



## Research Working Papers

# The Economic Effects of a Rapid Increase in the Minimum Wage: Evidence from South Korea Experiments

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November 07, 2022

Evidence from South Korea suggests that the pace of a minimum wage increase may determine the magnitude of the employment effects.

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RWP 22-13, November 2022; updated May 2025

South Korea's minimum wage rapidly rose from 53 percent of the median wage to 63 percent between 2017 and 2019. While the minimum wage has been increasing steadily over decades, the rapid pace in 2018-19 was largely unexpected and driven by a sudden shift in the political environment. We study the economic effects of this minimum wage hike on employment, wages, and labor productivity using South Korean manufacturing firm data, which comprehensively covers all manufacturing firms with 10 or more employees. We find a significant negative employment (3% decline in domestic employment) effect of the minimum wage hike for 2018-19 compared with its modest increase in 2015-17, as the fraction of firms exposed to the minimum wage shock substantially increased and these firms adjusted to the shock through both intensive margins (layoffs) and extensive margins (plant closings). Adjustments through extensive margins jumped up at firms whose exposure to the minimum wage hike is in the right tail. The negative employment effect is also confirmed in our supplementary analysis using population-level administrative data on firms in the service sector. At the same time, labor productivity and wages increased more for manufacturing firms with greater exposure to the minimum wage. Our empirical findings are consistent with a task-based production model with firm-level heterogeneity emphasizing the substitution between low skill labor and other production factors.

JEL Classifications: J23, J31, J42

## Article Citations

- Doh, Taeyoung, Kyoo il Kim, Sungil Kim, Hwanoong Lee, Kyungho Song. 2024. "The Economic Effects of a Rapid Increase in the Minimum Wage: Evidence from South Korea Experiments." Federal Reserve Bank of Kansas City, Research Working Paper no. 22-13, January. Available at <https://doi.org/10.18651/RWP2022-13>





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