Treasury Secretary Yellen’s push for a global minimum corporate tax undermines free markets and hurts developing nations

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“The corporate income tax is the least efficient tax base, and it makes sense for countries that want to attract investment and improve their standard of living by cutting their corporate taxes.”

A leading corporate tax policy expert said Treasury Secretary Janet Yellen’s push for a global minimum corporate tax is part the political left’s larger push to eliminate economic competition and undermine the free markets.

Chris Edwards, director of tax policy studies at the free-market Cato Institute said Yellen and President Biden want other developed nations to agree to higher corporate tax rates in a misguided effort to ensure the U.S. doesn’t lose too much investment under Biden’s plan to raise the U.S. corporate tax rate to fund his $2.3 trillion infrastructure proposal.

Biden’s proposal to raise the corporate tax rate to 28% from 21% would push the U.S. from the middle of the pack among major economies to near the top. His plan would also impose a 21% minimum tax on U.S. companies’ foreign income, remove an export incentive and raise taxes on some foreign companies’ U.S. operations.

According to Edwards, “Tax competition between countries is a good thing, not a bad thing as Yellen claims. The same way that competition between businesses promotes efficiency, tax competition creates pro-efficiency benefits between countries for the provision of government services.”

Edwards said that without international competition, governments are monopolies, and all economists know that monopolies are bad. “Yellen should know that competition helps restrain the dangerous monopoly power of governments.” Edwards added.

According to a chart Edwards posted at Cato, the U.S. corporate tax rate is already higher than the global average, and Biden’s plan would make the rate even less competitive.

Using data from KPMG for 2021, Edwards shows that the U.S. federal rate is 21 percent and the average state rate is 7.5 percent. Taking into account that state corporate taxes are deducted against the federal tax, the current U.S. federal-state rate is 27 percent.

Edwards explained that low corporate tax rates are a tool states and developing countries use to attract investment, spurring economic growth and job creation. He cited the example of Ireland in the 1990s which attracted a lot of international investment and was able to grow its economy with a 12 percent corporate tax rate. He said the Paris-based Organization of Economic Cooperation and Development has pressured Ireland to raise its corporate tax rate for decades at the behest of higher-taxed European countries but Ireland has resisted.

“Yellen’s proposal is arrogant and bullying from the perspective of less developed countries,” Edwards said. “The corporate income tax is the least efficient tax base, and it makes sense for countries that want to attract investment and improve their standard of living to cut their corporate taxes. Just a few decades ago, Ireland was much poorer than Britain, but its implementation of a low corporate tax rate and other reforms has helped it grow strongly and almost catch up to Britain in living standards.”