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Globalizing restricted and segmented markets. Challenges to theory and values in economic sociology

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The efforts by the world's most powerful corporations to develop global markets have spawned a substantial sociological and economic literature on how transnational markets form, what stages characterize market development, and what rules of exchange are most effective. As the authors of a prominent article put it, "the central question is...what kinds of rules and structures promote market activity and what kinds stifle it" (Fligstein and Stone Sweet 2002:1212). Such a goal assumes market activity to be a *per se* good, part of the grand globalization blueprint for a better society. But as Robert Merton emphasized throughout his writings, such grand purposive actions may have unintended consequences and serve latent functions or dysfunctions.¹

One reality that needs more attention is the concealed goal of using "globalization" to restrict free trade by requiring all participating nations to accept the longest and strongest patent and copyright protections from free-market price competition, usually many years longer than deemed necessary by those trading partners (Drahoš and Braithwaite 2002; Sell 1998; Sell 2003). Other terms of globalizing trade agreements have had the unintended or side effects of eliminating jobs, increasing unemployment, increasing inequality, increasing violent personal crimes, and weakening economic actors in global markets, structured largely around the interests of large corporations (Portes and Roberts 2005). Massey et al. (2002) have analyzed the deleterious effects of segmented labor markets as part of NAFTA. These darker sides of so-called free markets (a sociological impossibility) require a more skeptical and complete research agenda that analyzes how all relevant parties are affected.

Being co-opted by economic terms

One impediment to good theory and research is using terms like market, capital, property, and competition uncritically, as if they were natural and obvious. In so doing, sociologists miss the opportunity to employ one of sociology's most valuable contributions – the critical examination of how social groups and institutions construct language and reality (Portes 2000). The term "competition", for example, embodies the radical proposition that if all parties pursue their own best interests, the results will benefit everyone, and the wealth of nations will increase. As used by economic sociologists and economists, "market competition" is tacitly preceded by "beneficial." Pursuing self-interests also fosters distrust, exacerbates inequalities, and dismantles communities.

Competition can only benefit society under strict conditions designed to limit the clever, untrustworthy actions of autonomous individuals and channel them to benefit others (Light 2000). There must be many buyers and sellers whose relations are independent from one another so that market transactions cannot be influenced by one or more parties over other. There must be complete and free information on everything buyers need to know to buy smart and drive the value chain. Trades must clear quickly. Easy entry of new competitors and prompt exit of unsuccessful competitors are essential. Even if all these conditions are met (and they usually are not), *caveat emptor* rules the market, and competitive actions require constant monitoring. Perhaps the most important requirement for sociologists is that there be no "externalities," an economic term which might be defined as effects on groups, organizations, institutions, or the environment not specifically part of what is being bought, sold or contracted for.

Research on the externalities of globalization would provide the kind of holistic assessment necessary for truly beneficial economic policies to be developed. While advocates of globalization invoke this vision of beneficial competition and ostensibly seek to break down trade barriers, they often do so in ways that concentrate market power in the hands of large corporations and the governments beholden to them (Sell 2003; Stiglitz 2002). Thus one must look quite concretely at who benefits, who suffers, and how the fabric of family, community, and urban life are affected. The central research question, then, is: What kinds of rules and structures promote what kinds of market and organizational activities; and what effects do these have on parties affected by them?

When one or more of the strict conditions are not met for competition that benefits society as a whole, economists call it "market failure." But market failure is not like engine failure. The market does not sputter and roll to the side of the road. Rather, it roars ahead, with sellers able to exploit buyers and consumers. I suggest this be called *pernicious competition* and undertake empirical research on its macro and micro forms. The ten conditions for beneficial and pernicious competition in Figure 1 provide a research framework for measuring the structural specifics of each condition and the effects on all relevant parties for different domains of globalization, particularly on "externalities" such as the family and economic security.

