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Dean Baker on Beating Inequality & COVID-19: Tackle Patent and Copyright Monopolies

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Beat the Press
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DEAN BAKER
RIGGE

Intellectual property like pharmaceutical patents is one reason so many people face a long wait for COVID-19 vaccines says Dean Baker. GPEnewsdocs

TRANSCRIPT

LYNN FRIES: I am delighted to have Dean Baker joining us today. He'll be talking about policy choices in an area where the stakes are especially high when it to comes to arresting an alarming trend in inequality. That area is US policy for the financing of drug and vaccine development. Specifically, patent and IP [intellectual property] monopoly financing. This is a matter of concern not only in US domestic rule making but globally as US trade policy effectively implements US type IP standards as international standards in the rules based system of world trade.

Dean Baker is a Senior Economist at the Center for Economic and Policy Research, CEPR. Prior to this, he was co-director of CEPR which he co-founded in 1999. Dean Baker has authored numerous books and is a prolific commentator. His most recent book is Rigged: How Globalization and the Rules of the Modern Economy Were Structured to Make the Rich Richer. The renowned CEPR blog, Beat the Press is home to Dean Baker's commentary on economic reporting. Welcome Dean.

DEAN BAKER: Thanks for having me on.

FRIES: Let's open with some thoughts on inequality as a policy choice.

BAKER: The reason why we have people like Bill Gates and Jeff Bezos and the others with incredible amounts of wealth; the reason that they became so wealthy was that we have more inequality before tax income.

If we look at the share of income, that's gone to the top 1%, it's more than doubled. So if we go back to the 1970s it was around 8%, 9% and again before tax income. Now it's currently over 20%. It's even a little higher if you count capital gains. I tend not to, for reasons that don't want to go into.

But in any case, their share of income has more than doubled. And basically that's money that would have been otherwise in the hands of people at the middle and bottom. So that's a huge, huge amount of money.

These are policy choices. We could structure the market any number of different ways. And the way we've chosen to structure it has very much benefited those at the top and been to the detriment of the bulk of the population.

So what I'm arguing is we should think about the way we structure the market. Look to structure it differently so that we don't send so much of the income to those at the top.

FRIES: Dean, you've examined how rules on trade and on patents, copyrights, corporate governance, and macroeconomic policy were rigged to make income flow upward and so make the rich richer.

I wanted to focus on patent and copyright rules as you point out that that's where the most money is at stake. So. first comment on that. And then later I'd like to ask you to connect the dots to what's going on with the COVID-19 healthcare crisis. So first comment on the huge amount of money at stake in patent and copyright monopolies and most notably prescription drugs.

BAKER: These are quite explicit policies. I mean, they're in place to promote innovation, promote creative work. And of course they do that but these are policies that could be altered. They could be shorter. They could be weaker. We could structure those any way we like.

And we could also have alternative mechanisms. We don't have to support creative work, innovation with patent and copyright monopolies. We use alternative mechanisms.

And I calculated, this was a couple of years ago now, but I calculated how much income is redistributed upward from patent and copyright monopolies. I came to over a trillion dollars a year. It's a rough number but I think it's a very much a ballpark number. And to give them that some perspective, a trillion dollars a year is roughly half of all before tax profits.

So it's a very big number relative to our economy. If we compare it to the military budget it's about 25% more than the entire U.S. military budget.

So we're talking about a very, very large sum that again, we don't have to structure the market that way. We don't have to have patent and copyright monopolies to support innovation, creative work, or even if we do have them, we could make them shorter. We can make them or weaker. That's a policy choice.

FRIES: We should note prescription drug costs are the biggest chunk of that $ trillion a year number you just mentioned. Let's drill down into bipartisan policy choices behind that upward trend in US spending on prescription drugs. I am thinking here about the 1980 Bayh-Dole Act.

