



The Daily Dish

Out of the Frying Pan

DOUGLAS HOLTZ-EAKIN | MAY 5, 2025

It is hard to imagine it, but the Trump Administration is [pushing](#) a “reform” proposal that would make Medicaid drug prices even more disconnected from economic reality. The “Most Favored Nation” ([MFN](#)) approach would pay “comparable amounts to the lowest price, adjusted for purchasing power, paid by any country in the Organisation for Economic Co-operation and Development (OECD) that has a Gross Domestic product (GDP) per capita that is at least 60 percent of the U.S. GDP per capita.”

MFN is even worse than Medicaid Best Price (MBP), which is the original sin of federal drug reimbursement policies. Under MBP, Medicaid was paid the lowest price for the drug available in the commercial market. Since donated drugs have a price of zero, MBP eliminated charity donations of pharmaceuticals, which spawned the dysfunctional, expensive [340B Program](#) as a substitute. And the hits just kept on coming.

MFN is even worse. Under MBP the price is set equal to the lowest price available in a competitive U.S. market. Under MFN, it is set equal to the lowest price-controlled amount in the OECD countries – the policy chosen by nations that ration drug therapies and health care. Out of the frying pan and into the fire, as the old saying goes.

As is well understood, 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.

Unlike the MFN proposals the president has entertained in the past, this one is focused on Medicaid drugs. For this reason, it is not obvious how much it would save. This would not

survive a moment of scrutiny were it not for the need to find budget savings in the reconciliation bill being drafted in Congress. The search has settled on MFN only because of the unwillingness of the president to take on much-needed reforms in Social Security, Medicare, and Medicaid.

This weak leadership would set a disastrous precedent for reimbursements under Medicare, and even regulation in the commercial market. This should be avoided.