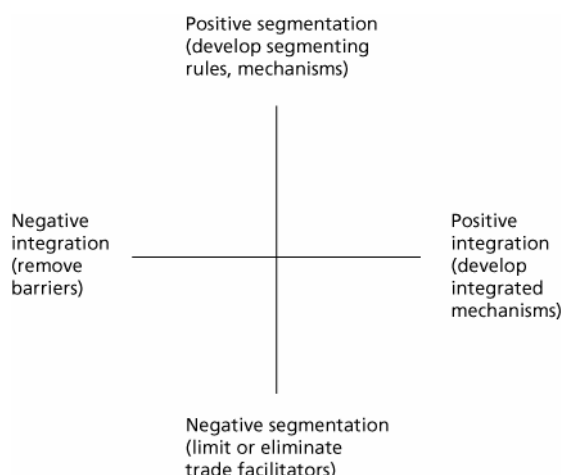
Figure 1
Structural and organizational features of beneficial and pernicious competition

Conditions for Potentially Beneficial Competition	Conditions for Potentially Pernicious Competition
Many buyers and sellers	Few buyers and/or sellers
No relation to each other	Historical, cultural, overt, covert ties
Can purchase from full array of providers	Purchase from limited array
No barriers to enter or exit	Barriers to entry and exit
Full information on prices, quality, services	Partial, incomplete, garbled, or unreliable data
Information is free	Information, searching, cost
Buyers seek to maximize their preferences	Buyers often muddled, distracted, conflicted
Market signals quick; markets clear quickly	Market signals & change are slow, muddled
Price conveys all buyers need to know	Price conveys little that buyers need to know
No externalities. No harms (or benefits) to other parts of society not captured in market transactions.	Externalities, often by design, in the market, services or products.

Globalized market segmentation

Globalization research and theory needs to recognize that while theorists of globalization write of negative and positive forms of market integration (Fligstein and Stone Sweet 2002; Scharpf 1996), there is also negative and positive segmentation of markets. If negative integration involves removing barriers, negative segmentation involves removing facilitators to freely traded goods. If positive integration refers to improving or creating facilitating mechanisms, positive segmentation refers to improving or creating obstructing mechanisms. It is useful to visualize these, as in Figure 2.

Figure 2
Globalization: mapping integration and segmentation of markets



An example of these processes is the growing number of Free Trade Agreements (FTAs) being negotiated by the United States government with its trading partners. Alert readers will wonder why one country is negotiating its own trade agreements in the name of globalization, especially when that country's industrial and government leaders played critical roles in setting up the World Trade Organization and global rules of trade (Sell 1998)? This question has not escaped notice. Essentially, the world's more powerful gatekeeper to the world's richest and largest market is telling other countries, on behalf of its largest corporations, how they should structure their own domestic markets as well as how they should trade. This new round of bilateral FTAs was created to embody revised concepts by U.S. industries of how markets in other countries should be structured and how their laws or regulatory agencies should be changed. Research into why the

leaders in each industry thought existing rules promoting global free trade were not working as expected, and what changes they put into the new FTAs, would be original and insightful. To what extent do FTAs solidify a transnational capitalist class (Robinson and Harris 2000) and constitute new rules of governance (Murphy 2000; Stiglitz 2002)?

One example of negative and positive segmentation is the terms in the new FTAs pertaining to patented drugs. First, they limit or eliminate existing terms and practices that allow patent drugs at lower prices to be exported to the U.S. market or allow the trading partner to import cheaper versions from countries like India and Brazil that produce high-quality drugs at low cost. Besides this new international ring of legal barriers, the new round of FTAs require countries to alter their price-setting boards for greater participation by drug companies. Third, they extend protections from normal price competition beyond the 20-year patents, "a period so long that few economists of repute can be found who would call it efficient..." (Bhagwati 2004:184). This forces trading partners to charge their own patients and health care systems higher prices for several years longer. Longer protections from free-market price competition allow companies to fix or set prices when they otherwise could not. Thus price-fixing, which violates U.S. anti-trust law, becomes legal. Sociologists have missed this point when studying the differences between illegal, informal, and legal markets – that powerful corporations can simply change the law to make formerly illegal practices legal – in this case not only for one country but for all trading partners who are asked (or rather, told) to sign an FTA. Thus "free trade" means ensuring that multinational companies such as Pfizer or a Merck are free to trade their patented products where, when and at what prices they like. (If some readers think this is what patents are supposed to do, they need to understand what rights patents do and do not give to the holder.)