In your book *The United States Since 1980* you chronicle this kind of bipartisan backing of an upward redistribution of income across the board in Republican and Democratic administrations alike. So in the case of prescription drug costs, what was so significant about Bayh-Dole?

BAKER: Yeah. So prior to the Bayh-Dole Act, it was passed in 1980 and bipartisan. Bayh was a very prominent Democrat, a leader of the Democratic Party. Dole was a leader of the Republican Party, of course, ran for President some years later in 1996. So these are very prominent members of the Senate. And the main thing that the Bayh-Dole Act did was it allowed for private companies to patent government sponsored research.

What this meant was prior to 1980 you had a lot, we still have a lot of research sponsored by most importantly the National Institutes of Health but other government agencies as well that you had kind of ambiguous claims to. So that there was no clear ownership of that other than the government. So the government sponsored the research. And if someone wanted to develop a drug, they wouldn't necessarily be able to get a patent on it because the government had sponsored the research.

So that gave drug companies relatively little incentive to spend a lot of money on developing drugs where the government was the main actor. Which is the case in most drugs, I should point out. Most drugs, when people analyze, this the vast majority of drugs did have a significant component of government funded research.

So the Bayh-Dole Act passes, again bipartisan, I forget the exact number but it was overwhelming. It was like 90 votes for and four or five against. Carter was President at the time. He signed it. So again, it was overwhelming support.

And after that drug prices began to just soar. And it's sort of striking, and it was actually striking to me when I looked at the data. Because I myself, I just assumed…if you live in the United States you know rising drug prices are just sort of taken as a given. Kind of like the sun coming up in the morning.

Well, we actually didn't have rising drug prices until Bayh-Dole. So if you look at a period that at least I found good data might be able to go back further but from 1960 to 1980 spending on drugs as a share of GDP basically was flat. There was literally no trend in it whatsoever.

So in 1980, we were spending about four-tenths of a percent of GDP. That'd be about $80 billion a year in the U. S. economy on prescription drugs.

Since then, it's more than quintupled as a share of GDP. So now we're spending about 2.2% of GDP. We're spending around $500 billion a year on prescription drugs. So the share of drug spending in our economy, it just soared since by Bayh-Dole.

I don’t mean to blame that all on Bayh-Dole because we had other policies that also came into play. But that really was a turning point. So from that point onward we had this enormous upward trend in spending on our prescription drugs.

And again, I should also add a qualification here. I’m sure there were drugs that were developed because of Bayh-Dole. So it wasn’t all negative. It wasn’t that we just started throwing all this money in the garbage. But the point was we qualitatively changed the nature of that market with Bayh-Dole and subsequent legislation that increased the importance of patent and related monopolies in the prescription drug industry.

FRIES: Dean, you’ve pointed to the huge amount of money at stake in patent and copyright monopolies and most notably prescription drugs. And yet despite all this, costs associated with intellectual property claims almost never come up in debates around the US budget deficit.

BAKER: Yeah and this is something that’s been striking to me. Because here again, it’s one of those things that, you know, I harangue my fellow economists about. Because patent and copyright monopolies are a way that the government pays for things. And this shouldn’t be like a questionable proposition. It’s quite explicit.

Why do we give the drug company a patent monopoly? Well, we want them to innovate.

Well, that’s fine. So we could think: well, one way we get them to innovate is we pay them for it. And of course, if we pay them, well then that’s spending and it adds to the budget deficit. So they go: oh, we don’t want to pay for them; we’ll give them a monopoly.

Okay, well that's how we're paying for it. And the way that that comes out of taxpayers' pockets is when they go to the drug store and they buy their drugs and it sells for ten or a hundred times what it would sell for if they didn't have a patent monopoly.

But for some reason, when we have these discussions about deficits and debt, no one ever takes into account the amount of money that we're committing the public to with the copyrights and patents that we're granting in a given year.

