



# 26-6 Lessons from Three Global Collective Action Problems

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## ABSTRACT

This paper compares three global collective action problems, those involving climate change, international trade, and international taxation. First, each problem is assessed in terms of fundamental elements that stymie global collective action: concentrated interests that deter action in the face of larger yet diffuse benefits, cross-jurisdictional policy spillovers, and free-rider incentives at the jurisdictional level. Second, each problem is assessed in terms of four key elements that help address global collective action problems: (i) broad understanding of the policy problem, (ii) formation of a coalition willing to take policy action, (iii) enforcement mechanisms that incentivize policy adoption and protect adopters from non-adopters, and (iv) leadership. The paper concludes by discussing lessons from the three global collective action problems, set in the context of contemporary geopolitical developments. Although all solution elements are important, adequate incentive mechanisms are a pivotal factor in resolving global collective action problems; such mechanisms can also strengthen global collective efforts in the face of would-be spoilers.

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## I. GLOBAL COLLECTIVE ACTION PROBLEMS

Collective action problems are plentiful, but some are more vexing than others. A collective action problem arises when cooperation would make the group better off but some interests stand in the way of progress. Multiple factors impede beneficial collective action: coordination failures, transaction costs, and the combination of concentrated harms from action alongside diffuse benefits. Examples are manifold; consumers benefit from policies that liberalize trade whereas industries that lose tariff protection object. Households benefit from a cleaner environment, but polluting industries resist policy solutions that increase their costs.

The scope of the collective action problem is important; in general, the larger the scope of the collective action problem, the more difficult it is to solve. Increased coordination costs are one factor, but the bigger difficulty is spillover effects among jurisdictions. A single community can develop mechanisms to offset the harms from policy action, generating the possibility of Pareto-improving policies, or they can coordinate to achieve net improvements on aggregate, even as they impose costs on some community members. But when jurisdictions affect other jurisdictions, they may be deterred from optimal policy responses by free-riding incentives or because of competitive pressures from their peers.

For example, a local community may be able to overcome the collective action problem surrounding the provision of a lighthouse through compulsory taxation, protecting nearby boats from rocky shoals. But if one seaside community attempts to regulate fishing catches in order to assure the health of the fishing stock, their collective action may easily be stymied by the free-riding of other jurisdictions, who have every incentive to avoid incurring policy costs when the associated benefits accrue to a wide array of actors that lie beyond the reach of the jurisdiction. Likewise, if one jurisdiction imposes a regulatory cost on local firms to address a concern, those firms may lose competitiveness in the larger marketplace compared to firms in more loosely regulated jurisdictions.

This paper seeks to compare three global collective action problems: responding to climate change; providing an open, rules-based international trading system; and addressing international tax competition. In each case, the coming subsections discuss why these three problems indeed fit the characteristics of a global collective action problem.

Section II turns to the mechanics of addressing global collective action, considering four factors that are essential to successful resolution: a shared understanding of the problem, the formation of a coalition willing to take policy action, incentive mechanisms that facilitate policy adoption and protect adopters from nonadopters, and leadership. This section compares the three global collective action problems in terms of those four elements, arguing that incentive mechanisms are a particularly crucial element.

Finally, section III discusses two key lessons from these three global collective action problems. First, while the other elements of policy solutions are important prerequisites, well-designed incentive mechanisms are pivotal; they respond to the root of global collective action problems. For policy efforts to succeed, there must be

mechanisms in place to encourage policy adoption and to protect adopters from the actions of nonadopters.

Second, given the context of today’s particularly challenging geopolitical developments, the world needs collective action around the importance of global collective action, to counter the forces of disintegration and isolationism put forward by spoilers. Well-designed incentive mechanisms don’t just spur policy ambition; they can also provide an answer to how plurilateral efforts might move forward in the time ahead.

## **Climate as a Global Collective Action Problem**

Of the three problems, climate change presents the clearest example of a truly global collective action problem. The consequences of climate inaction are far from even across the globe, but they affect nearly every jurisdiction—and the people within—in an adverse fashion. While temperature is often held up as a key component of climate change, and central to calculations of the social cost of greenhouse gas emissions, extreme weather events and wildfires generate enormous damage, even in regions where temperature changes may be relatively benign. As one example, recent research on the United States ([Clausing, Knittel, and Wolfram 2025](#)) has found that an incomplete accounting of the costs from climate change indicates that US households already face about \$900 in annual costs; the vast majority of these costs are due to the consequences of natural disasters, not heat.

Many international reports, including those from the Intergovernmental Panel on Climate Change (IPCC), have warned of dire consequences for the world’s population if greenhouse gas emissions are not addressed. Yet collective action is often difficult to muster, and several factors inhibit it. Those experiencing costs from climate policy are likely to object, and these costs are often concentrated, as climate action harms fossil fuel producers (whether private or state-run firms) and emissions-intensive industries (such as iron and steel, aluminum, fertilizers, cement, and chemicals). Costs that impact households by raising utility or gas prices may also generate strong opposition.

However, the biggest hurdle to action is likely the problems associated with cross-jurisdictional spillovers. Emissions of greenhouse gases anywhere on the planet affect the entire planet; consequently, any jurisdiction, even one as large as China, captures only a small minority of the benefits associated with their emissions reduction efforts. China accounts for 29 percent of global greenhouse gas emissions, and thus only affects that share of global emissions with its actions; its population is 17 percent of the world’s population. Most other countries and jurisdictions have far smaller shares of the world’s total emissions; the United States is 11 percent of global greenhouse gas emissions and 4 percent of the world’s population.<sup>1</sup> Even the largest subnational jurisdictions—for example, California and Texas—account for only 0.7 and 1.6 percent of world emissions, and 0.5 and

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<sup>1</sup> Emissions data are from: [https://edgar.jrc.ec.europa.eu/report\\_2025](https://edgar.jrc.ec.europa.eu/report_2025); population data are from: <https://data.worldbank.org/indicator/SP.POP.TOTL>, both in 2024. For US states, the most recent data are from 2022 (<https://catalog.data.gov/dataset/2012-2022-state-level-greenhouse-gas-emission-totals-by-industry>), so both population and emissions shares are reported for that year; population data are from [US Census](#).

0.4 percent of the world population, respectively. Of course, most national jurisdictions are far smaller than these examples, yet climate policy is typically made at levels of government that are either national or subnational.

Because climate policy action can be expensive (in terms of costs imposed on households and firms, and/or in terms of fiscal expense associated with subsidizing clean energy) and yet the benefits from climate policy action accrue largely outside the jurisdictions facing the costs, there is an enormous free-rider problem.

There is also a second cross-jurisdictional spillover problem. When jurisdictions impose costs on their firms to spur decarbonization (e.g., through carbon fees, emissions trading systems, or regulatory actions), their emissions-intensive firms will face a competitive disadvantage in the global marketplace versus firms in more lax jurisdictions that either impose no costs or perhaps even subsidize their firms. This may prevent countries from imposing cost-effective climate policy solutions (such as carbon pricing), and could even ignite “subsidy races” that generate high fiscal costs without commensurate climate benefits; such problems are discussed at greater length in [Clausing and Wolfram \(2023\)](#).

### **An Open, Rules-Based Trading System as a Global Collective Action Problem**

An open, rules-based trading system benefits people throughout the world. The gains from trade are a canonical tenet of economic theory for a reason; trade generates efficiencies that are in many ways analogous to those generated by markets in general. Such efficiencies would be impossible if jurisdictions relied on self-sufficiency instead. Countless empirical studies emphasize the importance of trade for economic growth and the costs of protectionism; see [Krugman, Obstfeld, and Melitz \(2021\)](#); [Clausing \(2019\)](#); and [Clausing and Obstfeld \(2026\)](#) for overviews. As a consequence, few rich countries employ tariffs as a broad policy tool; in typical high-income OECD countries, effective tariffs (tariff revenues as a share of imported goods) average a mere 0.8 percent, accounting for about 1 percent of government revenues.<sup>2</sup>

To some extent, global collective action is easier in this sphere than with respect to climate change, since an open trading system is in every country’s individual interest, with few exceptions.<sup>3</sup> However, overcoming concentrated interests that oppose open trade requires aligning the interests of exporters and consumers so that they might prevail over the interests of import-competing industries. International trade negotiations can help achieve that alignment, since export industries will extract “concessions” from foreign governments in the form of lower tariffs on their exports in exchange for trade liberalization at home, which provides foreign firms greater market access ([Staiger 2022](#)). This process

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<sup>2</sup> These figures are calculated using import data from [Harvard Atlas of Economic Complexity](#), tariff and tax revenue data from the OECD, and World Bank categories delineating high-income countries.

<sup>3</sup> For large countries, there may be small welfare benefits associated from restricting trade if other countries abstain from retaliation; this is due to favorable shifts in the terms of trade. However, if multiple large countries pursue such a strategy, it will ultimately undermine any single country’s welfare gains. Multilateral agreements can help prevent such dynamics from reducing the gains from trade.

can help align trade policy with the national interest, since consumers may be too diffuse and disorganized to represent their interests well.<sup>4</sup>

However, international trade negotiations, and the institutions that support trade liberalization and resolve trade disputes, themselves require global collective action. The General Agreement on Tariffs and Trade (GATT) and subsequent World Trade Organization (WTO) processes were created and nurtured through the painstaking efforts of key governments and actors, and progress was significant between the end of World War II and the end of the 20<sup>th</sup> century. Creating and nurturing systems that enable liberalization, address disputes, and combat beggar-thy-neighbor policies isn't simple; it requires the same ingredients that foster solutions to other global collective action problems.

