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DRUGS

DRUG PRICES: SO MUCH FOR RESTRAINT

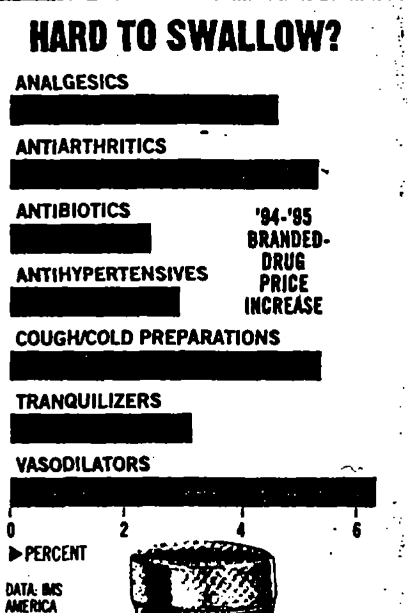
Manufacturers are ratcheting them up, and retailers are livid

Just three years ago, Hillary Rodham Clinton had drugmakers quaking at the threat of price controls. With health-care reform looming, some 18 big companies vowed publicly to rein in increases. Now, the First Lady has retreated from policy issues, health reform is comatose, and drug prices are climbing again—some far faster than inflation. The drug companies, complains Philip A. Brill, a pharmacist in Wynnewood, Pa., "are gouging us."

How rapidly prices are increasing is a matter of debate. The PRIME Institute at the University of Minnesota College of Pharmacy reckons that producer list prices for the 500 most-prescribed drugs, mostly brand-name medicines, climbed an average of 4.6% in 1995, with much of the rise coming in the fourth quarter. The Bureau of Labor Statistics pegs the yearlong rise at 4.2% by one producer-price yardstick, 3.7% by a broader measure. And the IMS America tracking service, drawing on a 20,000-product list, says producers charged about 3.3% more for brand-name drugs. Whatever the exact numbers, many drugmakers raised prices for prescription drugs well above 1995's 2.5% rise in consumer prices—even though they had pledged to limit overall increases to the change in the CPI.

"GOOD-FAITH EFFORT." Industry critics charge that drugmakers have broken their word and reverted to their old ways. "It's a direct result of the fact that Washington is no longer watching them," says Michael G. Bronfein, head of the 21-store NeighborCare Pharmacies Inc. chain in Baltimore. Prices have climbed steadily, says Ronald L. Ziegler, chief of the National Association of Chain Drug Stores (and former Nixon Administration press secretary), "since the focus on drug prices diminished with the end of national health-care reform efforts by the Clinton Administration."

Drug-company executives will not comment directly on the price increases, leaving spokesmen to respond. But they argue that their companies have been restrained in their pricing. Pfizer Inc. points out that while it has raised the price of its Norvasc cardiovascular drug, its biggest seller, by 4%, it has lowered the price of antibiotic Zithromax, a smaller but fast-growing drug, by nearly 26%. Pfizer's overall price hikes averaged 2.9%, only slightly more than consumer prices. "We made a good-faith effort," says a spokesman, who adds that the company just figured wrong on how low inflation would be.



Bristol-Myers Squibb Co. and Merck & Co. also insist they've kept price increases moderate. Merck, in fact, says that it kept its pledge—to raise no price more than 1% above the projected inflation rate—but overestimated the rate. Still, Merck's overall prices rose just 1%.

Besides, industry defenders argue, "modest" hikes are justifiable. The Pharmaceutical Research & Manufacturers trade group says companies will boost research spending 9.6% this year, compared with 6.9% last year and 5.6% in 1994. Moreover, price slides in generic drugs have offset some of the increase in branded-drug costs: The Bureau of Labor Statistics says overall drug prices for consumers rose just 2% last year, while IMS America says it was just 1.7%.

DISCRIMINATION? Given the climate in Washington, it's hardly surprising that drugmakers feel free to raise prices. Industry critics such as former Senate Aging Committee Chief David H. Pryor (D-Ark.) lost leadership posts when the GOP took over Congress in the last elections. Pryor is quitting at yearend. An aide to a congressional Democrat and longtime drug-industry critic adds sadly: "We're out of the legislating business." While drugmakers "have not lived up to the standard they set for themselves," the GOP-controlled Congress has no appetite for forcing them to change, charges Tricia Smith, chief federal health lobbyist for the American Association of Retired Persons.

One group, however, wants to keep drugmakers in the hot seat. Retail pharmacists, angry that they pay more for drugs than managed-care buyers who command discounts, have been fighting manufacturers in court for more than two years. The pharmacists charge that drugmakers discriminate in pricing, unfairly burdening pharmacies and cash-paying customers while giving breaks to hospitals and HMOs. While part of that battle may be settled with about $400 million parceled out among thousands of pharmacies, the fight continues for some members of the National Association of Chain Drug Stores. Washington may be stepping out of the fray, but the pharmacists, at least, aren't about to forget old promises.

By Joseph Weber in Philadelphia

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