So it's to my mind kind of bizarre. And they are very, very large numbers. Because again, I mentioned that calculation that we're spending about a $trillion or more a year buying medical equipment, pharmaceutical software and other items because of patent and copyright monopolies.

That's way more than what we spend on interest in a year. I mean, the government's interest burden, people yell about our interest burden on the debt, that's around $250 billion. I'd have to look at the exact number, but that'd be a ballpark number. So that's, way lower than what our burden is from patent and copyright monopolies.

So if we're really concerned about: Oh my God! What's going to happen in the future? Our children? We're giving them this huge debt. Oh, we better talk about patent and copyright monopolies too. Because they're going to be paying a lot more money for drugs, for software, for all these other things. Because that's how we chose to pay for different items in 2020, in 2019 and prior years.

FRIES: So talk about how it is that unlike almost all other U.S. industries, the healthcare industry doesn't practice marginal cost pricing.

BAKER: Well, this is one of the things that's really striking to me as an economist. I don't know how many times I've talked to economists. I talk about a patent as a monopoly that raises price as being equivalent to a tariff. And they look at me kind of blank faced. For economists, the idea that goods should sell at their marginal cost, it's the Bible.

You have to believe that or they take away your economist's card. So if there were 25% tariff on this shirt, every economist would say: well, that's inefficient. I should be able to get this at the marginal cost. We shouldn't have the government putting in a 25% tariff.

And on top of that, that leads to corruption because companies will try to find ways to evade it. Other companies that are benefiting from the tariff will try to make it higher. They'll try to extend it. So if it was supposed to be a two year tariff, they'll try to make it a three-year tariff.

All of those things are entirely true by the way. So I'm not saying that's wrong. But the point I make make I talk about prescription drugs, medical equipment is we aren't talking about 10% or 25% tariffs. We might be talking about a 10,000% tariffs.

So just to take kind of simple arithmetic on this a typical drug, drugs are almost always cheap to manufacture and distribute. There are some exceptions, but the vast, vast majority of drugs are very cheap to manufacture and distribute. So you go, okay.

Imagine we have a drug that's being sold as generic. Anyone who wants to can produce it. It sells for $10. You know, that'd be a very reasonable prescription price .In fact, you'd get a lot of generics for $10.

So you go: okay, well now we have a monopoly on it. And this is a cancer drug or something that people need for their life, for their health, it might sell for a thousand dollars. So we're talking about a hundred fold increase. That's a 10,000% tariff.

When I raise that often times with economists, they look at me kind of blank faced and say: well, that's not the same thing. And my point is the market doesn't care. So if you could tell me why a 10% tariff or 25%

tariff was bad, all of that has to apply but much more so for a 10,000% tariff.

And that’s not just an abstract issue. So we see this all the time that drug companies because they could sell drugs for so much more for such a huge markup that, one, they try to basically I shouldn’t use the word bribe but they try to influence, lobby, politicians. They engage in all sorts of questionable legal practices.

And most importantly, they mislead doctors, the public about the safety and effectiveness of their drugs. And the most dramatic case of this was just, I was going to say a few years ago but it’s ongoing, is our opioid crisis.

There’ve been several major suits where drug companies, they’ve lost some of the suits others that they’ve settled where the basis of the lawsuit is that they misled doctors about the addictiveness of their drugs.

They said that they were much less addictive than in fact they were. And they knew that to be the case that that’s the allegation. Again, they’ve lost cases. They’ve paid very large settlements based on that.

So not to say we wouldn’t have had a problem with opioids absent this, but it’s now a matter of public record that we had major drug companies pushing these opioids. And again, they had enormous incentive to because they had a patent monopoly. And they could sell them much more…they had a much higher price than the generic equivalent.

This shouldn’t be an abstract notion. We see it. Again that’s the most dramatic example. There are many, many others that we could go back and not as consequential but we can go back and find many other cases where drug companies misled doctors about the safety or effectiveness of their drugs.