To summarize, the new FTAs institute "rules and structures [to] promote market activity..." (to quote Fligstein and Stone again), but of a pernicious kind between global corporations with monopoly rights and what are usually small countries who must give up their rights and laws if they do not conform with what the United States Department of Commerce regards as compatible with their revised concept of "free trade." The ethical issues are substantial when the products involved are drugs for treating patients with cancer, diabetes or HIV-AIDS, and

the prices in segmented markets can be 50 times greater than in the global market. For example, according to the international NGO Médecins Sans Frontières, the price of AZT for AIDS patients in Central America under its new FTA could rise from about \$200 a year to \$10,000 per patient-year (Médecins Sans Frontières 2003).²

De-mythologizing the global segmentation campaign

My investigation into the new requirements to extend protections from free price competition, to prohibit exporting such drugs, and to weakening the regulatory bodies that oversee the internal markets for prescription drugs was prompted by alarms sounded by medical teams who treat patients with AIDS, cancer and other deadly diseases. They petitioned and protested that if the FTA for Central America (called CAFTA) were signed, vital drugs would no longer be affordable. There are 1.9 million people living with HIV/AIDS in Latin America and the Caribbean. According to Médecins Sans Frontières, competition from generic forms of patented drugs have reduced prices by 80 to 90 percent in countries where they have been allowed to flourish (Médecins Sans Frontières 2003).³ The most successful program has been in Brazil; but had the current FTA been in place, "...it is doubtful that the program would ever have been possible and Brazil may not have been able to achieve its spectacular success: 90,000 AIDS deaths averted, 60,000 cases prevented, and 358,000 AIDS-related hospitalizations avoided between 1996 and 2002, leading to government savings of more than US\$ 2 billion during the same period" (p. 8). As FTAs were being rolled out in 2002-03, the AIDS group Health GAP wrote: "The new rules would far surpass the standard already established [for protecting IP rights of pharmaceutical companies] by the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights" (Health GAP 2003).

Americans have been up in arms against the high prices they pay, and they have been crossing borders or using the internet to buy patented drugs more cheaply – free trade made illegal by previous laws put in place. Their organization of voice extends Albert Hirschman's concept in *Exit, Voice and Loyalty* in sociologically original ways (Light, Castellblanch, Arrendondo, and Socolar 2003). Industry leaders protest that such actions threaten their budgets for research to discover breakthrough new drugs to reverse disease and postpone death. As GlaxoSmith-

Kline's motto puts it: "Today's medicines pay for tomorrow's miracles." As a result, prominent government leaders, such as the Director of the FDA (Food and Drug Administration) and the Under-Secretary of Commerce, vigorously argued on behalf of the pharmaceutical industry that the prices in the other major research countries (8 major ones) do not cover their huge R&D (research and development) costs, so that they are "free riders" on Americans and cause American prices to be higher. Thus FTAs are needed to stop exports at lower prices at their sources. Notice that profits are not the issue here but creating "fair markets" so that everyone shares the global burden of corporate R&D to benefit humankind. Hold that thought, because research into this widely believed account has documented how each claim is contradicted by the best available evidence, including industry data. For example,

■ European prices allow companies to recover all European R&D costs every year, with profits. There is no free riding nor any good evidence that lower EU prices cause higher US prices (Light and Lexchin 2005).

■ Pharma R&D investments in Europe have been rising for years, not falling. European R&D is robust and discovers new molecules.

■ The free riding argument makes no economic sense in the first place for products sold worldwide. It is an example of myth-making on an international scale.

■ US prices are higher just because they are allowed to be in price-protected US markets, which industry advocates characterize as "free markets." Uniquely, companies raise these prices each year as new drugs get older.

■ Drug companies average 12% of revenues for R&D according to the US National Science Foundation's cross-industry data, not the 18% that the pharma industry has consistently cited for the past 10 years. Net of tax subsidies, the figure is about 7.4%, and about 1.3% of sales is budgeted for basic research to discover "tomorrow's miracles."

■ 85-89% of "new drugs" and "innovations" are judged to offer little or no therapeutic advantage over existing drugs. Drug companies are discovering very few breakthrough drugs.

■ 84.2% of global funds for basic research to discover new drugs come from public sources (Light 2006). Global policy should capitalize on this, and markets for vital public goods need to be designed and promoted. (Here is a creative opportunity for economic sociologists.)

