compared with Vermont. Brattleboro consumers simply have less disposable income than consumers elsewhere in Vermont, and this results in less money spent at local businesses, in a self-enforcing dynamic which invariably produces a consistently lower average standard of living. Sub-median income household stimulus payments present an opportunity to fight this problem with artificial but lasting growth. Median income would rise, implying an increase in average disposable income which can be spent on local consumption, and the bottom 50% of households would see their income more closely approach the median, simultaneously reducing both poverty and the rate of inequality in Brattleboro. An economy flush with disposable income and with a growing middle-income group is one poised for demand-led growth; increased demand for goods and services forces competitive businesses to increase their supply, hiring more workers and stocking more inventory. Truly a virtuous cycle.

Dispersal Methods

While giving households direct payments sounds simple, the devil is in the details. The natural tendency is to send out checks. After all, if the federal government can do it, why wouldn't the town? The problem is that Brattleboro has an Internal Revenue Service keeping track of everyone's annual income, as well as their banking information (as most filers have their refunds directly deposited), and can easily send out means-differentiated payments *en masse*. Simply put, the federal government already has the infrastructure. Brattleboro does not. Any attempt to administer the oversight of direct household payments in Brattleboro would be costly, reducing the total amount which can be distributed. In economic terms, such an approach results in sizable deadweight loss.

The most efficient dispersal mechanism is, as the federal government found, through the tax code. Specifically, Brattleboro has the option of using the stimulus funds to pay for what are effectively fully-refundable tax credits for the poorest 50% of households. Within this approach lie several options, each with distinct pros and cons related to the timing with which the payments are received.

1. **Advanced Premium Tax Credits:** Brattleboro can work with the Vermont Department of Taxes to determine household eligibility and provide eligible recipients with an advance premium tax credit, paid out immediately. These credits would be similar to those received by low-income participants in marketplace health insurance, who receive advance premium tax credits in the form of healthcare subsidies paid directly to their provider. Such payments would provide the bulk of their economic benefits in late 2021, assuming swift passage of this proposal, as it can be assumed that the largest portion of stimulus payments will be spent immediately given the relative consumption needs of the recipients.
2. **Advanced Premium Tax Credits and Prepaid Tax Withholding:** Similar to option one, but with a twist: while the Vermont Department of Taxes would still be asked to provide immediate payments via APTCs (perhaps half the amount recipient households will be receiving in total), a portion of the total payment would also be paid as the equivalent to estimated taxes, used to increase the total federal and state tax withholding of recipients. For instance, \$1000 per household could be paid out immediately, while \$600 federal and \$400 state taxes per household would be paid in advance, reducing any taxes they may owe for 2021 (and in most cases, increasing their net tax refunds). This would have the effect of increasing the standard of living of the poorest half of households in not only 2021, but also 2022. A split approach including direct payments and lower effective taxes

would therefore provide a longer-term boost to Brattleboro's economy than direct payments alone, at the cost of a lessened immediate impact.

3. **Prepaid Tax Withholding:** This option would see the payments provided to recipient households purely in the form of increased tax withholding, in the same manner described in option two. This approach would have the effect of providing a large economic boost in early 2022, rather than 2021. The natural question to ask is, of course, why wait until 2022? While seemingly counterintuitive, this option would have the benefit of wise timing. Households received large stimuli in both 2020 and 2021; a household with two adults and two children with adjusted gross income below the \$150,000 limit received \$5800 in 2020 and \$5600 in 2021 (so far). The effects of these stimuli are still being actively felt in most sectors of the economy, and additional payments in 2021 will suffer from diminishing returns, especially a lower marginal propensity to consume among recipient households. Compare this with 2022, when economic circumstances are expected to have largely normalized and further federal stimulus payments are unlikely; dollar for dollar, a Brattleboro stimulus payment to low income households would have a greater economic impact in 2022. This would, however, be at the price of a more robust immediate recovery, due to the delay in dispersal.

Each option accomplishes the same goal, getting large payments into the hands of households that need them. The option chosen should reflect the policy goals and self-assessed needs of Brattleboro itself; does the town wish to benefit a lot immediately, a lot a year from now, or quite a bit for quite a while?

Conclusion

The lasting impacts of using the funds in the manner proposed herein would be:

- An increased per capita and median income, felt to a diminishing extent throughout the entire income distribution and concentrated at the bottom
- Reduced inequality and a more robust "middle"
- A reduction in Brattleboro's poverty rate, which is very high compared with the state and nation as a whole
- Increased disposable income among those with the highest propensity to spend/consume, resulting in higher profits and faster growth for local businesses

There are undoubtedly many ways in which Brattleboro can spend \$3.3 million. BCS believes that allocating the funds to those who need them most will be most likely to produce the rising tide which lifts all boats, helping Brattleboro sail into a healthier economic future.