But it’s an enormous cost that is directly associated with the patent monopoly. If they were selling at generic prices, not that they suddenly become good people, but they just don’t have that incentive. So, you know, it’s the sort of thing that we should be very concerned about.

I think from any reasonable perspective we would be much better off and the U S really stands out here compared to other countries because we don’t have any sort of price controls on prescription drugs, but we’d be much better off in a world where drugs were just sold in the free market where any generic could come in.

Again, I don’t want to get rid of the Food and Drug Administration. I want to maintain safety standards. But again with generics they have to maintain safety standards and they could just compete freely. So we’d have much lower prices.

So most immediately, what this means is we won’t have these kinds of heart wrenching stories. Where, okay, here’s someone who needs this cancer drug, but it costs $80,000, a $100,000 a year and maybe they’re 82 years old. And you know we don’t really know how long they’d live otherwise. So should the government pick up the tab? Should the insurer pick up the tab? I mean, okay, so that could be a hard question. Maybe not. Maybe we think they should get it. But in any case it’s a lot of money. No way around it. You go: Oh wait, it’s actually a generic. It costs $200. Well, you wouldn’t have to give that a lot of thought.

We create these horrible problems for ourselves by having these drugs sold at these very high prices. And again, it’s entirely patent and copyright monopolies. And again, getting to that point, I raised earlier that we give incentives. It’s bizarre to me because obviously economists think people respond to incentives. So I go: Oh. We give them incentives to lie, to mislead doctors about the safety and effectiveness of their drugs.

And, you know, people look at me blank faced. Well, of course the drug companies respond to incentives. Why don’t we think they would do that? You know? Cause they’re good people. I mean, I wouldn’t say they are necessarily evil people. But if they can make a lot of money by not being entirely honest about the safety and effectiveness of their drug, yeah, they are going to do that.

FRIES: Your book *The Conservative Nanny State* debunked the myth that conservatives favor the market over government intervention. And how in fact, conservatives rely on what you call a range of “nanny state” policies that ensure the rich get richer while leaving most Americans worse off.

In the case of the healthcare industry, US patent and copyright standards commit the US government to use US state power is committed to intervene at home and in the rest of the world in ways that restrict and discipline market competitors that undercut pharmaceutical monopoly prices. Yet modest proposals, for instance, price controls to keep medicines at an affordable level get trashed as big government interference.

BAKER: Yeah. I mean, one of the things that sort of mind-boggling to me again, I mentioned the US as an outlier in the sense that we give companies patent monopolies and we don’t have any price controls. Whereas if you look at France, Germany, Canada, UK, whoever, they all have some mechanism, whether it’s a negotiated price or price control, they have some mechanism restraining prices.

We don’t have that here. And when people propose that, you get this argument, Oh, well, we don’t want the government X, Y, and Z. And you go: wait, the government is who made it expensive. So it’s been amazing to me because so many progressive literally embrace this: That: oh, we need the government to come in and restrain them we can’t leave it up to the market.

No if we left up to the market, they would be cheap. So we actually have this whole argument turned on its head. That we have drugs that are expensive because the government gave them a patent monopoly. And then if we do anything to restrain the price, then that’s government intervention.

So it’s, it’s totally arguing on its head. When we should be saying: well, we actually want less government here. We’d be happy. Or last least I’ll say, I would be happy if we didn’t give them the patent monopolies to begin with.

But if you do give them a patent monopoly, then it makes perfect sense to say: well, we’re not going to give you a monopoly on a drug that people need for their life, for their health, and then say: charge, whatever you feel like. That’s not a free market. That’s a very, very big government intervention.

And again, it’s just bizarre to me that progressives have allowed this logic to be turned on its head. And have that somehow; you know, in the United States, it’s now become called socialism. You know? So, so if the government doesn’t give you an unrestrained patent monopoly it’s socialism. It’s kind of bizarre my understanding of socialism, but that’s how it’s portrayed here.

