One of the interesting elements of Paul Ryan's budget plan is the proposal for an 8.5% consumption tax to replace the corporate income tax. Consumption taxes, like the European VAT, have well-known pluses and minuses, described in a Brookings discussion. They are appealing to economists because they encourage saving. As the European example shows, they can be also be appealing to progressives as a way of financing a robust public sector. They also encourage exports because of a technicality in international trade law. On the other hand, consumption taxes are regressive (because the affluent consume a lower percentage of their income). And according to Brookings they amount to a "huge tax increase on old people" who are spending down their savings in retirement.

Putting all of these admittedly important issues to the side, what about consumption taxes and the environment? Here, I think consumption taxes look good, for three reasons.

First and foremost, consumption taxes can benefit the environment simply because taxing something discourages it. Consumption drives production, so if you tax consumption and discourage it, you also cut back on all of the environmental externalities associated with production. For example, if Ryan's tax raises the cost of gasoline by 8.5%, it would provide an incentive to drive less and buy more fuel-efficient cars. That would reduce urban air pollution and cut greenhouse gases. The same would be true of the price of electricity, which would also go up by 8.5%.

Second, to reiterate a point made earlier, using a consumption tax would make it easier to give government agencies like EPA the support they need to do their jobs. The reason is that consumption taxes aren't very visible consumers since they're folded into the price of goods and services. Consequently, there's less political resistance to tax increases. That's why many conservatives oppose a VAT.

Third, a consumption tax should push down interest rates to the extent more money flows into savings, and that translates into a lower discount rate for cost-benefit analysis. (Though the lower interest rate could again be a problem for older people living off of savings.) Most environmental regulations involve long-term benefits, and a lower discount rate makes them more appealing from an economic point of view. This matters because all regulations are subject to cost-benefit analysis under the supervision of the Office of Management and Budget.

While Ryan's support for the idea does not necessarily mean that a consumption tax is politically viable, being endorsed by a major party national candidate is clearly a

positive side. The environmental benefits obviously are only one factor in the overall assessment of a consumption tax, and they may well be outweighed by the negatives. Still, having Ryan on the ticket may at least prompt more discussion of the pros and cons.