Race to the bottom: Yellen makes case for global minimum tax rate

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The US Treasury secretary says a global minimum corporate tax rate will ensure firms pay their fair share — but critics say it's not that simple.

A global minimum corporate tax rate can help ensure everyone pays their fair share and will prevent companies from fleeing to countries with lower corporate tax rates, United States Treasury Secretary Janet Yellen said on Monday.

"Competitiveness is about more than how US-headquartered companies fare against other companies in global merger and acquisition bids," Yellen told the Chicago Council on Global Affairs in her first official remarks as treasury secretary.

Speaking ahead of this week's virtual spring meetings of the International Monetary Fund (IMF) and World Bank, Yellen touched more broadly on the US's role in the post-pandemic global economic recovery.

Yellen's remarks in favour of a global corporate tax rate come on the heels of President Joe Biden's $2.25 trillion infrastructure plan, which was unveiled last week.

Biden plans to pay the bill by hiking taxes on American companies from 21 percent to 28 percent – still well below the 35 percent they were in 2017, when then-President Donald Trump slashed them.

American firms currently pay roughly 13 percent on offshore earnings, and Biden is seeking to raise the global minimum tax rate to 21 percent.

"We are working with G20 nations to agree to a global minimum corporate tax rate that can stop the race to the bottom," Yellen said, referring to the phenomenon of firms fleeing high-tax-rate economies to set up shop in low-tax economies.

Critics of the proposal say a global minimum corporate tax rate will harm workers, who will feel the pain if corporations are forced to shell out more cash.

"It is hard to see how raising the corporate income tax, the burden of which will be ultimately shouldered by workers and shareholders, will do to help with inequality," Veronique de Rugy, senior research fellow at the libertarian-leaning Mercatus Center at George Mason University in Virginia, told Al Jazeera.

"Also, raising corporate costs will lead to less investment in fixed assets and that helps no one considering the private sector is the driver of ownership in infrastructure and investment in infrastructure," she added.

Biden's proposal would raise the amount of money collected from corporations by 38 percent, according to the Cato Institute, a libertarian-leaning think-tank based in Washington, DC.

Cato's director of tax policy studies warned that raising the tax rate in the US will cause American corporations to move their profits and investments abroad and slash costs.

"If we get Amazon or General Electric to pay more taxes, they will end up paying their workers less," Chris Edwards told Al Jazeera. "It's kind of a cat-and-mouse game – [the Biden administration] wants to raise the corporate tax rate that will move investments out of the country and then they are trying to bring in rules to prevent that."

'It infringes on all of our sovereignty'

Yellen emphasised that the coronavirus has deepened inequalities within and among countries. In the US, millions of Americans lost their jobs and many small businesses were forced to close permanently. Women, people of colour and low-wage workers are still feeling the most economic pain in the pandemic-induced crisis.

"We're in a deep hole," Yellen said Monday, adding that the true US unemployment rate is close to 9 percent – versus the March rate of 6 percent showed in Bureau of Labor Statistics data that didn't include people who have given up looking for work.

The Biden administration is set on returning to a strong system of multilateralism, engaging in global markets and protecting and enforcing a rules-based system. A stable world economy that fights poverty and promotes inclusion benefits the US.

But too many middle- and low-income countries lack the financing to support their economies and are constrained in their abilities to buy coronavirus vaccines.

Yellen warned that this could lead to entrenched poverty and inequality that reverses decades of progress. Low-income countries risk falling behind and may not access the vaccines they need at least until 2023, and, in some cases, 2024, she said Monday.

"We need to help lessen the economic pain in low-income countries," Yellen stressed, commending the IMF's plan to expand special drawing rights (SDRs) — a sort of artificial currency that can be traded in for hard currency — by $650bn to give developing countries the liquidity they need to buy vaccines and keep economies afloat.

But opponents of the proposed global minimum tax rate say it won't help low-income countries that would benefit from corporations doing business there.

"I think having the global minimum tax would be unfair to poor countries," Edwards of the Cato Institute said. "It infringes on all of our sovereignty."