In this context, there are also interjurisdictional policy spillovers. Hegemonic leaders can help overcome free-rider problems by crafting rules of the road that both are self-interested and further the international public good; the United States played a key role as such a leader over the second half of the 20<sup>th</sup> century. This leadership helped the United States, but it also benefitted many smaller countries that would have otherwise been more subject to transactional and mercurial decisions by major powers.

Ideally, a world trading system could also help address situations where countries' national policies generate adverse trade spillovers; for example, one country's subsidies may harm the competitiveness of other countries' firms that hope to compete in that industry. While WTO rules attempt to handle such situations, there is widespread recognition that some reform of these rules is needed; see [Bown and Clausing \(2024\)](#) for one discussion of related issues in the climate and trade space.

## **Tax Competition as a Global Collective Action Problem**

When tax systems are governed at the national or subnational level, yet the tax base is mobile internationally, that raises important policy challenges that may inhibit governments' ideal tax policy designs. For instance, although labor and consumption are both relatively immobile tax bases, capital income is far more mobile and difficult to tax, so policymakers may end up altering the policy mix to rely more on taxing immobile tax bases.

At the same time, taxing capital income is important for progressivity reasons, since capital income is far more concentrated at the top of the income distribution than either labor income or consumption. Taxing capital income also helps protect the larger income tax system, since there is some discretion regarding the form that income takes. Further, capital income includes not just the normal return to capital but often substantial rents, so taxing capital income can be an important part of efficient taxation, since taxing rents is generally non-distortionary. [Clausing \(2024a\)](#) discusses these issues in greater detail.

International capital mobility has multiple dimensions. Personal portfolio income may be effectively taxed in the home jurisdiction through residence rules and

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<sup>4</sup> A counterargument is that trade policy failures are a domestic problem that need not require multilateral cooperation, but instead reforms of domestic policy processes, since protectionism is typically a beggar-thyself policy rather than a beggar-thy-neighbor policy (see [Rodrik 2020](#)). However, even beyond the terms of trade arguments of footnote 3 (which generate a beggar-thy-neighbor dynamic), there are other ways in which a rules-based trading system acts as a public good, as described in the text; see also [Obstfeld \(2024\)](#).

improvements in reporting such as the Common Reporting Standard (CRS).<sup>5</sup> Still, much personal capital income isn't taxed by governments at the individual level, since it is held in tax-free accounts, by tax-exempt entities, or benefits from the substantial advantages of deferral and step-up in basis at death. In the United States, the vast majority of US equity income is simply untaxed at the individual level by the US government ([Burman, Clausing, and Austin 2017](#); [Rosenthal and Burke 2020](#); [Clausing 2024a](#)).

The difficulties of taxing capital income at the individual level are in part political; long existing tax preferences are difficult to end. But, if capital income is to be taxed at all, that suggests an important role for entity-level taxation. While taxing strictly domestic businesses may be relatively straightforward, the problems associated with taxing international corporate income are particularly vexing. The mobility of the multinational corporate tax base generates large revenue losses due to profit shifting and corporate tax base erosion in nearly every jurisdiction; see [Clausing \(2024b\)](#) for one overview. Worldwide, over \$2 trillion of multinational corporate income is taxed at a rate lower than 15 percent, and profits reported in the lowest tax jurisdictions are wildly disproportionate to the underlying activity, with profit-to-GDP ratios averaging about 50 percent ([Hugger et al. 2024](#)).

Any single jurisdiction seeking to tax multinational income faces a daunting task. If their tax rate is higher than those of peer countries, or even the lowest tax rate havens, they may lose tax base as companies shift paper profits out of the home jurisdiction and toward low-tax jurisdictions. Techniques for shifting paper profits are voluminous and the subject of entire treatises on international tax law. Further, attempting to clamp down on resident multinational company profit shifting through backstops, minimum taxes, and regulatory reforms risks the ire of the multinational business community, who will point out that such measures render them less competitive than peer businesses that are based in jurisdictions with lighter tax treatment and looser regimes.

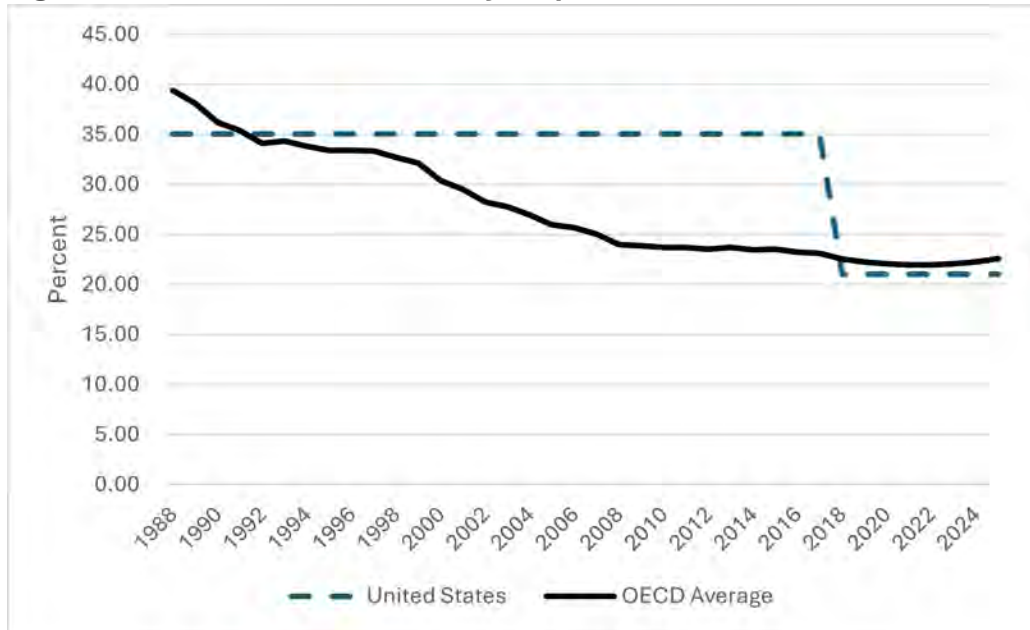
In this context, individual jurisdictions have a strong incentive to undercut each other. Small jurisdictions in particular have little domestic tax base to lose with a low tax rate, relative to the lure of attracting mobile multinational income with highly favorable tax rates. Thus, a "race to the bottom" ensues, and tax rates drift slowly down. Figure 1 shows the trend in corporate tax rates for OECD countries since 1988.

Like the other global collective action problems, international tax competition also demonstrates the common combination of diffuse benefits and concentrated harms from policy action. Restraints on tax competition have the potential to make tax systems more progressive and balanced, but these diffuse benefits may not draw strong constituencies in favor of reform beyond a few nonprofits and academics. In contrast, those hurt by increases in multinational company tax burdens are likely to lobby strongly against such reforms, and they have large resources at their disposal for such purposes.

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<sup>5</sup> The CRS approach built on the logic of the US Foreign Account Tax Compliance Act regime (FATCA), though it was a more cooperative approach based on the mutual exchange of data, whereas FATCA focused more narrowly on US citizens and residents.

**Figure 1: Trends in OECD statutory corporate tax rates, 1988-2025**



OECD = Organization for Economic Cooperation and Development

Source: [OECD Data Explorer](#), Corporate income tax (CIT)—statutory and targeted small business rates (accessed January 2026).

## II. RESOLVING GLOBAL COLLECTIVE ACTION PROBLEMS

The three global collective action problems just discussed share strong commonalities. Successful resolution of these problems is not possible without international coordination because there are strong incentives for free-riding, and interjurisdictional spillovers make it difficult for countries to pursue optimal policies unilaterally. These problems are also characterized by concentrated opposition to policy action, while the benefits from action are relatively diffuse. While these particular global collective problems are not a complete catalog, they illustrate themes that are relevant to countless other problems, including issues surrounding security, nuclear proliferation, public health, the ozone layer, maritime governance, and others.

This section will outline four useful ingredients for resolving global collective action problems. These four ingredients are all important, but to some extent they are also sequential building blocks. The first step is an effort to recognize the scope and importance of the problem, **building common understanding**. Often the expert community understands the problem before there is wider public understanding. From there, building a consensus that the problem is worthy of policy attention is a prerequisite to any action. While governments and elites can (and do) take important policy stances absent broad societal support, policy actions have more sustainability in the presence of widespread public understanding, including institutional players in the government, media, business, and nonprofit sectors.

Once the policy problem is well-understood, a second key element is marshaling government action, which includes the important work of **coalition building**. Who are the

parties that are going to seek change, and how will they do so? Coalition building generates a stronger impetus for policy action by creating constituencies that favor policy change. Once those constituencies are strong enough, policy change is more possible. To some extent, of course, this process may look different in democratic and authoritarian contexts. While some governments require less broad public support to stay in power, they still may give consideration to how the policy affects key groups.

The third ingredient is perhaps the most vexing one, but it is also a pivotal factor for overcoming global collective action problems. Even if there is broad understanding of the problem and a willingness to take appropriate action, there are still important interjurisdictional spillover effects to contend with. While cooperative jurisdictions may find it relatively simple to launch meetings and dialogues to discuss areas of common interest, genuine international cooperation on policy action is difficult. Ultimately, success requires ***incentive mechanisms*** to spur cooperation. Individual jurisdictions adopting policy action must view it in their interests to adopt rather than stand aside. Toward this end, it is particularly useful to have mechanisms in place that protect adopting countries from the free-riding behavior of nonadopters. Such mechanisms can provide a pivotal answer to the jurisdictional spillover problems that lie at the heart of global collective action problems.

