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How Women are Affected by the EITC, CTC, and Minimum Wage, with Measures for Improvement

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How Women are Affected by the EITC, CTC, and Minimum Wage, with Measures for Improvement

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I . Introduction

- Programs such as EITC (Earned Income Tax Credit), CTC (Child Tax Credit), and MW (Minimum Wage) are representative systems that increase the income of low-income working households. These programs have different characteristics.
 - EITC and CTC are effective in reducing employment poverty while minimizing factors that hinder work incentives. However, the income of low-income households does not increase immediately as they are paid once or twice a year after confirming that salaries meet the supply and demand requirements.
 - On the other hand, a minimum wage increase can immediately increase the income of workers who receive an hourly wage lower than the minimum wage compared to EITC and CTC. However, since the MW applies to individual wage workers and does not guarantee that households affected by the MW correspond to low-income households.

○ EITC, CTC, and MW have been major changes to these schemes since 2018.

- Ever since EITC's introduction in 2008, the government has steadily expanded eligibility, with a particularly significant expansion in 2018. Initially, EITC only targeted wage earners. Earners of business income were included into the scheme in 2014. Age requirements for single-person households (60+ as of 2012) were gradually relaxed and were completely abolished in 2018. Means requirements and the maximum payout sums were also gradually expanded, with a particularly significant boost in 2018.
- The minimum wage was KRW 7,530 in 2018, rising to KRW 8,350 in 2019 – representing, respectively, year-on-year increases of 16.4% and 10.9%. This is a relatively faster pace compared to the average of 6% increases that prevailed between 2008 and 2017.

○ In order to predict the effects of policy design and modification, it is necessary to first understand the scope of the beneficiary group of the policy and the characteristics of the group. This is because the same policy may react differently depending on the characteristics of the beneficiary group, and the expected effect may not be expressed due to the policy or may have a negative effect.

- However, this study attempted to examine the characteristics of the minimum wage system more fundamentally, considering that studies on the effectiveness of the minimum wage system show conflicting results depending on research methods or data and that major policies for low-wage workers are determined by quite

different standards and methods.

- The purpose of this study is to derive measures to improve the system in consideration of the characteristics of workers below the minimum wage and recipients of EITC and CTC.
 - Therefore, first of all, we examine the impact of each system on women. It also examines the characteristics of low-income households affected by changes in EITC and CTC and MW, and analyzes the impact of changes in these systems on women. We would like to find directions for improvement of EITC and CTC and MW.

II. How Changes in the Minimum Wage Affect Female Wage Earners

- The rapid pace of the recent minimum wage hikes has led to heated debate regarding the employment effects of minimum wage. Numerous studies from both sides were published on the knock-on effects and employment effects of minimum wage hikes.
 - Findings were far from reaching a consensus as disparate results were derived depending on the data source, time period studied, and analysis methodology. The debate has continued to drag on with no conclusion in sight due to the economic shock following the pandemic of 2020.
 - That said, studies focusing on wage inequality found that minimum wage hikes led to the alleviation of wage inequality.
- Focusing on MW (minimum wage)-affected women, we looked at

changes in wage levels by sex and the relative incidence of sub-MW or MW noncompliance among wage earners.

- We used data from the Regional Employment Study (type B, second half of the year) by Statistics Korea, which provides 3-month average wages at the main job. In following with previous studies, we calculated hourly wages using hours worked at the main job, converting figures to real terms using the CPI for 2020.
- Since 2014, women outpaced men in real wage growth in most time periods (excluding 2016), in terms of average monthly wages and hourly wages. A marked hike in minimum wages was observed.
- Changes in the minimum wage were found to mainly affect women in the lowest 3 wage deciles. For this group, growth in real MW largely tracked growth in real wages.

〈Table 1〉 Real hourly wage level by gender and industry

(unit : times)

Industry	Male				Female			
	2013	2017	2019	2021	2013	2017	2019	2021
Total	2.86	2.44	2.12	2.13	1.86	1.68	1.52	1.53
A	1.94	1.64	1.54	1.43	0.90	0.87	0.85	0.90
B	2.85	2.83	2.15	2.17	1.94	2.18	1.57	1.39
C	2.95	2.57	2.24	2.23	1.66	1.57	1.48	1.51
D	4.47	3.67	3.02	2.96	2.64	2.11	1.99	2.07
E	2.71	2.41	2.06	2.02	2.03	1.61	1.51	1.56
F	2.46	2.16	1.95	1.95	1.96	1.78	1.58	1.59
G	2.47	2.13	1.92	1.94	1.64	1.50	1.40	1.43
H	2.48	2.17	1.90	1.89	2.17	1.89	1.64	1.56
I	1.65	1.44	1.31	1.36	1.27	1.17	1.14	1.16
J	3.58	3.04	2.70	2.71	2.53	2.15	1.84	1.94