Alert readers will have noticed that the free-rider argument has little if anything to do with any country in Central America, or Latin America, or Africa, or Asia (save Japan), or Eastern Europe, because R&D is concentrated in a small number of affluent countries. That is, CAFTA and FTAs to other countries with millions of patients suffering from life-threatening diseases are using an irrelevant and false argument to segment market structures and restrict access to those who can afford higher prices. The medical teams from Médecins Sans Frontières and other organizations are right: sick patients will suffer and very sick patients will die. But that is an "externality." It literally is not part of market interactions. Even the distinguished champion of globalization, Jagdish Bhagwati (2004:182-90), turns livid when he describes how pharmaceutical executives worked with U.S. government officials to force Mexico to agree to intellectual property protections (IPP) as a condition to their being admitted to NAFTA, the North American Free Trade Agreement. They then pressed to make IPP a pillar of globalized free trade and the WTO. This is "turning it away from its trade mission and rationale and transforming it into a royalty collection agency." Now every other special interest wants to have its privileged terms enforced by trade sanctions too, writes Bhagwati. Outside of the unique case of the EU, is market restriction and segmentation rather than integration a growing covert goal of globalization? New careers in economic sociology could be launched around this question.

Reconceptualizing global public goods

Treating drugs for seriously ill patients as private goods and the object of market segmentation raises a deeper issue to which economic sociologists could contribute: what is a public good? The term has been defined by economists in a way that obscures – even excludes – the deep moral nature of such a term and conceals the ways in which such goods are sociologically constructed. As the *Encyclopedia from the Library of Economics and Liberty* (they go hand in hand!) explains, public goods such as a firework display cannot exclude nonpayers and can be consumed by anyone without reducing the consumption by others (Cowen 2006). The strong implication is that

anything else without these two attributes is a private good. But what about goods and services like essential medicines that have neither of their technical qualities but are vital to the public? If they are not "public goods," what are they? The term public good prevents us from having a word for goods and services deemed vital to a well-functioning and good society that are not technically what economists call public goods. Let me suggest that we introduce *vital public goods* as distinct from *technical public goods*, so that economists do not capture public discourse and leave those concerned about healthy communities speechless. Comparative and historical research can identify how different societies defined what they regarded as vital to their vision of themselves and how this changed over time.

Distinguishing between vital and technical public goods leads to a sociological insight about the latter: they often are not *inherently* non-rivalrous and non-exclusive but socially and economically constructed to be so. A fireworks display can be in a stadium and not too high, or in the town square. Fire and police departments are often considered as examples of pure public goods. But fire brigades used to work by private subscription, and private policing has a long history as well. Public schooling, much of sanitation, potable water, garbage collection, health care services, and certainly drugs are technically *not* public goods, except to the extent that they get socially constructed by societies so they work in non-exclusive, non-rivalrous ways. This raises the danger that a hidden goal of the parties involved in globalization – even a requirement under WTO rules and governance – is to privatize vital public goods such as these (Pollock and Price 2003). Here is a major contribution that economic sociologists can make: to study the historical construction of vital public goods and what would happen if they were re-privatized. It is high on the agenda of companies like Halliburton over the next decade. In the case of drugs, many people might consider the carefully developed list of what the World Health Organization calls Essential Medicines as vital public goods, even though they are not technically public goods. If an economist then says, "You know, they're not really public goods," one can reply, "You're right that they are not technical public goods, but they are vital public goods." This puts economists' use of "public good" just about where it belongs and economic sociology where it belongs, using its larger analytic frameworks to provide critical assessments of both planned and unanticipated, and manifest as well as hidden aspects of markets

in order to report on how they affect *all* parties and the quality of societies as a whole.

Endnotes

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1 In his extension of Merton's analytic framework, Alejandro Portes (2000) adds four other possibilities pertinent to good research on globalization: concealed goals to achieve covert ends, emergent means and altered outcomes, backfire or results contrary to those intended, and unexpected changes that facilitate outcomes or frustrate them.

2 Under years of protest and pressure against initial WHO terms for IP protected products, concessions have been made when a country declares a public health crisis, though what constitutes such a crisis and how often exemptions would be made are unclear.

3 Readers may need a sense of proportion. Based on international data, it appears that a year's supply of AZT can be manufactured for \$100-150. Although nearly all the research and development was paid for by the public, US prices were launched at \$10,000 and have been held to that level. Thus a 90% discount is \$1000, 6-10 times cost.

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