A final, and admittedly vague, ingredient is ***leadership***, which is also important to counter would-be spoilers of collective action. It is difficult for diffuse interests in myriad jurisdictions to come together to solve global collective action problems, even in the presence of understanding, coalitions favoring change, and incentives for cooperation. Leadership by key jurisdictions, and even key people within those jurisdictions, is essential to the success of international cooperative efforts.

Together, all four key ingredients are important; if any are missing, global collective action may fail. But these ingredients are also building blocks. Leadership, for example, is easier to muster when there is already a will to act and a proposed solution to the incentive compatibility problem. In the following subsections, these principles are illustrated by example, discussing each building block in the context of the three global collective action problems described in section I.

## **Building Common Understanding**

### ***Climate***

Of the three global collective action problems, climate change is arguably the one where broad, common understanding of the nature of the problem is most widespread. Scientific consensus about the negative effects of climate change developed over several decades but became nearly universal by the 1990s ([Oreskes 2004](#)). The science behind the greenhouse effect has been known for more than a century, with increasing knowledge and evidence building over the 1950s to 1970s, and a growing consensus in the 1980s and 1990s ([Ekholm 1901](#); [Manabe and Wetherald 1975](#); [Cook et al. 2016](#); [IPCC 2001](#)). This century, the consensus has become nearly universal, alongside mounting empirical evidence and real world consequences of climate change ([Powell 2019](#); [IPCC 2021](#)).

Since 1988, the IPCC has worked to provide governments with the scientific information required to undertake climate policy, and their work has been summarized in six periodic comprehensive assessment reports between 1990 and 2023. The most recent report ([IPCC 2023](#)) highlights the degree of temperature increase, the large impacts to date, the forecast that impacts will intensify in coming years, and the importance of increasing the ambition of both mitigation and adaptation policies.

Public opinion has also increasingly acknowledged the importance of climate change throughout the world. In 2024, a large scale international survey shows that four out of five respondents want their countries to strengthen their commitments to address climate change, and more than 70 percent of people want their country to move “quickly” away from fossil fuels toward clean energy ([UNDP 2024](#)). Similar results from [Poushter et al. \(2025\)](#) show that a median of 67 percent of respondents (across 25 countries surveyed) view climate change as a “major threat” to their country. In China, public opinion is particularly concerned, with 73 percent of Chinese citizens consider climate change one of the three biggest challenges faced by society ([European Investment Bank 2020](#)), and 99 percent of respondents either strongly or generally support China’s carbon neutrality goal ([Wang et al. 2024](#)).<sup>6</sup>

There are also pockets of skepticism as well as instances of backlash against ambitious environmental policies, including the prominent “Yellow Vest” protests in France from 2018 to 2020 that were agitating (only in part) against fuel taxes.<sup>7</sup> Still, trends over time indicate rising levels of climate concern in most countries ([Poushter et al. 2025](#); [Goddard et al. 2025](#); [UNDP 2024](#)).

In addition to increased scientific evidence about climate change, lived experiences are making climate change increasingly salient. For example, figure 2 shows the sharp increase in the number of billion-dollar natural disasters in the United States in recent years, a change that is in many instances attributed to climate change. [Clausing, Knittel, and Wolfram \(2025\)](#) document a number of vectors through which climate change imposes costs on typical US households; those costs are likely to rise steeply in the years ahead as climate change progresses. So far, the largest US costs stem from increased insurance premiums due to natural disasters, but there are also significant costs that stem from increased mortality, higher public expenditures, and other vectors.

While the experience of climate change is likely to vary substantially across (and within) countries, the latest IPCC report ([IPCC 2023](#)) demonstrates that the costs of climate change are important in nearly every corner of the world, affecting billions of people. The IPCC estimates more than 3 billion people are highly vulnerable to climate change, noting that every part of the world faces increased climate hazards.

Still, while the increased salience of climate change is likely to be important, one must also recognize that the steepest costs of climate change are unevenly distributed, with a small fraction of the population bearing the largest cost. In the United States,

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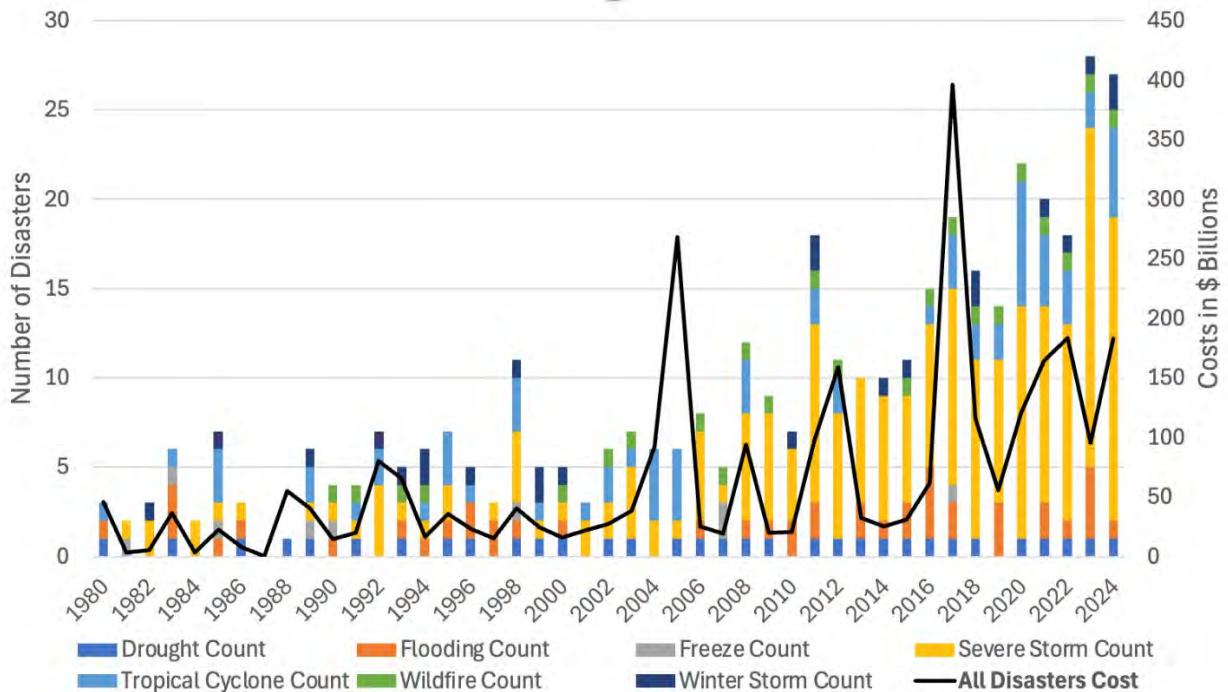
<sup>6</sup> In comparison, 47 percent of EU citizens and 39 percent of US citizens view climate change as one of the three biggest challenges faced by society.

<sup>7</sup> There were also movements against cost-imposing climate policies in Canada (2024) and Australia (2011), described in [Logg-Scarvell \(2025\)](#).

[Clausing, Knittel, and Wolfram \(2025\)](#) document that the largest costs occur in particular regions of the country. The burden of climate change is also regressive; costs are higher as a share of income for lower-income households.

This pattern also holds worldwide; poorer countries face much bigger risks from climate change than richer ones, and vulnerable populations within each country face particularly acute risks ([IPCC 2023](#)). Unfortunately, the unequal distribution of the harms from climate change also inhibits collective action, since more vulnerable populations often have less political voice.

**Figure 2: US billion-dollar natural disasters (indexed for inflation), 1980-2024**



Source: National Centers for Environmental Information, National Oceanic and Atmospheric Administration ([NOAA 2025](#)).

## Trade

The benefits of international trade are widely recognized by both governments and the public. An international survey ([Ipsos 2021](#)) of respondents in 25 countries showed an average of 75 percent of respondents agreeing that trade expansion was good, and the vast majority of most Americans ([Kafura and Dong 2025](#)) and Europeans ([Eurobarometer 2019](#)) see personal benefits from trade. That said, polling data generally show a complex assortment of views among populations.

Intellectual consensus regarding the gains from trade has been longstanding, with the basic theory of comparative advantage originating in 1817 from David Ricardo; most economists surveyed in recent years are unequivocal in their support for open trade. For

example, economists show nearly universal recognition of the net downsides of trade barriers ([Chicago Booth Kent A. Clark Center for Global Markets 2024](#); [Mankiw 2015](#)). As noted in Section I, the case for trade isn't just a theoretical one; a large body of empirical evidence supports the benefits of trade and the harms of protectionism. One article ([Furceri et al. 2020](#)) states the matter clearly in the title of the paper: “*Are tariffs bad for growth? Yes, say five decades of data from 150 countries*”; the broader literature is discussed in more detail in [Clausing and Obstfeld \(2026\)](#).

While there are widely recognized distributional costs from trade, efficient policy solutions to such costs would typically entail redistribution through the larger tax system and a robust safety net, rather than blanket protectionism. Indeed, blanket protectionism can easily backfire, harming the very groups it is intended to help ([Clausing 2019](#); [Clausing and Obstfeld 2026](#)).

To some extent, understanding the benefits from trade is conceptually difficult. Paul Samuelson—the “founding father” of much modern economics—famously held that comparative advantage was a singular idea in the social sciences in that it was both nontrivial and true. While the benefits of trade are not always intuitive, real-life experience can move public opinion. As one example, the United States has seen eroding support for protectionist policies during the 2025 trade war, as the costs (and minimal benefits) have become more widely understood.