FRIES: Dean,when it comes to US policy projected at the international level, you advise US progressives to actively oppose conditions in trade agreements that force other countries to impose US type Intellectual Property Rights. And that US progressives should watch out for initiatives that are pushing for stronger IP rules or TRIPS PLUS IP provisions. That meaning IP provisions that ratchet up minimum standards imposed in the 1995 WTO TRIPS Agreement

BAKER: Yeah. So one of the main goals of U S trade policy over the last three decades, at least, has been to have stronger and longer patent and copyright rules in our trading partners. So you could point to this in NAFTA that we signed with Mexico in 1993. We put these rules in the TRIPS Agreement, the TRIPS Accords that were put in the Uruguay Round at the GATT, that was the WTO in 1995.

And really in all subsequent trade agreements we’ve had a stronger patent copyright rules front and center. That was true of the

Trans-Pacific Partnership which of course we pulled out of. Well, Donald Trump pulled us out of it. But that was a very, very big part of it.

It was kind of ironic. I sorted like to jibe some of my friends who are big supporters of the Trans-Pacific Partnership; they would have had their deal if they hadn't been arguing for three years over the exact terms of patent rules. Because that was the big obstacle to getting the final deal.

So, anyhow, so long and short, that's been a very major goal of, of our trade policy really for at least three decades. And again, I argue that that's not something most of us have an interest in. So making people in the developing world pay higher prices for Merck's drugs, for Pfizer's drugs that's not in the interest of the public as a whole.

And the other part of that story of course, is that if they paid low drug prices, well, one, you could actually go to those countries or you could bring their drugs here but also it just makes a vivid example. So if you see that the drug that's selling for a $100,000 in the United States is selling for $300 or $400 in India, sometimes you do see that, then it makes it harder to justify paying a $100,000 in the United States.

So if you could wipe out generic drugs in large chunks of the world, as we've tried to do, it makes our drug companies more secure in their patent monopolies. So again, it's both that we could have people going there for the drugs. That sounds absurd. And it is, but on the other hand, if you could save $100,000, you'd do it. You could have the drugs brought here. Again, we try to make that difficult but it's hard to keep hard to keep drugs out. We know that with drugs like heroin or cocaine. It's also hard to keep out cancer drugs, same story.

I have a web bookmark that has all these drugs at the price they're available as generics, primarily in India but other developed countries as well, compared to what the price is in the United States. And again, in many cases, I think in most cases they're less than 1% in some cases, less than one-tenth of 1% [0.001%].

So being able to show that is very dramatic. So people understand these drugs don't have to be expensive. We structured the market so that they're expensive.

FRIES: Give us more context on how IP rights built into the rules written into world trade agreements serve as a powerful deterrent to competition.

BAKER: Yeah, well, in principle, if we believed in free trade which is supposed to be for economists, at least the gospel, we should want as many producers of drugs around the world; we'd like competition in other words. We'd like worldwide competition.

And with drugs, it's very vivid because you have a huge generic industry in India. It's often referred to as the pharmacy of the world because they're far and away, the leading, not just generic producer, leading producer of drugs.

We should see that as a great thing. We should see that: Wow, that's fantastic. Here's India supplying not just its own population which is of course huge but much of the developing world with prescription drugs at low prices.

And we should want that in the United States. So we really should be trying to see this as something you'd want to foster that: Oh, isn't this great. Think all the money and lives we'll save by having widely available prescription drugs at low prices. But instead, the US trade policy has been to try and quash that.

In fact, you know, as an economist, you always go: Writing stuff. Where does it have an impact? And you usually don't know. I mean, you like to think you had an impact, but it's very hard to point out: Okay. I did this and it had an impact there.

But I remember some years ago, probably about six; seven years ago it was during the Obama years the U.S. was trying to get India to change its patent law. Because India, you could either think of it as a strong patent law or weak, it’s difficult to get a patent in India. So some would call that weak because you can’t get patents on a lot of things you can in the US. You could also say it’s strong because you have a high standard.

