



Research Working Papers

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

by: Taeyoung Doh, Kyoo il Kim, Sungil Kim, Hwanoong Lee and Kyungho Song

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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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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. 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). The negative employment effect is also found in the supplementary analysis of 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

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Author



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.