That said, recent US public opinion data show a yawning partisan gap in attitudes toward trade. For example, while an August 2025 poll ([Kiley et al. 2025](#)) shows about 60 percent of Americans disapproving of the Trump administration's new tariffs, the fractions are closer to 30 percent for Republicans and 90 percent for Democrats. Since the trade war, Republican views on the effectiveness of tariffs have slightly improved (from 71 to 78 percent) while Democrat/Independent views of tariff effectiveness have plummeted, from 64/59 percent to 24/37 percent.<sup>8</sup> Abroad, survey respondents have expressed highly negative views of the 2025 trade war ([Smith 2025](#)), with views of the United States' reputation declining as well, although there are myriad causal factors at work ([Wike et al. 2025](#); [Ipsos 2025](#)).

### ***International Taxation***

While international tax competition occupies a more obscure niche than either climate or trade, both expert and public opinion have increasingly recognized that tax competition is an important global collective action problem.

In recent decades, the twin problems of corporate tax base erosion and profit shifting received increasing attention, fueled by efforts of journalists, academics, and international organizations. Journalists pointed to the existence of baroque financial arrangements through which multinational companies could generate exceptionally low tax burdens, calling out particularly egregious planning techniques and the resulting low tax rates ([Bergin 2012](#); [Bowers 2009](#); [Drucker 2010](#); [Gerth 2011](#)).

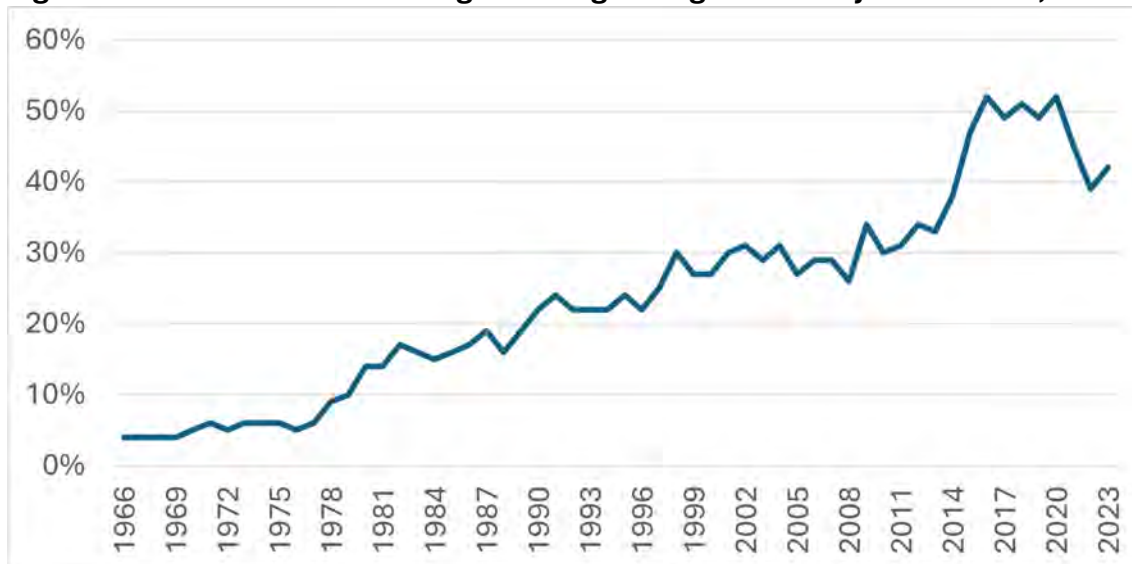
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<sup>8</sup> See [Dong and Friedhoff \(2025\)](#). Support for complying with WTO rules ([Katura and Dong 2025](#)) stands at 92/70/48 percent among Democrats/Independents/Republicans in 2025 polling.

Academic research substantiated the large magnitudes of the problem. While magnitudes of tax avoidance can be difficult to estimate, the high tax sensitivity of “paper” profits has been documented in numerous studies, showing a substantial divergence between the location of economic activity and the location of reported profit.<sup>9</sup> Profit rates in low-tax countries are far higher than in higher-tax countries, and the resulting revenue loss to governments is substantial.<sup>10</sup>

As an illustration, figure 3 shows the share of US multinational company income in eight important low-tax rate jurisdictions. That share rose steeply in the 2000-2015 period, before levelling off and then declining a bit in recent years. Despite changes in US tax law, and some changes in tax laws abroad, that share remains high.

**Figure 3: Share of US MNC foreign earnings in eight low-tax jurisdictions, 1966-2023**



MNC = multinational corporation

Note: The jurisdictions include Bermuda, Cayman Islands, Ireland, Luxembourg, the Netherlands, Puerto Rico, Singapore, and Switzerland.

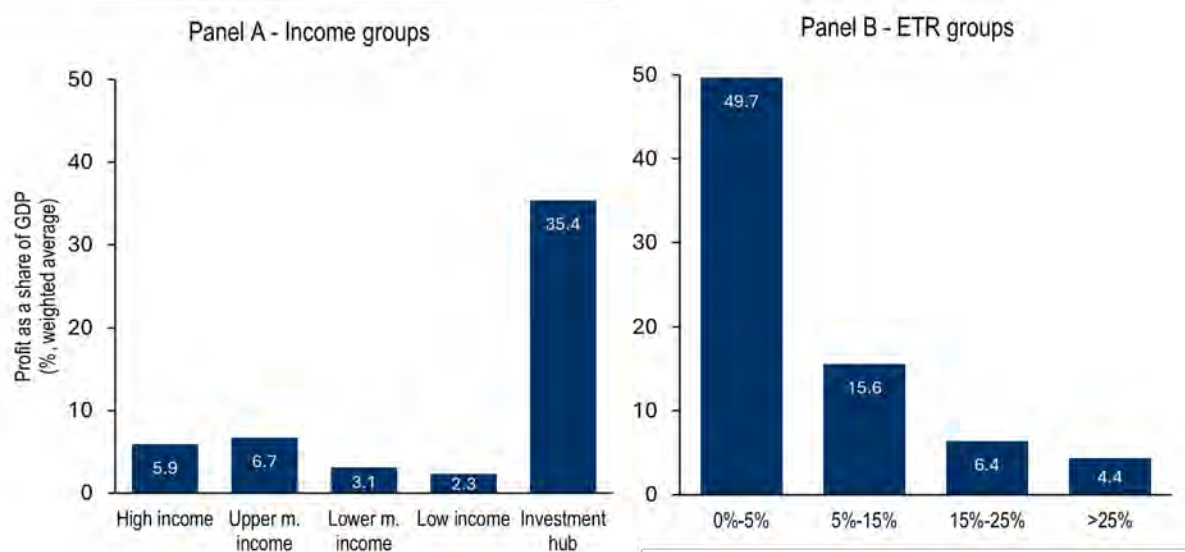
Sources: US Bureau of Economic Analysis, as reported in [Wright and Zucman \(2018\)](#) and updates.

Hugger et al. (2024) estimate that worldwide over \$2 trillion of multinational corporate income is taxed at a rate lower than 15 percent; figure 4 shows that the profits booked in very low-tax jurisdictions are vastly disproportionate to the underlying economic activity.

<sup>9</sup> This sort of tax responsiveness is distinct from “real” tax avoidance, whereby firms move actual activity due to divergent tax rates; a large body of work in empirical public finance shows that such responsiveness is also important, but generally smaller than that of reported profits (see, e.g., [Slemrod 2001](#)).

<sup>10</sup> See [Bilicka \(2019\)](#); [Clausing \(2020a, b\)](#); [Coffey \(2021\)](#); [Crivelli, De Mooij, and Keen \(2016\)](#); [Dowd, Landefeld, and Moore \(2017\)](#); [Garcia-Bernardo and Jansky \(2024\)](#); [Garcia-Bernardo, Jansky, and Zucman \(2023\)](#); [Guvenen, Mataloni, Rassier, and Ruhl \(2022\)](#); [Hugger et al. \(2024\)](#); [OECD \(2015\)](#); [Samarakoon and Organ \(2025\)](#); [Tørsløv, Wier, and Zucman \(2023\)](#); and [Wier and Zucman \(2022\)](#).

**Figure 4: Profits of large multinational firms relative to GDP, by country groups**



Source: OECD analysis in [Hugger et al. \(2024\)](#). Groups are by income category and effective tax rate (ETR). Recreated in [Clausing \(2024b\)](#) with permission.

There is also evidence that governments have responded to the sensitivity of the corporate tax base in their policy choices, steadily lowering corporate tax rates over time.<sup>11</sup> This happened alongside a shift in tax burdens toward immobile factors like consumption and labor, and away from capital, even as the labor share of national income has declined relative to the capital or profit share of income.<sup>12</sup>

Public sentiment has also increasingly recognized the importance of these policy problems. While journalistic attention to these issues may have peaked in the mid-2010s (figure 1, [Lammers 2021](#)), public opinion has typically considered these questions both salient and important ([Tax Justice Network 2020](#); [Drummond 2023](#); [OCCRP 2020](#)).

## From Understanding to Action: Building Coalitions for Change

### *Climate*

Perhaps due to the overwhelming consensus on the problems of climate change, the movement toward action on climate has been relatively swift. However, the ambition of existing policy is still falling short. While there are a few exceptions (including the current US government), nearly every government in the world is party to the 2015 Paris Agreement

<sup>11</sup> See [Clausing \(2016a\)](#); [de Mooij and Ederveen \(2008\)](#); [Heimberger \(2021\)](#); [Hellier \(2023\)](#); [Keen and Konrad \(2013\)](#); [Overesch and Rincke \(2011\)](#); [Wilson \(1999\)](#).