One of the big issues with their patent law is that they don’t grant patents on combination drugs. So if you take two existing drugs, you put them together and go: oh wow, this is a great new drug; that’s not considered innovative in India. So it won’t get a patent. So we have some examples of drugs that in the U S are selling for over a $100,000 because they are patented and the generic equivalent in India is selling for a few hundred dollars.

So the U.S. was trying to pressure India to change its patent law. This again, under the Obama Administration goes back to this being bipartisan. It’s not a Republican or Democratic thing. It was both parties. So they were trying hard to pressure India to change its patent law. And they were actually considering it. Anyhow, I co-wrote a piece with Joe Stiglitz and Arjun Jayadev who’s actually Indian or Indian by birth. But he might be a U.S. citizen now. He teaches here.

But in any case, we wrote a piece that we managed to get in India’s largest newspaper arguing that this was a bad policy for them. There was no reason for them to change their patent law. They had good patent law. It provided the right incentives and this would just be a big hit to their generic industry.

So after we wrote it, they invited Joe Stiglitz, of course a Nobel Prize winner, someone more prominent than Arjun and myself, they invited him to meet with the Finance Minister. I think he also met with the Prime Minister. And he gave the argument in person and the Finance Minister said: okay, it sounds good. And he killed the legislation.

So that was, you know, that was good to see. As I say, I think it was the right policy. And of course it’s always nice to know: Okay. We actually had a little impact here. So that was a very good thing.

FRIES: The headline of a New York Times OP-ED you recently co-authored reads: *Want Vaccines Fast? Suspend Intellectual Property Rights. Otherwise, there won't be enough shots to go around, even in rich countries.* Tell us something about that.

BAKER: We wrote this piece in support of a resolution before the World Trade Organization that was proposed by both South Africa and India which would have suspended intellectual property rights for the duration of the pandemic for treatments and vaccines.

And it's had the support of a number of developing countries. It's been blocked by the US and most European countries. I think there might be some that have supported it. But most European countries, they have big drug drug companies too, have opposed that.

And the logic here is that we face this worldwide pandemic. It's really an extraordinary situation. I think everyone would agree. And we should want to bring it under control as quickly as possible. And what that means in the realm of treatments, anyone who could produce a treatment should be able to and distribute it at whatever it costs them.

We shouldn't have patents, patent enforcement at least. I mean, they can still have the patent but it shouldn't be enforced for the period of the pandemic so that people can get treatments at an affordable price.

And same with the vaccine; we should want the vaccines to be distributed as widely, as freely as possible. With the idea that we can get the whole world vaccinated, protected against this pandemic as quickly as possible.

And it's striking we in the early days [inaud] in the United States, again I don't know how much I can blame the patent monopoly suppose they just didn't have planning, but you would have liked to have seen us stockpiling vaccines here. I'm just thinking of the U S, stockpiling vaccines. So that as soon as it was approved, you would have hundreds of millions of doses available to be distributed as quickly as possible.

We didn’t do that. So again, how much of that was due to the fact that they were at patent protected prices so we had to pay a higher price for the vaccine as opposed to just really poor planning, I can’t answer that.

But what you would like sort of abstractly is: okay, we have a vaccine that’s going into its final phase, phase three clinical testing. We don’t know whether it will pass. I mean obviously people said: well, might not have, you know, the, the Pfizer vaccine, the Moderna, they may not have been approved. Of course. we don’t know that.

But the downside, suppose we had each of them make 200 million doses so that the day they were approved we could begin to distribute them, the downside of that, maybe it comes to the end of their trial and it goes it doesn’t work. Okay.

So we threw 200 million vaccines in the garbage. That would cost, you know, if you just take production costs, maybe $400 million. I mean, that’s not trivial. But we just had a relief bill of $900 billion.

