COSTLY DRUGS: AN EVEN BLOODIER BACKLASH AHEAD

By John Carey

FOR drugmakers, these should be the best of times. Their recent profits have been up in the stratosphere, and their labs are churning out stunning breakthroughs. At a mid-May meeting of oncologists in San Francisco, for example, researchers trumpeted a slew of experimental drugs that promise major progress in the war on cancer.

Yet drug companies top the enemies' list of everyone from insurers to state legislators. The reason: soaring drug costs. Spending on outpatient prescription drugs jumped 18.8% last year to $313.9 billion, says the National Institute for Health Care Management—and the trend will only get worse.

Already, mounting drug bills are helping to push state Medicaid programs over budget, causing hospitals to cut services or boost premiums, and forcing some seniors to choose between drugs and food. "The problem is huge," says Representative Thomas E. Allen (D-Me.)

COLLISION COURSE. The rising bills have also created a powerful backlash, putting the twin titans of health care—insurers and drugmakers—on a collision course. The latest clash occurred on May 11 when California insurer WellPoint Health Networks Inc. argued before a Food & Drug Administration advisory committee that Claritin and two other popular allergy drugs should be sold over the counter, not by prescription only. That would slash prices to consumers—and also save insurers hundreds of millions of dollars because they would no longer foot the bill. Now the decision moves to the FDA, and possibly the courts.

That's just one battle in a major assault on drug costs. Maine has passed a price-control bill. Vermont got a waiver to extend mandatory Medicaid discounts on drugs to seniors who don't qualify for Medicaid.

What good is a new pill that cures cancer if no one can afford it?

Other states are setting up "buyers' clubs" to get enough clout to force drugmakers to lower prices. Meanwhile, government regulators have subpoenaed records from scores of companies to prove whether drugmakers have illegally kept generic drugs off the market. And in Washington, lawmakers have introduced bills to require discounts for seniors or to eliminate the legal loopholes used by pharmaceutical companies to block generic copies. "I see a long-term threat beginning to build," says Paul Heldman, health analyst for Schwab Capital Markets. "The drug industry can only stop things for so long."

Clashes over who gets access to medications. A government-sponsored panel's recommendation that more Americans take cholesterol-lowering medicines will boost the already soaring sales of drugs like Pfizer's Lipitor, worth $3.7 billion in 2000. New cancer treatments spotlighted at the annual meeting of the American Society of Clinical Oncology (page S7) will push costs even higher. Products like Novartis' Gleevec of hope that patients could keep cancer at bay over the long haul. But Gleevec, which won FDA approval May 10, will cost up to $24,400 a month, and patients may have to take it for years.

The risk is that people will be denied access to lifesaving drugs simply because they—or their insurers—cannot afford them. Few health-care experts believe it will come to that. After all, providers already pony up for AIDS drugs at cost $12,000 a year, or for biotech drugs that run as high as $300,000 a year. And clearly, some new drugs could lower overall costs by slashing hospital and surgical bills.

Still, health care is inevitably headed for a crisis. "I believe new technology, including drugs, will become so expensive in the next 10 years that it will break the health-care bank," says Dr. Alan L. Hillman, professor of medicine and business at the University of Pennsylvania's Wharton School. Either the U.S. will have to spend a far bigger chunk of GDP on health care or begin the agonizing process of explicitly rationing care. Today's fights are early battle in a much larger war ahead.