PERSPECTIVE

# 'Most-Favored Nation' Drug Pricing Has Three Significant Problems

*April 14, 2025*

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***Editor's Note:*** *This op-ed was originally published in STAT on April 14, 2025.*

Americans have run out of patience with paying three times more for innovative medicines than other developed countries. The Trump administration can bring balance to this global pricing system, but first it needs to avoid a response that will help no one.

The administration is exploring so-called "most-favored nation" (MFN) pricing, which pegs U.S. drug prices to the lowest level paid by comparable countries. At the end of his first term, President Trump ordered Medicare to implement such an MFN policy, only to have the order blocked by the Biden administration.

MFN falls short on several fronts, but three are particularly important:

**1. It is easily gamed**. Rather than drive U.S. prices lower, drug companies and their overseas customers could create the appearance of higher prices overseas by agreeing to confidential rebates — already common overseas — that produce the same old low net prices. The U.S. government might try to compel drug companies to disclose their rebates, but that would run afoul of foreign laws requiring confidentiality.

**2. It can't undo the basic economics of the global drug marketplace.** Our research at the USC Schaeffer Center reveals about 70% of global pharmaceutical profits flow from the U.S. market. Facing a choice between deep cuts in their U.S. pricing or the loss of weakly profitable overseas markets, we can expect many firms to pull out from overseas markets at their earliest opportunity, leaving U.S. consumers with the same prices, pharmaceutical manufacturers with lower profits, and future generations with less innovation. In sum, everyone loses.

**3. It cedes pricing decisions to foreign governments.** Our Western peers do not share U.S. views on how to value new medicines. To wit, the British National Health Service has long considered health improvements to be as low as one-third the value of even conservative American valuations. And other developed countries have shown ample willingness to simply deny access to all their consumers if they are offered a price that they think fails to represent value, according to their artificially low conceptions of it.

Instead of importing shortsighted foreign prices into the American market, we ought to be exporting rational, forward-looking prices overseas.

For new drugs, the U.S. should establish a system that leverages the latest advances in economic methods for computing value.

This system would limit U.S. prices to rational estimates of their true value to patients, but not go so far as to torpedo appropriate incentives for medical innovation. Our research has shown that shifting to a European pricing model in the U.S. would lead to shorter, less healthy lives for Americans, adding up to a loss of trillions of dollars. Uncertainty or disagreement over the effectiveness of new medicines can be addressed via outcomes-based pricing agreements, where prices rise with good performance and fall when drugs fail to fulfill their promise.

Anti-obesity medication provides a case in point. Our research illustrates the promise of these drugs for longer and healthier lives, but questions remain around the magnitude and durability of weight loss over time. Imagine paying success fees that accumulate for every period in which weight loss is sustained, and even refunding all payments to the insurer and the consumer if the drug fails to work in the first place.

Companies signing up for this arrangement at drug launch would agree not to accept any overseas price below the U.S. price, adjusted only for differences in national income. In exchange for engaging in this approach, companies could be provided sweeteners, including $35 or $50 copays in Medicare and support from the U.S. government in negotiating fair prices in foreign markets using the leverage of tariff relief or other incentives.

There are many good reasons why we should pay more for earlier access to new medications than our trading partners. As the world's largest market for pharmaceuticals, America finds itself in the unique position of accruing the lion's share of the benefits from new medicines. We often recoup these additional costs in the form of longer and healthier lives — cancer is a case in point. But international pricing is now causing intense political heartburn and needs to be reformed with an "America first" solution. Only American price leadership can both help consumers and sustain innovation into the future.

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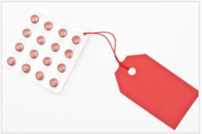

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