So if we could bring the pandemic under control a month sooner by having a stockpile that’s an incredible gain, obviously, in terms of the economy. Even more importantly people’s lives. People wouldn’t get sick. People wouldn’t die. And we’d like to see that throughout the world.

I mean, intellectual property should not be a limitation. And unfortunately it is. Again I’ve argued with people and they say: well, there’s limited capacity. Well, we do have limited capacity; part of that story is because you have intellectual property. If you’re going to get arrested for producing the vaccine, you’re not going to produce it.

FRIES: In other words, because patent and other IP monopoly claims over the vaccine are concentrated in the hands of very few manufacturers largely multinational corporates headquartered in the rich developed countries like the US, UK & the European Union. And by defending the IP status quo despite being in a global pandemic, these powerful multinationals and their rich country backers effectively limit worldwide supply.

BAKER: Yeah. Well, this is, this is directly what the WTO resolution was about attacking. Because what happened with the major vaccine manufacturers – Moderna, Pfizer, Johnson & Johnson which has one still under trial, Oxford Astra Zeneca – the US and European countries have locked up the vast majority of the doses that are going to be available this year 2020 and 2021. And what that means is that for the developing world, they're going to be left out in the cold.

That's a really horrible story. One part of the picture I should mention is that China does have vaccines and they are distributing them, or so it seems to much of the developing world. And to my mind, that's a good thing. I mean, it would be much better if we were all collaborating rather than having this I think crazy competition so that everyone who could produce a vaccine that was safe and effective would be able to.

But in any case, if we're preventing them from getting the vaccines that are developed by Pfizer, Moderna and the other companies in the U S and Europe, I think it's fantastic that China's filling the gap. I guess Russia also has a vaccine and that it looks like they're looking to sell that in the developing world as well.

So, you know, that's, that's a positive, but only from the standpoint that we have a really bad system here. So in that context, it's good that we have China and Russia that are prepared to come in and at least partially fill the gap.

FRIES: Defenders of the IP status quo, so for instance WTO Member States that oppose suspending COVID-19 related IP for the duration of the pandemic claim proponents of the WTO TRIPS waiver are misguided. And that IP, so strong patent and related IP monopolies are a necessary incentive and a just reward for private sector champions of innovation needed to contain & treat COVID-19.

So far, US policy backs that view. And under business as usual, as you commented earlier, the US government so ultimately US taxpayers pay the price tag of about one trillion dollars per year for that policy. So you are telling progressives the real expertise of the major pharmaceutical manufacturers at present is their marketing, not innovation.

BAKER: Yeah, this again is hardly a secret. I think almost anyone in the industry would agree with this. Most of the innovation that you see in the prescription drug industry is by relatively small startups.

People will sometimes point to high drug prices in the U S and they go: well, that's why we have all the drug development here. So a disproportionate number of new drugs are developed in the U S. That's of course true. But if you actually look where the drug companies are located, you have a very high percentage of the sort of startup drug companies they're located in Maryland right near the National Institutes of Health.

And guess what happens? You have people work at the National Institutes of Health for 10-15 years. They develop a reputation. They go to venture capitalists then they get $40, $50, $60 million whatever it might be. And the idea is that they'll work really hard, trying to pursue some new drug that they sort of got the idea for at the National Institutes of Health they'll build on their work there.

Their big hope is that they'll have a breakthrough before they run out of money. And some do. And then their hope is that Pfizer, Merck, one of the other big companies will buy them out, which often happens. Of course, if they don't come up with anything, they go under and a lot of them do go under. So they burn through $40-$50 million and they don't have anything left and they're out of business.

But again, their big hope is that they will have some breakthrough drug that one of the big drug companies will then come in and buy them out. And what the drug company has to offer is that they have the established marketing network. So these startups don't have any marketing network.

They're just doing research. They don't, you know, they have no expertise in marketing. They wouldn't know where to begin. So their hope is that they'll get one of the big drug companies to buy them out.