<sup>12</sup> See [Autor et al. \(2017, 2020\)](#); [Azar, Marinescu, and Steinbaum \(2022\)](#); [Barkai \(2020\)](#); [De Loecker and Eeckhout \(2021\)](#); [ILO and OECD \(2015\)](#); [Karabarbounis and Neiman \(2013\)](#); [Chen, Karabarbounis, and Neiman \(2017\)](#); [Stansbury and Summers \(2020\)](#). In the United States, the federal government has implemented large cuts in the top income tax rates applied to dividend income and long-term capital gains, reductions in the reach of the estate tax, and sharp reductions in the corporate income tax rate in 1986 and 2017.

and the 1992 UN Framework Convention on Climate Change (UNFCCC); this broad participation shows widespread governmental recognition of the climate change problem.

However, under the terms of the Paris Agreement, countries form their own “nationally determined contribution” to emissions reductions, leaving policy ambition at the discretion of each jurisdiction. While there are mechanisms for taking stock of progress, there are not explicit consequences associated with insufficient policy or lackluster implementation. One [tracker](#) finds that existing policies and actions will lead to a 2.6 degree Celsius global mean temperature increase by 2100, an amount far higher than the 1.5 degree Celsius goal set by the IPCC, which itself still entails serious negative climate repercussions. This finding is similar to those from the most recent IPCC assessment report ([IPCC 2023](#)), indicating that nationally determined contributions to date imply a mean temperature increase of about 2.8 degrees by 2100.

To some extent, the insufficient ambition of policies to date speaks to the greater influence of fossil fuel producers, emissions-intensive industries, and other interests that benefit from higher emissions, relative to the interests of society at large. Although methodologies and findings differ, most analyses find that the costs associated with more ambitious climate policies would fall far short of the benefits from greater climate change mitigation. For example, most estimates of the social cost of carbon indicate costs per ton of carbon emissions that greatly exceed emissions abatement costs. For the United States, [Bistline et al. \(2025\)](#) calculate economy-wide abatement costs for seven different US climate policy trajectories that vary widely in terms of ambition; costs range from \$18 to \$69 per metric ton of carbon-equivalent emissions; in comparison, the US Environmental Protection Agency’s 2023 revisions of the social cost of carbon put it at \$190/ton ([Prest 2023](#)).<sup>13</sup>

## **Trade**

Governments largely understand the benefits of an open trading system and are willing to undertake necessary policy change to realize these benefits. For example, 166 jurisdictions, representing nearly all the world’s GDP and population, are members of the WTO. To join the WTO, jurisdictions traditionally have to agree to both trade liberalization targets as well as accepting many elements of a rules-based international trading system, including the principles of most favored nation and national treatment ([Jackson 1997](#)). The most favored nation principle commits WTO members to treat all other member nations on an even footing, aside from narrow exemptions that allow more favorable terms to members of free trade agreements or customs unions.<sup>14</sup> National treatment requires similar treatment of foreign and domestic products, once they have crossed borders.

Of course, there are prominent examples of countries forsaking their WTO commitments—including the flagrant recent example of the United States in 2025—as well as elements of the WTO rules that arguably merit reform. Still, the WTO and its

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<sup>13</sup> In 2025, the Trump administration moved to no longer estimate such costs.

<sup>14</sup> These Article 24 exemptions require trade to be substantially free between members of such agreements without increasing trade barriers facing nonmembers.

predecessor, the GATT have been remarkably successful in fostering a relatively free and open trading system for the world economy in recent decades ([Clausing 2019](#), [Irwin 2020](#)).

Many countries have also shown an eagerness to achieve more trade liberalization, and to address other trade-related issues, through plurilateral forums. These include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union itself as well as myriad agreements between the European Union and partner countries, the Regional Comprehensive Economic Partnership (RCEP), the African Union Free Trade Agreement, and many other examples.

Thus, while there are presently concerns about backsliding (discussed further below), the international trading system has benefitted from a broad and longstanding willingness by governments to undertake conforming policy action. In part, this represents the triumph of exporter and consumer interests over those of import-competing industries, facilitated by the international agreement processes themselves.

While the multilateral agreement process has stalled, with few signs of concrete achievements in recent decades, there are still many examples of successful collective action at the plurilateral level. One key question is whether the multilateral system will be sufficiently adaptable to continue providing global rules of the road, even as the world trading system faces serious challenges.

### ***International Taxation***

Alongside growing professional and public consensus, governments understood how large magnitudes of profit shifting fueled corporate tax base erosion, and they experienced firsthand the related problem of tax competition. Fears of tax base mobility pressured governments to lower corporate tax burdens, even as they recognized that the corporate tax plays an important role in the tax system in terms of progressivity, efficiency, and tax administration goals.

Due to growing international consensus as well as pragmatic tax policy goals, governments became more willing to undertake transformative policy change. This included setting aside foundational, yet highly problematic, international tax system concepts that implied that one could simply tighten incremental rules to stem flagrant profit shifting.

For example, prior international negotiations in the so-called BEPS process (for “base erosion and profit shifting”) resulted in more timid incremental reforms that left the underlying policy problems largely intact. Over 2013-2015, the OECD/Inclusive Framework BEPS process made progress on both data collection and tax policy guidelines, but it stopped short of fundamental reform. Consequently, there was no evident reduction in the aggregate trends regarding profit shifting and tax base erosion.

However, continuing negotiations turned to more fundamental reforms, leading to a political agreement on two policy “Pillars” reached in 2021. While Pillar One stalled, Pillar Two achieved more success; it instituted a minimum tax of 15 percent on multinational income, regardless of where it was reported.<sup>15</sup>

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<sup>15</sup> Pillar One would have redistributed some taxing rights toward the market jurisdiction.

The 2021 agreement represented more than 135 jurisdictions and nearly 95 percent of world GDP. Implementation of Pillar Two has occurred in a wide array of countries, including the EU countries, Japan, South Korea, the United Kingdom, Indonesia, Thailand, Canada, Australia, Malaysia, South Africa, Switzerland, Singapore, Türkiye, and several offshore jurisdictions that previously offered very light tax treatment.

The agreement is not without downsides and limitations, and the ultimate success of the effort is far from guaranteed. Efforts to weaken the agreement by the US government are discussed below. Still, the agreement marked a foundational shift in international taxation, moving away from incremental reforms toward a more holistic rethinking of international tax rules. It also demonstrated the potential of governments to achieve principled tax reform that overcomes the narrow interests of tax-minimizing multinational companies.

### **Key Role of Incentives in Resolving Global Collective Action Problems**

Building broad understanding and coalitions favoring change are both important prerequisites to global collective action, but interjurisdictional spillovers are likely to stymie success unless effective incentive mechanisms are in place to spur policy adoption and protect adopters from nonadopters. This section describes how promising policy tools have been developed in all three issue areas.

#### ***Climate***

As noted above, climate change is a global collective action problem where there is a widespread consensus among experts, the public, and government officials about the necessity of a strong policy response. Yet it is also an area where policy ambition is falling short due to strong free-riding incentives and worries about competitiveness.

In that context, resolving the incentive problems that prevent more effective global collective action is essential. The UNFCCC and the Paris Agreement serve as important institutional umbrellas, providing both a moral foundation to guide collective action as well as a useful convening forum to push forward policy adoption. However, due to the voluntary nature of commitments as well as the lack of consequences for insufficient action, they lack effective incentives for achieving adequate policy action.

In [Clausing and Wolfram \(2023\)](#), we focus on the problem of interjurisdictional spillovers, considering the role of climate clubs and carbon border adjustment mechanisms. Climate clubs and carbon border adjustment mechanisms can add incentives for policy adoption and address the problem of protecting adopters from nonadopters. However, it is difficult for these mechanisms to handle two different types of spillovers when climate policy tools vary among jurisdictions. One type of spillover is an *ambition* spillover (illustrated in the columns in figure 5 below), wherein low ambition jurisdictions free ride on the actions of high ambition jurisdictions. A second type is a competitiveness spillover (illustrated in the rows in figure 5 below), wherein cost-reducing jurisdictions improve the competitiveness of their industries relative to cost-imposing jurisdictions.

**Figure 5: Matrix of jurisdictions by climate mitigation ambition and approach**

	<i>High Ambition</i>	<i>Low Ambition</i>
<i>Cost Imposing</i>	Country A	Country B
<i>Cost Reducing</i>	Country C	Country D

Source: Excerpted from Clausing and Wolfram (2023).

For example, consider a club that distinguishes members based on climate ambition, but one jurisdiction (country A) shows climate ambition by utilizing carbon prices that impose costs on industries that emit carbon, whereas another jurisdiction (country C) lavishes clean energy industries with subsidies, lowering economy-wide energy costs. If ambitious insiders (both A and C) imposed tariffs or other penalties on non-ambitious outsiders (B and D) in order to penalize insufficient climate action, that will not address the competitiveness problems between countries A and C. Country C firms retain an advantage relative to those in country A, potentially altering the location of economic activity in favor of Country C.

On the other hand, if cost-imposing jurisdictions (countries A and B) form a coalition around a carbon-pricing approach, for example, using border adjustments to level the playing field relative to subsidizing countries, that will address competitiveness concerns, but it doesn't necessarily address spillovers between more and less ambitious jurisdictions. Only if all countries adopt the same climate policy approach (e.g., agreeing to pursue cost-imposing policies) can both spillovers be addressed at once, since the level of ambition will be tightly tied to the competitiveness impact.

