The Daily Dish

Global Trade and Pharmaceuticals

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As the U.S. economy speeds toward “Liberation Day” – and the freedom of being unshackled from real wage growth, low unemployment, and stable inflation – it is worth remembering that there is a lot more potentially on the table than simply reciprocal tariffs. For example, President Trump has indicated that he would impose tariffs on imported pharmaceuticals and, perhaps, ingredients for drugs.

The stated logic is that these tariffs will induce manufacturers to build production facilities in the United States. That process takes on the order of 15 years start to finish, so it won’t happen fast, if it happens at all. Moreover, anyone could build a facility in the United States right now, but evidently it is not profitable to do so. This suggests that for the policy to be successful, drug prices will have to be higher – perhaps much higher – than they are now. Good plan.

Of course, during his first term in office, the president had a variety of internationally oriented “fixes” to high drug prices. One was to tie U.S. prices to an index of prices in other developed economies. A second was the “most favored nation” (MFN) approach. This latter strategy was recently revived in a think tank proposal that the MFN be introduced through a Center for Medicare and Medicaid Innovation model where the prices for drugs would be set equal to the lowest price in a group of other countries. There are a variety of other ways one might move to an MFN price-setting approach.

Eakinomics wants to first acknowledge that the R&D needed to develop new products is extremely expensive. When other wealthy countries use price controls and rationing methods, they do not produce the revenue needed to cover their share of the development costs. Higher prices in the United States are then required to cover the costs.

This is all true and deeply unfair. Yet importing those same price controls through MFN price-fixing does not solve any problem; it just produces less revenue, which translates into

less R&D and fewer innovative therapies. Another good plan.

The only real solution for high prices is more supply, which generally requires lowering the cost of doing business. Price-fixing and costly tariffs will simply backfire.