FRIES: You call for a serious debate on alternatives to patent monopoly financing and so a rethink of what would be the best mechanisms for financing the development of drugs and vaccines. Your own argument is the key goal for a progressive policy should be to separate the payment for the research from the payment for the drug. You want more debate on advantages of open source versus patent monopoly policy. So briefly, give us something of a picture of what that might look like.

BAKER: Yeah. If you think of what we want here, we want new drugs being developed. We don't necessarily want them being marketed. And I should be careful here. Obviously it doesn't do us any good. If you know, some research team in Maryland comes up with a great new drug and no one knows about it. So people have to know about it.

But we don't need it marketed in the sense that we don't need a drug company going: Oh, this is the best thing that ever happened. We want them to honestly convey what the benefits of a particular drug are, what the downsides are, as best they know it. And if we didn't have the system we had today, there just wouldn't be an incentive to lie.

In terms of thinking of alternative mechanisms, I would just pay the money upfront. We spend $40 billion a year; the US government spends 40 billion a year financing mostly basic research through the National Institutes of Health. Let's double or triple that and actually pay for the development and testing of drugs.

Well a big advantage of going that route is that it could all be open research. So we could say: okay, if you're getting money from the government, that means everything you do is fully open. So as soon as you have a result, you've done some lab tests, you're doing clinical trials, whatever it might be, it gets posted on the web as soon as practical.

So what that means is other researchers will learn from your successes. They'll learn from your mistakes. They won't follow blind alleys if they see that what you did wasn't going anywhere, they would know that. And they wouldn't waste their own efforts on it.

So that to my mind is a very, very important benefit that if we paid for the research upfront we could say that: Okay. It's all open. Everyone has access to everything.

I should also add in there we get a break, a discontinuity, I can't think of a better term. We get a story where a drug company has an incentive to pursue research that leads to a patentable product but there's often times evidence that maybe an old drug is going to be very effective for treating a particular condition.

There's been some evidence that with the coronavirus, that some off-patent drugs, there's some evidence that they might be very effective treatments. Well, we want those to be pursued. And again, if we have direct funding those leads can be pursued.

But you aren't going to have a Pfizer, you aren't going to have a Merck, big drug companies aren't going to do it. Because they have no particular interest in doing that or at least in general, they won't. I mean, sometimes they may do that as sort of a charitable thing. But they're not going to do it if they can't get…if there's no patent monopoly for them.

So again, that would be another benefit of directly financing research. That we wouldn't have this break where drug companies doing research think: Oh, well, that's an off-patent drug so we'll just drop that. Instead they'd have incentive to keep pursuing that as long as it seemed like it might lead to a useful drug.

FRIES: So the way you see it a big advantage of going the route of direct funding is that it would be be open source posted on the web. What then is your take on vaccine nationalism which has been a major issue in the world's response to the COVID-19 health crisis.

BAKER: The idea that we have a national interest, so you'll often hear people in the U S say: Oh, they're stealing our intellectual property. And I always go: well, it's not my intellectual property. We don't have a national interest in seeing Pfizer being able to charge very high prices for its drugs either in the developing world or in the United States. That's an interest that Pfizer has. So if you have a lot of stock in Pfizer, you have that interest. If you're a top executive at Pfizer, you have that interest. It's not a general interest that we have.

So, the important thing to try to get progressives in the United States in Europe to realize is those drug companies don't represent us. They represent themselves. And just as people in Sub-Saharan Africa and Latin America, Asia don't want to pay high drug prices, there's no reason we should want to either.

Patent monopolies are very inefficient mechanisms for developing drugs and we should be looking to alternatives and not trying to reinforce what to my mind is a very broken system.

FRIES: Dean Baker, thank you.

BAKER: Thanks for having me on, Lynn.

FRIES: And from Geneva, Switzerland thank you for joining us in this episode of GPEnewsdocs.

End Transcript