Of late, there has been progress toward approaches that could allow climate coalitions to strengthen incentives for climate policy ambition. For example, at present, 17 of the G20 (Group of 20) jurisdictions employ some form of carbon pricing; only the United States, Saudi Arabia, and Russia do not.<sup>16</sup> (And, even within the United States, some states employ carbon pricing mechanisms). The [World Bank](#) reports that in 2025, 28 percent of worldwide greenhouse gas emissions are covered by some form of carbon pricing.

The European Union has among the world's most ambitious carbon pricing mechanisms, and the EU Emissions Trading System (ETS) includes a carbon border adjustment mechanism (CBAM) that applies a similar carbon price to imports into the European Union as that faced by EU producers. EU producers are facing increasing costs,

<sup>16</sup> Emissions trading systems in India and Brazil are under development; 15 other G20 members already use some form of carbon pricing. As of 2023, the G20 includes the African Union; the European Union is also a member of the G20. The European Union employs a carbon pricing regime, but most African Union nations do not.

as free allowances under the ETS are being phased out; the EU CBAM acts to level the playing field between EU production and foreign production serving the EU market.<sup>17</sup>

There is suggestive evidence in [Clausing et al. \(2024\)](#) that the EU carbon border adjustment mechanism is spurring more international conversations around carbon pricing adoption, in part because countries exporting to the European Union receive “credit” against the EU border adjustment mechanism for any domestic carbon price levied. Thus, jurisdictions exporting to the European Union can convert EU tariff revenue into domestic tax revenue if they adopt similar pricing regimes. Countries like Türkiye and Ukraine that are particularly tied to the EU market may be especially incentivized to adopt parallel pricing policies, and China recently expanded its emissions trading system to include many of the same industries that are covered by the EU CBAM.<sup>18</sup>

While the European Union has been a leader in this approach, it would be more impactful if a coalition of countries worked together to jointly design a minimum carbon pricing regime that was coupled with carbon border adjustments. We describe one such “heavy industry climate coalition” in [Clausing et al. \(2025\)](#) and the [Global Climate Policy Project 2025](#)). A large coalition can address the competitiveness concerns of cost-imposing countries, often referred to as “carbon leakage,” whereby customers and production shift toward more lightly regulated sourcing.

A large coalition need not be too unwieldy to negotiate, since emissions are concentrated in a few jurisdictions. For instance, the G20 accounts for 80 percent of global carbon emissions; focusing on the G17 (excluding the United States, Russia, and Saudi Arabia) would still include 62 percent of global emissions and about 80 percent of production in emissions-intensive industries.<sup>19</sup> A coalition approach would also allow countries to resolve important issues regarding measurement and verification, governance, and mutual recognition of carbon pricing systems.

A broad coalition can encourage new entrants and policy adoption by providing both tariff-free access to the coalition market and by using other “carrots” negotiated by the group, which might include committing to free trade in clean energy inputs and goods, climate finance commitments, technology sharing commitments, capacity building investments, and other inducements. In [Clausing et al. \(2025\)](#) and the [Global Climate Policy Project \(2025\)](#), we also suggest the possibility of beginning such a coalition with tiered carbon pricing commitments that depend on countries’ level of development; price tiers would ideally eventually converge to provide uniform pricing signals.

A broad coalition can also help protect adopters from nonadopters by border-adjusting carbon prices to apply the same carbon price to imports from nonadopting countries. This policy approach helps make the use of clean energy a key source of comparative advantage. Over time, a heavy-industry climate coalition could evolve to include more sectors or even economy-wide coverage. One area that is particularly ripe for

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<sup>17</sup> The EU CBAM cannot level the playing field in markets abroad, since EU carbon costs are not rebated to exporters at the border. However, if a large coalition of countries adopted a similar approach, that would lessen such concerns.

<sup>18</sup> The EU CBAM covers six industries: iron and steel, aluminum, fertilizer, cement, electricity, and hydrogen.

<sup>19</sup> Emissions data are from [https://edgar.jrc.ec.europa.eu/report\\_2025](https://edgar.jrc.ec.europa.eu/report_2025). For a country breakdown of emissions in heavy industry, see the [Global Climate Policy Project \(2025\)](#).

such an approach is methane emissions in the oil and gas sector, as discussed in [Clausing, Garicano, and Wolfram \(2023\)](#).

Of course, a coalition approach need not confine itself to pricing approaches, and a similar set of incentives could arguably be provided by joint approaches in other areas, such as regulation or subsidies. A piecemeal approach may be more feasible in some contexts. Still, for both budgetary and cost-effectiveness rationales, a pricing approach has clear advantages.

## **Trade**

The greater historical success of the open trading system in comparison to climate policy is in part an illustration of the key importance of incentives, since elements of an open trading system are self-enforcing. Each country experiences gains from trade, since consumer and exporter gains exceed import-competing industry losses. However, there remain multiple elements of interjurisdictional spillovers that may interfere with efforts to maintain an open trading system. At present, the world trading system is under pressure on several fronts.

First, countries may pursue national policies that are at odds with the principles of an open trading system, threatening the perception that trade is occurring on a level playing field. For example, governments have long complained that Chinese government subsidies give Chinese firms an unfair advantage in world trade, harming the competitiveness of industries in other countries ([Xiang, Yin, and Zi 2025](#)). China is not alone in provoking complaints. Under the 2022 Inflation Reduction Act, the US government lavished tax subsidies on the clean energy sector, including provisions that were explicitly protectionist and counter to WTO commitments. In particular, there were enhanced tax credits for projects that employed threshold amounts of domestic content; these provisions raised the ire of US trading partners ([Bown and Clausing 2024](#)).

Second, countries may weaponize trade in ways that are inconsistent with WTO rules. For example, both China and the United States have frequently restricted trade with adversaries in the past. While some trade restrictions may be completely justifiable on national security grounds, these instruments have also been used in a manner that exceeds the bounds of typical national security concerns.

In theory, dispute settlement mechanisms under the WTO could handle both excessive subsidies and other instances where countries act in manners that are inconsistent with the world trading system. Binding dispute settlement procedures under the WTO—a large improvement from less comprehensive procedures under the GATT—led to the successful resolution of many trade conflicts between 1995 (when the WTO came into effect) and the late 2010s, when the system ground to a halt, in large part due to the US government’s failure to approve of new judges to the WTO’s Appellate Body. While the dispute resolution system was imperfect and slow, it enabled governments to resolve disputes in a rules-based fashion.

Still, other countries have furthered dispute settlement efforts through plurilateral efforts. For example, since the US government stopped appointing judges to the Appellate Body, the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) has attempted to fill the gap, by seeking to resolve disputes among its more than 60 members—including large

economies such as China, the European Union, Japan, Australia, Brazil, Canada, Chile, and Singapore.<sup>20</sup> While few disputes have been handled through the MPIA, it is still playing a useful role and may serve as a good starting point for future reforms ([Pauwelyn 2023](#); [Pelc 2025](#); [Wolff 2026](#)).

### ***International Taxation***

As described above, interjurisdictional spillovers have been vexing obstacles to international tax cooperation. While governments might desire a relatively robust system for taxing corporate income, they worry about the mobility of international corporate income, since profit shifting, the movement of real economic activity, and the possibility of corporate inversions could impede their efforts to tax multinational companies.<sup>21</sup> This dynamic makes it very difficult for any particular government, or even a broad plurilateral coalition of governments, to take action. Small jurisdictions can undermine their efforts by acting as tax havens, providing favorable rates and regimes that facilitate tax avoidance.

As discussed in [Mason \(2022\)](#), fiscal fail-safes can play a key role in aligning incentives for international tax cooperation. One example would be an abuse rule that denies interest deductions for cross-border payments when the associated income is not included in the receiving jurisdiction. The global minimum tax rules provide similar fiscal fail-safes in a way that helps resolve the incentive compatibility problem that has long bedeviled international tax cooperation.

Simplifying from the details, the basic goal of the global minimum tax is to tax all multinational corporate income at 15 percent, regardless of where it is booked.<sup>22</sup> The first opportunity to tax arises in the source jurisdiction where the affiliate operates. If the effective tax rate in the source jurisdiction is not at least 15 percent, a coordinated income inclusion rule operates to ensure that the residence (typically, headquarters) jurisdiction tops up the tax burden to 15 percent. This feature acts as a brake on the income shifting and tax competition pressures between adopting residence country jurisdictions and the countries in which their affiliated firms operate abroad.

For example, imagine Australia implements an income inclusion rule. When Australian multinational corporations operate in foreign affiliates with very low tax rates, the competitive pressure to shift income out of Australia and into the haven jurisdiction is significantly muted, since any income taxed at less than 15 percent abroad will be topped up to 15 percent at home. However, Australia might worry that tax competition pressure

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<sup>20</sup> The 58 jurisdictions include both the European Union and its 27 member states.

<sup>21</sup> Corporate inversions occur when multinational corporations attempt to change their headquarters for tax purposes. For example, frequent corporate inversions were considered a problem in the United States prior to Treasury regulatory changes in the second Obama administration.

<sup>22</sup> The global minimum tax rules under Pillar Two include a substance-based income exclusion that exempts a certain return on tangible assets and payroll from taxation. This can create its own tax avoidance incentives to move assets and payroll toward low-tax jurisdictions. However, it is well recognized in the public finance literature that real activity is far less tax sensitive than financial activity, so the tax competition pressures associated with the substance-based income exclusion are likely far smaller than those associated with international tax competition over paper profits. There is also evidence that corporations are relatively insensitive to formula weights in their activity decisions (e.g., [Clausing 2016b](#)).

remains, since if an Australian-headquartered firm competes with a multinational based in a nonadopting country, that multinational company may still have advantages associated with very low tax burdens, whereas the Australian multinational company would not. This could lead to corporate inversions (whereby Australian multinationals attempt to redomicile elsewhere). Even if anti-inversion provisions counter that pressure, an Australian company might still worry about their loss of competitiveness in the global marketplace, which itself could reduce the Australian corporate tax base.

