

Will Democracy Govern Capitalism - or Be Consumed by It?

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NEW YORK – Ongoing efforts to derail multilateral tax cooperation lie at the heart of a global program to replace democratic governance with coercive rule by the extremely wealthy – or what we call 21st-century Caesarism. Any strategy to counter this program therefore must recognize that taxing extreme wealth is essential to saving democracy.

Fortunately, there has been some progress here. The African Union continues to champion the United Nations Framework Convention on International Tax Cooperation; Colombia, Brazil, Spain, and Tunisia have implemented progressive tax reforms; the French public has signaled strong support for a 2% tax on the ultra-wealthy; and a proposed California ballot initiative would enact a one-time 5% tax on billionaires' net worth.

But tax justice remains hotly contested. At the OECD/G20 Inclusive Framework negotiations in early January, more than 145 countries agreed to give big US multinationals a free pass. Having been compromised by power imbalances from the outset, the OECD/G20 process was easy for US President Donald Trump to hijack. Following intensive lobbying by the United States, large American energy, technology, and pharmaceutical firms secured sweeping exemptions from the 15% global minimum tax that had been agreed in 2021 after a decade of painstaking negotiations.

Of course, the OECD/G20 Inclusive Framework could not state its surrender openly. Instead, it suddenly “discovered” that the existing US tax regime is equivalent to Pillar Two of the original agreement, implying that other countries are barred from imposing additional taxes on multinationals headquartered in the US. But the two are not the same: the global minimum tax applies a country-by-country computation to determine the amount, whereas US rules apply to US-based multinationals' total foreign profits. The latter allows companies to offset high taxes paid in some countries against zero taxes paid in others, thus restoring the advantages of zero-tax jurisdictions.

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Not only does this new agreement fundamentally undermine the principle that multinationals should pay a minimum coordinated tax rate wherever they operate. It also grants US-headquartered multinationals a competitive advantage over other multinationals, all of which are still subject to the 15% global minimum tax. The mechanism for this capitulation was revealing. Under threat of retaliation from the US, G7 leaders pre-negotiated the new terms in June, and Inclusive Framework members rubber-stamped them last month to avoid picking another fight with Trump.

As Oswald Spengler warned a century ago about the collapse of democracy and the rise of Caesarism, “the forces of dictatorial money-economics” are dismantling the regulatory state and multilateralism. Trump's aggressive neo-mercantilist strategy – unilaterally declaring punitive tariffs,

threatening and imposing blockades, kidnapping national leaders, wielding aircraft carriers like privateer ships, and proposing “boards of peace” designed to re-establish colonial control – bypasses existing international institutions wherever it can. The goal is to appropriate resources and prevent perceived rivals like China from accessing them.

But no country should relinquish its sovereign right to tax multinationals and the super-rich. To surrender this prerogative is not only morally bankrupt and strategically misguided; it is also economically foolish.

To see this, consider Brazil’s economic recovery under President Luiz Ignácio Lula da Silva, Spain’s robust growth under Prime Minister Pedro Sánchez, or Colombia’s growth since the introduction of progressive tax reforms by former Finance Minister José Antonio Ocampo. These governments stood up to Trump and are leading a global democratic counter-reactionary coalition. Their success provides powerful empirical evidence that progressive fiscal policies and enhanced state capacity correlate with positive economic indicators and greater social cohesion.

Many in Europe are coming to this realization, too. In France, the “Zucman Tax” – Gabriel Zucman’s proposed minimum 2% tax on the wealth of the ultra-rich – commands almost 90% public support and is dominating the national conversation. Though initially rejected by the National Assembly, it is up for renewed debate this year.

Similarly, in December, Tunisia approved a new 0.5-1% levy on the worldwide assets (including real estate, stocks, bonds, and cryptocurrencies) of residents with holdings worth more than \$1 million. In California, voters this year will decide whether to impose a one-time 5% levy on billionaires’ wealth to fund health care, food assistance, and education. (Notably, this initiative is gaining support even from some billionaires.) And in New York, negotiations toward the Framework Convention on International Tax Cooperation will resume at the UN, a forum less vulnerable to corporate capture.

True, one of the Trump administration’s first acts was to withdraw from these talks. But the rest of the world decided to continue. The goal is to deliver a framework convention and two early protocols – one on the taxation of cross-border services, and one on disputes – for approval by the General Assembly in 2027. The crucial question is how rights to tax the profits of multinationals should be allocated; also up for negotiation are new taxes on cross-border services (including digital ones), new commitments for countries to tax the super-rich, and better information exchanges between countries on beneficial asset ownership.

The current tax rules for multinationals, devised in the 1920s, are no longer fit for today’s digital economy. Negotiators in New York must seize this unique opportunity. They should abandon the fiction that a multinational enterprise is just a collection of independent entities – a conceit that big corporations use to shift profits to low-tax jurisdictions, thus abusing OECD guidelines. A unitary taxation approach is long overdue. The current architecture starves governments of at least \$240 billion annually, forces local firms to compete on an uneven playing field, and leads to higher taxes on workers (whose income is less mobile) as countries try to offset lost revenues.

Multinationals’ global income should be apportioned to different jurisdictions on the basis of verifiable factors such as sales and employees, rather than on the outdated principle of “arm’s-length” transactions. The text of the tax convention should reflect this. Failing that, the current, deeply flawed rules will become entrenched, and the pursuit of “compatibility” with existing frameworks developed at the OECD will compromise both the ambition and the objectives of the UN Tax Convention.

The result would be another fruitless tweak to a failing system. If democracy is to prevail over Caesarism, we must tax extreme wealth – and we must do it fast.

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