



The Daily Dish

Margaritas and MFN

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Evidently to celebrate Cinco de Mayo, the White House Council of Economic Advisers (CEA) released [Savings from Most-Favored-Nation \[MFN\] Drug Pricing Policy](#), which contains the conclusion that MFN “is expected to generate \$529B in domestic savings in the next 10 years across all markets.” At present, most on-patent or brand-name drugs are more expensive in the United States than in other developed countries, with the result that the United States covers the vast majority of the hefty research and development costs.

MFN is intended to address this inequity by having the same prices here and abroad in the future, achieving those savings without damaging innovation and access incentives.

It is hard to see how MFN does not hit drug manufacturers’ revenues. The price in the United States will be lower, costing revenue. If it were possible to lower prices and offset the losses with greater volume, drug companies would have already done so in the absence of MFN. Companies *would* like to charge higher prices abroad, but foreign governments have strict price control mechanisms and are willing to simply not pay for drugs. Those prices seem unlikely to go up.

The CEA argues that prices will rise:

In particular, the prospective MFN framework fundamentally changes the negotiating environment between manufacturers and foreign countries. By signaling that the U.S. will no longer pay prices that implicitly subsidize the rest of the world, MFN creates direct pressure on foreign governments to either forgo access to new innovations or to raise drug prices through the reform of regulatory tools that consistently undervalue innovation. This new environment is expected to result in increases in drug prices in reference countries.

For the record, those same countries have previously shown a willingness to “forgo access to new innovation”; that’s a big caveat. What is the new “environment”? MFN isn’t a law. It isn’t embodied in a rulemaking. It is 17 voluntary agreements between drug companies and the Trump White House and some tenuous trade agreements between countries and that same White House, but not ratified by the Senate.

It is an environment with an expiration date.

The CEA makes a parallel argument that this MFN/trade environment will not damage innovation incentives. But this is more hope than policy. In an already risky business, the MFN efforts are more risk-and risk weighted to the downside. That provides no real hope of improved innovation incentives.

On Cinco de Mayo Eakinomics chose the MFN research. Next year it’s margaritas.