Thus, a third layer of fiscal fail-safe was an essential feature of the global minimum tax rules: the undertaxed profits rule, or UTPR. The UTPR protects the tax base of adopting countries from erosion from firms based in nonadopting countries by levying tax on multinational group affiliates that are not subject to a top-up tax under an income inclusion rule, so long as they serve adopting country markets.<sup>23</sup>

In brief, the UTPR means that a top-up tax will still be paid by companies that are resident in hold-out jurisdictions (including their foreign subsidiaries) when they serve adopting country markets; this top-up tax is paid to those countries that do participate. Multinational companies from nonadopting countries still pay a minimum tax, but the revenue won't go to their own governments. This creates a strong incentive for adoption.

Some opponents of the agreement have argued that this mechanism generates sovereignty concerns, since it effectively encourages governments to levy corporate tax of at least 15 percent, and they might otherwise prefer to tax more lightly. However, one could easily counter that the UTPR in fact improves tax sovereignty, by allowing jurisdictions the freedom to tax mobile multinational income, without facing excessive competitive pressures from jurisdictions that levy rock-bottom rates or that design particularly favorable regimes.

Importantly, these rules are designed to operate on a “country-by-country” basis. This makes it difficult for any single jurisdiction to undermine the system by offering haven rates or favorable regimes to multinational affiliates, since their low tax burden will simply be topped up by another jurisdiction (which will collect the resulting revenue). In contrast, a minimum tax system based on global-averaging (e.g., the current US system) still preserves the existence of havens and converts the minimum tax to a “maximum” tax, since multinational companies in a global-averaging system can simply blend income streams from haven and high-tax jurisdictions until they hit the effective tax rate goal. Thus, as [Clausing \(2020a\)](#) documents, a country-by-country minimum tax is (all else equal) a far stronger minimum tax.

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<sup>23</sup> This provision has some policy goals in common with the BEAT (the base erosion anti-abuse tax) that was included as a base protection measure in the 2017 Tax Cuts and Jobs Act and still remains a feature of US tax law.

## Leadership and Spoilers

### *Climate*

While there have been a number of landmark climate agreements, including the Montreal Protocol (1987), the UN Framework Convention on Climate Change (1992), and the Kyoto Protocol (1997), the Paris Agreement (2015) is considered the most significant agreement to date, with nearly universal adoption (excepting Iran, Libya, Yemen, and the recent withdrawals of the United States under President Trump).<sup>24</sup>

Part of the reason for the widespread adoption was the voluntary nature of the climate commitments under the Paris Agreement. Still, the agreement's widespread participation was a significant achievement, and leadership from the governments of the United States, China, and the European Union was instrumental in furthering the agreement. As China and the United States are the two largest emitters, the commitments of their leaders were important. From their first meeting in person in 2013 onwards, President Barack Obama and President Xi Jinping showed personal commitment to making progress on climate change, and both emphasized the importance of international cooperation. Leading up to the agreement, the two governments engaged in concerted efforts toward shaping cooperation, resulting in important joint declarations in [2014](#) and [2015](#) in the run up to the Paris Agreement in December 2015.<sup>25</sup>

The international community has shown a consistent willingness to acknowledge the importance of climate change, even as policy commitments have lacked the necessary ambition. The Conference of the Parties (COP) annual meetings have generated useful discussions and incremental progress, but emissions reductions have nonetheless fallen short. Still, some countries have undertaken ambitious climate action, including many national jurisdictions in Europe as well as the European Union, Chile, and Morocco.<sup>26</sup>

Of late, the demise of US leadership in this area has been problematic. As of January 2026, the US government has announced an intention to withdraw from the UNFCCC in addition to its prior announcements regarding withdrawing from the Paris Agreement itself (in 2017 and 2025, with an intermission of reengagement under President Biden). In 2025, President Trump (alongside the US Congress) also repealed many subsidies for clean energy use in the United States, and took multiple measures to weaken environmental regulations, including rollbacks of clean power regulations, tailpipe regulations, and clean air standards ([Bistline 2025](#)).<sup>27</sup> Further, the administration's tariff policies substantially raised the cost of clean energy products in the United States, including electric vehicles,

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<sup>24</sup> See [Council on Foreign Relations \(2026\)](#) for additional background.

<sup>25</sup> Some key moments in international diplomacy between the United States and China surrounding the Paris Agreement are documented in [Rhodes \(2018\)](#) and by the [Obama Foundation \(2021\)](#), told from the perspective of US government participants.

<sup>26</sup> Some trackers are available [here](#) and [here](#).

<sup>27</sup> The Trump administration also cut government staffing in key agencies, shut down important research streams, and ended the government's use of the social cost of carbon.

solar panels, and batteries.<sup>28</sup> Finally, in 2026, the Trump administration repealed the US Environmental Protection Agency’s “endangerment finding,” which legally designated greenhouse gases as dangerous and thus allowed for them to be regulated.

China has continued to engage in climate policy efforts and has shown remarkable progress in reducing greenhouse gas emissions trajectories. China has arguably recently reached peak emissions, an impressive feat given their manufacturing prowess and per capita income. While China also continues to rely on fossil fuel production (including coal), the Chinese government, alongside many private sector firms, has also invested a great deal in green energy. Indeed Chinese firms have become dominant producers of solar, battery, and electric vehicle (EV) technology ([Yang et al. 2025](#); [IEA 2025](#)).

## **Trade**

The modern international trading system came into place shortly after World War II, as the United States led a multilateral process that culminated in the General Agreement on Tariffs and Trade in Geneva in 1947, which set out key principles of the system, including the most favored nation principle, national treatment, and tariff liberalization commitments. While the agreement did not successfully launch the hoped-for International Trade Organization, due in part to opposition from Republicans in the US Congress, the GATT secretariat acted to administer the agreement among the contracting parties. Multiple rounds of negotiated liberalization were successfully conducted under the auspices of the GATT, and eventually the Uruguay Round of negotiations succeeded in creating the World Trade Organization in 1995.

US government leadership was important in these developments. In [Clashing Over Commerce](#) (chapter 10), Douglas Irwin chronicles the relevant history. Roosevelt administration officials were planning large, world-wide reductions in trade barriers even during World War II, and they negotiated with key allies, including the British government, toward that end. After the war eroded so many countries’ industrial capacity, the US push toward liberalization was multifaceted in motivation: recapturing the gains from trade that had been lost during the prior protectionist era, ensuring markets for US goods and reciprocal trade concessions, and increasing the stability of trading partners.<sup>29</sup>

Over time, as rounds of GATT liberalizations proceeded, other countries took on increasingly important roles. After the formation of the European Economic Community in 1957—which eventually evolved into the European Union in 1993 after the Maastricht Treaty—the European countries became an important negotiating bloc, and Japan’s role increased steadily after joining in 1955. Progress during this century has been slower, and new initiatives or agreements from the WTO have been disappointing. Still, key jurisdictions remain productively engaged, including both the European Union as well as China, which became increasingly engaged since first joining the WTO in 2001. Further, the overall

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<sup>28</sup> Tariffs were not confined to the Trump administration; the Biden administration also utilized tariffs on Chinese production of many clean energy products.

<sup>29</sup> In part, the US push toward most favored nation principles in the GATT was due to its own experience with trading partners’ responses to US Smoot-Hawley tariffs of 1930, which resulted in higher tariffs levied on US goods.

framework of a free and open trading system did not suffer much retrenchment until recently.

However, in recent years, and especially during the second Trump administration, the role of the United States has changed in ways that may undermine the stability of the world trading system. The second Trump administration entailed a particularly seismic shift from the earlier decades, when the United States was a central architect of the global rules-based system. But over the period from 2017 to 2024, the US government moved toward a posture that showed (at best) indifference toward the system, and at times simply disregarded WTO rules. These actions go far beyond the US obstruction of the dispute settlement process discussed above.

In 2025, the US role became particularly destructive, as the US government pursued a blatantly transactional approach to trade with nearly every country in the world, threatening partners with tariffs based on considerations that were often remote from typical trade policy concerns ([Clausing 2025a](#)). These policies discarded any underlying principle (most favored nation or otherwise) and focused instead on extracting concessions from trading partners based on the raw power of the US government.

One key question for the time ahead is whether this Trumpian transactional approach to trade spreads to other important governments, or whether it is relatively contained. In theory, other countries have no incentive to follow the (current) US lead, as they can still retain the full gains from trade among themselves and benefit from a rules-based approach. The European Union has been a staunch defender of the rules-based system in recent years, and many “middle” powers have played important constructive roles. China has also played an increasingly active role in the WTO and WTO reforms, including announcing in 2023 that it would no longer seek special treatment. At the same time, Chinese policies are frequently criticized by other nations for excessive subsidization and insufficient transparency.

Still, a coalition of other countries can easily pursue an open trading regime amongst the rest of the world, even if one large country prominently defects; so far there is little sign that countries will follow the Trump administration down an increasingly protectionist path. While there is some evidence of backsliding ([Kose and Mulabdic 2025](#)), trends in world trade are relatively robust and there are some signs of increased momentum toward new free trade agreements outside the United States, including the recently negotiated EU-Mercosur and EU-India trade agreements.

