CONSUMER CHOICE CENTER

When Price Controls Backfire:

The ‘Most Favored Nation’ Mistake

INTRODUCTION

In May 2025, President Trump signed an executive order called "Delivering Most-Favored-Nation Prescription Drug Pricing to American Patients," in an attempt to lower the costs patients pay at the pharmacy counter. The idea is to set government-determined price controls that tie U.S. prescription drug prices to the rates paid by foreign governments. While perhaps well-intentioned, this policy fails to address key issues that increase the costs of medicines for American patients while creating an array of consequences for future medical innovation that threatens patient access to life-saving treatments around the globe.

HOW MFN HURTS PATIENTS:

MFN is a Price Control, Not a Market Reform

The Most Favored Nation policy ties U.S. drug prices to the lowest prices paid by countries like Canada, the UK, or Germany. However, these nations achieve lower drug prices through direct government negotiation or price-setting tools that typically restrict access and delay new treatments from entering the market.

Importing those prices means importing those limitations. The U.S. has historically led the world in biopharmaceutical research and development due to the incentives around innovation, but MFN's price controls severely threaten the potential of future progress in medical breakthroughs. If drug manufacturers are disincentivized from launching their new drug in the U.S., or even creating that drug in the first place, then patients in the U.S. and abroad will suffer with limited access and fewer treatment options.

MFN Threatens Long-Term Innovation

Pharmaceutical innovation is an expensive and financially risky endeavor. On average, it takes at least 10 years and $2.6 billion to bring a new drug to market - largely bankrolled by companies re-investing their profits in hopes of finding a new breakthrough treatment or cure.

Slashing U.S. prices to match those of nations that invest significantly less in R&D is a quick way to collapse the financial scaffolding that supports drug development. Research from the University of Chicago suggests that price-control policies like MFN could result in dozens fewer new drug approvals per decade. This is alarming for everyone, but especially patients suffering from rare diseases, cancers, and chronic conditions that are relying on more R&D to take place, hoping for more options to help them.

MFN Distorts Global Markets & Limits International Access

By tying U.S. drug prices to those abroad, MFN will pressure drug companies to raise prices in other countries to offset revenue loss. In reality, this means that MFN could majorly backfire not only for Americans but also for patients around the world.

One of the main objections of the Trump administration has been that other countries are unfairly benefiting from low prices while leaving the US to shoulder the entire burden of research and development in healthcare. The administration's policies could then be defended as an attempt to raise the prices of other countries, instead of a domestically-oriented price control.

It is true that the United States remains the world leader in medical science. America is number one in research in the life sciences, scoring higher in the Nature Index than the following ten countries combined. It also contributes the most in terms of medical funding, accounting for roughly 27% of all global research and development in 2019 and 53.48% of global market share in clinical research trials. That, of course, is squarely to the benefit of the United States as the country with the most medical talent, and whose patients benefit from cutting-edge medical technology first and not a hurdle.

In turn, raising the prices for other countries raises the spectre of prolonged trade disputes. If the approach does involve using coercive instruments like regulatory retaliation and tariffs to force other countries to raise prices (something strongly suggested by the addition of a national security concern in the executive order), then the affected states and pharmaceutical manufacturers would have grounds to sue for contravening World Trade Organization Rules under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), particularly its protection of IP (uncompensated takings of IP value) and violation of market-based pricing.

This decision would therefore add an extra legal hurdle to a decision already internally under fire during President Trump's first term [the court held the first MFN under legal injunction since it is Congress's power, not the president's, same, of course, with tariffs and trade policy].

MFN Ignores the Real Middlemen: PBMs

An additional concern with MFN is that it mainly focuses on what the government pays manufacturers, not what patients actually pay at the pharmacy counter. That's where pharmacy benefit manager (PBM) reform comes in.

PBMs are intermediaries between drug companies, insurance companies, and pharmacies, focusing on negotiating rebates and discounts from the manufacturers. The idea is that those rebates and discounts are passed onto the insurers and pharmacies to help reduce the costs patients actually pay out of pocket for medications, however PBMs often keep a substantial portion of the savings instead of passing them along which keeps the prices patients pay higher than necessary. In some cases, PBMs receive rebates that are 40% or more of a drug's list price without passing along any savings to those they are intended for.

Without legitimate PBM reform, MFN will not lower the out-of-pocket costs patients pay. Instead PBMs will continue to:

- Charge patients based on inflated list prices, even if discounts were negotiated behind the scenes
- Exclude lower-cost drugs from formularies if they don't provide large enough rebates
- Prioritize more expensive drugs that generate more revenue for the PBM

Despite any promises to lower prescription medication costs through MFN, patients will face the same, if not higher, costs at the pharmacy if PBMs are allowed to continue manipulating price structures for profit.

A BETTER WAY FORWARD:

If policymakers are serious about reducing costs for patients, then it's time to address the actual causes of inflated pricing without undermining innovation. Here's how they can do it:

Embrace Competitive Market Forces

More competition means more consumer choice for patients, which naturally leads to lower prices without the need for government price controls.

Ensuring there is a clear and efficient streamline for FDA to accelerate approvals will help bring more drugs and treatment options to market. This will boost competition within the market and help companies recoup R&D costs more quickly, meaning more innovation can come to fruition that will result in more choices in treatment being accessible for patients.

Reform PBMs

If the goal is to deliver lower prices to patients at the pharmacy counter, then PBM reform is essential. Here are a few practical solutions that could be implemented:

Require that all manufacturer rebates or discounts that are negotiated by PBMs be passed directly to patients when they purchase their medications. This will help guarantee that patients actually benefit from the negotiated savings, rather than funding PBM profits.

In order to help hold PBMs accountable for rebates or discounts being passed onto patients, PBMs should be required to disclose the total amount of rebates or discounts collected.

To help alleviate price distortion, consider preventing PBMs from engaging in spread pricing where health plans are charged more than pharmacies are reimbursed. Perhaps PBMs should be paid a flat and transparent service fee that eliminates the hidden markups.

CONCLUSION:

The Most Favored Nation executive order may sound like a good idea in theory, but in execution it's just policy theater with dangerous consequences. It offers the illusion of savings, but at the expense of future medical breakthroughs and patient access, and without providing any meaningful mechanism to truly lower the prices Americans currently pay for pharmaceuticals.

Rather than importing the worst elements of foreign pricing systems, the U.S. should embrace transparent PBM reform, robust competition, and smart pricing models that reward innovative breakthroughs.

Patients deserve access to today's medicines and the breakthroughs of tomorrow. Considering MFN puts both at serious risk, we need to choose a better path.

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