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/THE FIRST WORD

Upbeat in a Bad Mood

For the past half-decade, the most interesting facet of any biofinance meeting has been the mood of the participants, in the rafters one season and hugging the baseboards in the next.

The 200 participants in last month's PaineWebber *Bio/Technology* Conference were curiously upbeat, considering that the IPO window has been slammed on their fingers and Hillary Rodham Clinton's health-care reform proposals are as eagerly awaited as a vampire in a blood bank. The question uppermost on the congregants' minds was, *The government won't really try to balance the $912-billion U.S. health-care bill on the backs of the 7.8 percent spent on pharmaceuticals. Will it?*

Despite this feeling of foreboding, a few observers—like Ron Nordmann, PaineWebber's pharmaceutical analyst, ICOS's George Rathmann, and pharmaceutical consultant L. John Wilkerson—seemed relatively unperturbed by bureaucratic evolutions. The Clinton administration's sometime-to-be-released health-care reform plans (usually referred to simply as "Hillary"), they pointed out, will merely hasten—a bit—already-well-established trends towards managed competition, managed care, and "voluntary" price controls.

Nordmann and Rathmann both emphasized that *the total health-care bill goes down as the drug bill goes up*. Ulcer surgery costs $25,000; it is now almost unknown because treatment with Zantac, Tagamet, and other drugs costs less than $500 a year. Hospitalization for congestive heart failure costs an average $11,000 per heart attack; ACE-inhibitor treatment costs less than $500 a year.

And while U.S. *per capita* health-care spending is legendary, the country's per person *drug* expenditures are in line with other nations'. At $210 per year, the U.S. does indeed spend more than twice as much as the U.K. ($93), but less than Germany ($257). The U.S. and Sweden pay smaller percentages of their total health-care costs for pharmaceuticals than do any other industrialized countries.

The real problem, Wilkerson suggested, is that the market mechanisms of supply and demand have been badly dislocated. The consumer and beneficiary—the patient—makes almost no buying decisions. Physicians create the demand, but they don't pay the bill. Third parties pay the bill, but they don't create the demand or enjoy the benefits of good health (except in a narrow, actuarial way). Health-care suppliers have learned to play these untuned strings like a harp.

We cannot, Wilkerson argued, restore a healthy market until we can somehow weld payer, decision-maker, and beneficiary into a single entity. Americans usually assume that health maintenance organizations (HMOs) fit that bill. Wilkerson, however, says his group has studied HMOs and concluded that they in fact offer little added value and will wither away.

Instead, he predicts a consolidated, integrated health-care system driven by information technology. Wilkerson foresees a nation in which 600,000 M.D.s and 6,000 hospitals—aided by brokers or "integrators" wielding heavy-duty information technology—will voluntarily coalesce into some 1,000 integrated health-care systems. These integrated providers would bargain, through the integrators, with some 300 health-care buying groups, representing the interests of walking-around people. For negotiated annual capitations, the integrated health-care systems will undertake to provide specified levels of health care: Thus, the integrated provider would become the payer, the buyer of health-care services (from the manufacturers), and the one who benefits from offering effective, cost-efficient treatment—especially prophylaxis—to its participants.

Whether driven by historical trends, imposed reform, or visionary new market systems, the business is clearly changing. Rathmann predicted that a number of industry dinosaurs will plod off to extinction as smaller, faster mammals begin to scurry out of their holes. Among the dinosaurs: me-too products; annual price hikes; 2,000-person sales forces; multiround venture financing; and a U.S.-only market focus. The evolutionary trends: new modes of therapy; new attention to cost effectiveness and social costs; a sales focus on a relatively small number of key buyers; early IPOs offered a lower prices to offer better odds to public investors; and global market aspirations.

—DOUGLAS K. MCCORMICK