



Economic Review

The Employment Effect of an Increase in the National Minimum Wage: Review of International Evidence

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March 09, 2023

Increasing the federal minimum wage gradually and steadily may help minimize negative employment effects.

Recent U.S. proposals to increase the federal minimum wage from \$7.25 per hour to \$15 per hour have not yet come to fruition. One challenge in implementing minimum wage increases is estimating the potential effect on employment. Past increases in the federal minimum wage have been modest and are unlikely to provide much insight into employment effects. International experiences with large minimum wage increases may provide more insight by accounting for greater variation in firm exposure to the change. Hungary and South Korea both implemented large, rapid shifts in their national minimum wages in recent decades. Brazil implemented a similarly large but more gradually paced increase, while Germany implemented a large change by instituting its first minimum wage in 2015.

Taeyoung Doh and Luca Van der Meer compare these countries' experiences with large minimum wage changes and summarize the effects on employment. Together, these international experiences suggest that both the pace and the size of the increase matter: large, rapid increases in the minimum wage have a more negative effect on employment than more gradual increases, especially in competitive sectors. The international evidence suggests that a gradual and steady increase of the federal minimum wage over the course of a few years is likely to generate a smaller employment effect than a one-time rapid increase.

Publication information: Vol. 108, no. 2

DOI: 10.18651/ER/v108n2DohVanderMeer

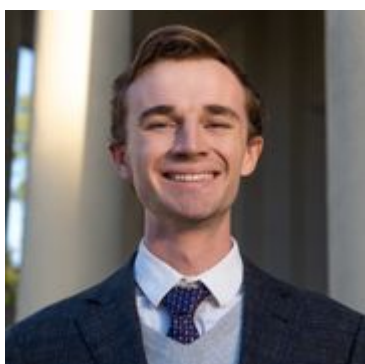
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