Economic Review

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

by: Taeyoung Doh and Luca Van der Meer

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

Authors

Taeyoung Doh

Senior Economist

Taeyoung Doh is a Senior Economist in the Economic Research Department of the Federal Reserve Bank of Kansas City. He joined the department in July 2007. He received a bachelor's degree in economics from Seoul National University in 1996, an M.A. degree from Seoul National University in 1998 and a Ph.D. in economics from the University of Pennsylvania in 2007. His current research interest include monetary policy and term structure of interest rates, estimation of dynamic stochastic general equilibrium models, and asset pricing based on long run macroeconomic risks.

Luca Van der Meer

Research Associate

I joined the Kansas City Fed’s research team in July of 2022 after completing a BA in Economics and a minor in Mathematics at Occidental College in Los Angeles. At the Fed I have the pleasure of working with Brent Bundick, Lee Smith and Taeyoung Doh on both research and policy work regarding Macroeconomics. Working for the bank I’ve had the opportunity to continue to tune the research skills that I began to develop as an undergraduate and develop technical skills in a host of coding languages and with an array of data repositories. Further the economists here place an emphasis on my education and do all they can to incorporate me as an asset and partner in their widely varied research projects. This job has bolstered my interest in graduate study with a cohort of likeminded individuals and dedicated mentors, allowing me to feel well positioned on the pathway towards a Phd.