One danger with regional or plurilateral efforts is that myriad overlapping regimes generate a potential spaghetti bowl of complexity. Ideally, plurilateral groups would be large enough to provide strong norms, rather than a tangle of weaker strands. Toward that end, plurilateral groups should pay close attention to the incentive problem, structuring groups such that there are strong benefits from joining and adopting norms, including measures that protect members from the free-riding of nonmembers. This is easier said than done, but collaboration among “coalitions of the willing” will be essential. The more the present US approach is viewed as an aberration, the better the chances for the world trading system.

## ***International Taxation***

As discussed above, the international tax agreement was possible only after the problems of tax competition, profit shifting, and corporate tax base erosion became widely recognized, coalitions were built in favor of undertaking systemic policy change, and mechanisms were designed to shield adopters from the harmful effects of competition from nonadopters. As the agreement came together in 2021, key leadership was provided by the US government alongside key European partners, and eventually the agreement encompassed the G7, the G20, and the full Inclusive Framework ([Kysar 2024](#); [Clausing 2023](#)).

As noted above, the agreement is now implemented in about 50 jurisdictions, most of whom have also implemented the UTPR.<sup>30</sup> Because the UTPR acts as a backstop, the agreement already covers nearly all income of multinational companies worldwide, since most important multinational companies operate in at least one of the adopting jurisdictions.

Recently, however, the US government adopted negotiating positions that weakened the effectiveness of the global minimum tax, ultimately successfully watering down the agreement ([Soong 2026](#); [Saint-Amans 2026](#)). In particular, the United States promoted a two-track system, with acquiescence from other members of the G7. Under the “side-by-side” system, US companies receive special treatment relative to firms based in other countries, since US minimum taxation would be deemed compliant with the global minimum tax, even though the US regime is weaker in some key respects, including its global-averaging feature (discussed above).

In early 2026, the [OECD announced](#) that the broader group of signatories to the agreement would support the side-by-side system, alongside other changes that expand safe harbors and the ability of governments to utilize nonrefundable tax credits without triggering minimum tax liabilities (OECD 2026b).

While the new side-by-side agreement no longer puts jurisdictions that have adopted UTPRs in the difficult position of levying taxes on US firms in the current climate of US government threats, it also creates important asymmetries that advantage US-headquartered firms.<sup>31</sup> As one example, a US multinational can satisfy the agreement by achieving a globally-averaged minimum tax rate; this leaves it free to blend income from a

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<sup>30</sup> At last tally, 33 jurisdictions have implemented the UTPR, including the EU member states, Australia, Canada, Indonesia, Japan, New Zealand, South Korea, Thailand, Türkiye, and the United Kingdom.

<sup>31</sup> Absent the side-by-side agreement, governments could have simply applied the UTPR to US companies, but levying UTPRs on US firms may risk a delicate balance of cooperation with the United States, which is particularly necessary in the security realm. The Trump administration has threatened tariff escalation, a possible “revenge tax”, and reduced cooperation in other areas. The “revenge tax” refers to the proposed Section 899 tax that was ultimately not included in the 2025 tax and budget legislation; under the tax, foreign investors would face a high and escalating tax rate when certain tax instruments (including digital sales taxes and UTPRs) were used by their home governments. Such a “revenge” tax instrument would be difficult for Congress to pass without relying on a reconciliation vehicle, since it would not have sufficiently broad support. Further, it is unlikely that it would survive scrutiny in a reconciliation effort, since such a tax likely violates Senate budget rules for reconciliation, and it would risk large negative consequences for the US economy. I discuss the 2025 tax and budget legislation elsewhere ([Clausing 2025b](#)).

zero-tax jurisdiction with income taxed in higher tax countries, leaving the multinational group with a minimum tax rate that is also its global *maximum* tax rate. In contrast, other countries are implementing minimum taxes on a country-by-country basis, so higher tax rates in some jurisdictions cannot be offset by tax rates lower than 15 percent elsewhere. One lingering question is whether such intransigence with respect to global cooperation is in the interest of the United States. The US government needs revenue too, and the purported intention of the Trump administration is to encourage US-based economic activity, a policy goal at odds with the US international tax system, which provides a large tax advantage for foreign income relative to US income. A tougher country-by-country minimum tax could both reduce offshoring incentives and bring the US tax rules in line with the global agreement.

Even US multinational companies themselves may benefit from some aspects of conforming the US tax system to the global minimum tax. While such a reform might slightly raise tax payments for some firms, it would also create a more certain tax environment and fewer minimum taxes. At present, US multinational corporations face three minimum taxes at home—the base erosion and anti-abuse regime (BEAT), the minimum tax on foreign income (GILTI/NCTI), and the corporate alternative minimum tax (CAMT)—in addition to foreign regimes. Conforming US reform could make many of these minimum taxes unnecessary, allowing substantial simplification as well as enhanced international cooperation.

While the international tax agreement has lived to see another day, the challenge in future years will be strengthening the agreement and rebuilding international cooperation on tax. Governments will continue to have pressing fiscal needs, and another disruptive wave of technological change (from artificial intelligence) may make the taxation of mobile multinational income an increasingly salient policy objective.

### **III. LESSONS FROM THREE GLOBAL COLLECTIVE ACTION PROBLEMS**

These three collective actions have many elements in common, but also some key differences. Climate is perhaps the world's most vexing global collective action problem, due to both the high stakes and the enormous policy spillovers. Despite today's stresses, an open trading system has mostly been achieved, and maintaining an open trading system is the simplest coordination problem. International tax competition is the most obscure and technocratic of the three problems, rendering the process of reform itself more easily captured by interests opposing systemic change.

In all three cases, policy spillovers are hugely important. Governments have strong incentives to free ride on each other's policy efforts, whether they entail emissions reductions, rules-based trading behavior, or transparent and comprehensive tax regimes. In all cases, competitiveness effects are important for firms; those firms that bear the costs of environmental ambition or robust tax systems will protest that they are disadvantaged relative to their competitors abroad, whereas those firms that receive subsidies will not lose sleep over the adverse consequences for firms abroad with less lavish treatment.

Solving these three problems presents different challenges. In the case of climate change, the expert and public consensus is overwhelming, but the large interjurisdictional spillovers have stymied ambition. Still, the European Union's carbon border adjustment mechanism alongside growing carbon price adoption worldwide suggests that a coalition approach could bear fruit in the coming years, by giving adopting countries a satisfying answer to both competitiveness and free-rider concerns. While the United States has moved backward over the past year, progress in the European Union and China have both been promising, and many countries are poised to appreciate the appeal of climate coalitions.

An open trading system has some public support, even as it enjoys broad support among experts. Progress in generating a rules-based trading system in the wake of World War II was remarkable; even in the early part of this century, when liberalization efforts slowed and stalled, the system succeeded in enabling the gains from trade to be widely enjoyed. At present, the US government is playing a very destructive "spoiler" role against a system it once championed. The challenge for the rest of the world will be to retain an open system together, even during a time of severe global strain.

With respect to international tax competition, some important progress has been made. Addressing the incentives for adoption, and how to handle nonadopting jurisdictions, was essential. The UTPR provided a crucial fiscal fail-safe that both protected adopters from nonadopters and encouraged adoption. At this point, nearly all global multinational income is covered by the Pillar 2 minimum tax agreement. That said, the US government has again acted as a spoiler, taking a position that has weakened the agreement in important ways. While the agreement survived, the rest of the world accommodated the demands of the United States, given the dominant role of US multinational companies as well as threats from the Trump administration. Down the road, governments will have opportunities to strengthen the agreement when conditions change.

## **Two Overarching Lessons**

Comparisons of these three global collective action problems provide two key lessons. First, when important global problems arise with substantial impacts on populations, experts often emphasize the importance of knowledge, coalition building, and leadership. While these factors are important, and even prerequisite, components of systemic policy solutions, they don't speak to the core collective action problem. To motivate governments to take difficult policy decisions in the face of strong free-riding incentives and fears regarding domestic firms' competitiveness, there must be mechanisms in place to encourage policy adoption and to protect adopters from the actions of nonadopters. In both climate policy and international tax policy, novel policy tools (the carbon border adjustment mechanism and the undertaxed profits rule) have helped answer the fundamental question of how to incentivize ambitious policy. While each tool is technocratic and misunderstood, they both have enormous potential in furthering solutions to longstanding global collective action problems.

Second, at present, the world needs collective action around the importance of global collective action, to counter the forces of disintegration and isolationism put

forward by spoilers. One path forward in that regard was suggested by Canadian prime minister Mark Carney in his cogent [January 2026 Davos speech](#): “To help solve global problems, we’re pursuing variable geometry, in other words, different coalitions for different issues based on common values and interests.” Indeed, thought leaders in the United States and Europe have also called for “coalitions of the willing” to address global problems, even as more comprehensive multilateralism appears unachievable. Such coalitions can be based around groups that share common goals. In the case of world trade, the coalition in favor of an open trading system may be a large subset of the world economy. In the case of carbon mitigation, even focusing on the 17 large jurisdictions that utilize carbon pricing would capture the vast majority of the world’s emissions, and allow climate coalitions to expand outward based on effective solutions. In the case of tax competition, similar approaches could bear fruit, if governments work together to identify pragmatic paths forward.

In these instances, and no doubt many others, resisting the dissolution of global systems of cooperation requires sustained engagement in international diplomacy, consensus building, and ambition. Even big countries have no room to “go it alone”; standing together around common interests and values is essential. Carney emphasizes that: “This is not naive multilateralism, nor is it relying on their institutions. It is building the coalitions that work, issue by issue, with partners who share enough common ground to act together.”

With luck, this vision, no doubt widely shared in many corners of the world, will be realized. Instead of adopting postures of defensiveness and zero-sum thinking, governments can build a positive agenda for responding to global collective action problems while also fostering resilience against would-be spoilers.

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