

From trade war to class war: Screw Pfizer's drug patents

By Dean Baker

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Wars always have unpredictable outcomes. It is unlikely that George W. Bush anticipated that the Iraq war would destabilize the Middle East for two decades, and possibly quite a bit longer. World War I resulted in the collapse of four European empires and emergence of the Soviet Union as a world power.

In this vein, we can hope that something positive may emerge from Donald Trump's ill-conceived trade war. Specifically, it may lead the United States and the world to re-examine the system of patent and copyright monopolies that we have been expanding and extending for the last four decades.

While the Trump administration's tactics and goals seem to be constantly shifting, the one thing that has won applause from the Washington elite is cracking down on China's "theft" of our intellectual property. As Washington Post columnist Catherine Rampell aptly framed the issue, when she told readers that stopping China from using intellectual property claimed by US corporations is "our" real concern in dealing with China.

Specifically, China requires foreign companies to transfer technology as a condition of investing in China. There are also complaints that Chinese producers of drugs, software, videos, and recorded music don't properly compensate US patent and copyright holders.

For example, a company like Boeing would be required to partner with a Chinese firm if it wants to do business in China. Boeing's Chinese partner would then gain expertise in using Boeing's technology so that in a few years it could be a competitor with Boeing or one of its supplier firms.

It's striking that this should be a major concern for the US in trade negotiations. No one puts a gun to Boeing's head when it decides to accept

this arrangement from China. It presumably agrees to make the deal because it expects to make a profit even with the required technology transfer.

To take an analogous situation where the US courts came down on the other side, the Supreme Court recently ruled that employers can require workers to accept arbitration — giving up their right to sue — as a condition of employment. The court said that workers freely choose an employment package and if they don't want to sign away their right to sue, they can work for a different company.

So here we have the US government saying that Boeing and other multinationals need protection from big bad China, because otherwise they will sign contracts that are bad for them, but an individual worker, taking a job from one of these companies, doesn't need protection. Okay, we get the picture.

The class issues are even more extreme with patents and copyrights. These government-granted monopolies are forms of protectionism. Yes, that's "protectionism," as in the opposite of free trade.

Unlike the usual trade barriers in the form of tariffs or quotas, these monopolies don't raise the price of items by just 10 percent or 25 percent; they raise the price of protected items by several thousand or even tens of thousands of percent. Drugs would be cheap without these protections and software would be free.

We have made these protections both longer and stronger over the last four decades. In the process, we have redistributed a massive amount of income upward. Bill Gates would likely still be working for a living if there were no patents or copyrights on Microsoft software.

If instead of giving in to Trump's bluster, China goes the other way and tells him to forget all about his antiquated intellectual property claims, it could lead to the demise of patent and copyrights. In the extreme case, suppose China began to mass produce drugs on which Pfizer and other US companies claimed patent rights, and started selling them all over the world at generic prices. If people in the US could get access to these drugs, it would save us around \$380 billion a year (roughly 2.0 percent of GDP).

Similarly, there would be a plunge in the cost of medical equipment. MRIs and other advanced technologies would no longer be expensive. Software would be free, as would movies, recorded music, and a wide variety of other material.

This would lead to a large improvement in living standards for the bulk of the US population, even as a small group at the top would see a huge hit to their wealth and income. Of course, we would have to design a 21st century mechanism for supporting innovation and creative work, but it would be very difficult to do worse than the current system.

Eliminating patent and copyright monopolies is not the most likely outcome of Trump's trade war, but it is a possible outcome, and one that would make most of us winners from this war.

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