Industry	Male				Female			
	2013	2017	2019	2021	2013	2017	2019	2021
K	4.43	3.71	3.19	3.36	2.72	2.38	2.10	2.06
L	2.04	1.91	1.64	1.70	1.66	1.51	1.42	1.44
M	4.07	3.39	2.91	2.89	2.47	2.15	1.85	1.91
N	1.91	1.75	1.58	1.58	1.45	1.37	1.31	1.33
O	3.38	2.75	2.25	2.13	2.14	1.85	1.58	1.49
P	3.64	3.05	2.54	2.58	2.61	2.30	2.00	1.98
Q	3.34	2.62	2.08	1.92	1.86	1.63	1.44	1.41
R	2.11	1.95	1.61	1.67	1.81	1.61	1.54	1.57
S	2.11	1.98	1.65	1.66	1.46	1.37	1.27	1.33
T	1.43	1.67	1.03	1.25	1.21	1.10	1.02	1.08
MW(=1)	0.523	0.663	0.839	0.851	0.523	0.663	0.839	0.851

- Note : 1. A: Agriculture, forestry, and fishing, B: Mining and quarrying, C: Manufacturing, D: Electricity, gas, steam, and air conditioning supply, E: Water supply, sewage, wastemanagement, materials recovery, F: Construction, G: Wholesale and retail trade, H: Transportation and storage, I: Accommodation and food services, J: Information and communication, K: Financial and insurance activities, L: Real estate activities, M: Professional, scientific and technical activities, N: Business facilities management and business support services; rental and leasing activities, O: Public administration and defense; compulsory social security, P: Education, Q: Human health and social work activities, R: Arts, sports, and recreation related services, S: Membership organizations, repair, and other personal services, T: Activities of households as employers, undifferentiated goods and services-producing activities of households for own use, U: Activities of extraterritorial organizations and bodies
2. Hourly wage was calculated as 3-month average wage \div [weekly working hours \times (365 \div (12 \times 7))], and was realized using the 2020 consumer price index.

Source : Statistics Korea, Regional Employment Survey B-type

- We looked at the relative incidence of MW noncompliance (among wage earners) to gauge how MW changes affected women's employment.
- As of 2021, the relative incidence of MW noncompliance among wage earners was 18.8% among women, a share of more than twofold that among men (8.7%).

- Looking at differences among demographic characteristics, noncompliance was marked in the 15-24 and 60+ age groups among both sexes. While previously there was no gender gap in noncompliance among youths, a sizable gap of about 30% appeared since 2018.
- In particular, MW noncompliance was extremely high among elderly women (45%), pointing to the need for monitoring and supervision over jobs worked by this group.
 - In addition to age, lower education and being employed in daily / temporary positions were found to be associated with MW noncompliance among women. This form of noncompliance peaked around 2018 to 2019, and has remained at similar levels ever since.

〈Table 2〉 Proportion of below minimum wage by gender and age

(unit : %)

	Male					Female				
	15-24	25-34	35-44	45-59	Above 60	15-24	25-34	35-44	45-59	Above 60
2013	18.9	3.2	1.9	3.6	24.2	16.4	4.6	10.3	17.5	42.6
2014	18.8	3.6	2.0	3.8	24.5	16.9	5.1	9.6	16.8	43.6
2015	26.2	4.6	2.3	3.9	26.8	22.1	6.9	10.5	18.7	49.5
2016	28.8	5.2	2.7	4.2	27.2	24.5	7.0	10.7	20.4	52.2
2017	28.3	5.6	2.7	4.5	25.2	25.0	8.0	11.3	18.6	45.5
2018	30.5	6.2	2.9	4.9	26.8	28.7	8.5	11.0	18.1	49.8
2019	31.5	7.5	3.2	5.1	26.4	30.8	8.7	10.7	17.9	46.8
2020	26.9	6.2	3.0	4.6	24.7	27.8	7.8	8.3	14.2	45.8
2021	30.9	6.5	2.9	4.9	24.5	30.5	8.2	9.4	15.0	45.6

Note : Hourly wage was calculated as 3-month average wage ÷ [weekly working hours × (365 ÷ (12 × 7))], and was realized using the 2020 consumer price index.

Source : Statistics Korea, Regional Employment Survey B-type

〈Table 3〉 Proportion of below minimum wage by gender and education

(unit : %)

	Male			Female		
	High school graduate or lower	A junior college graduate	College graduates or higher	High school graduate or lower	A junior college graduate	College graduates or higher
2013	10.0	2.5	1.7	22.9	6.1	3.1
2014	10.5	2.7	1.8	23.3	6.8	3.2
2015	11.9	3.8	2.3	27.7	8.2	4.3
2016	13.4	3.7	2.2	30.4	9.2	4.7
2017	13.2	4.2	2.5	29.2	10.2	5.1
2018	14.6	4.8	2.8	31.2	10.3	5.9
2019	15.5	5.0	3.5	31.4	11.1	5.9
2020	14.4	4.6	3.0	29.1	9.3	5.2
2021	14.9	4.9	3.3	30.0	10.2	6.3

Note : Hourly wage was calculated as 3-month average wage ÷ [weekly working hours × (365 ÷ (12 × 7))], and was realized using the 2020 consumer price index.

Source : Statistics Korea, Regional Employment Survey B-type

- By sector, MW noncompliance was more prevalent in industries with higher female employment – manufacturing, retail and wholesale trade, accommodation and food services, and human health and social work activities.
- Following the rapid hikes of 2018, MW noncompliance has tended to decrease in most industries. However, steady increases in the share (i.e., relative incidence) of noncompliance were observed in water supply, sewage, waste management (cleaning-related), transportation and storage, real estate activities, business support services, public administration, education, and in-home employment.
- These jobs appear to be associated mainly with younger or elderly workers. MW noncompliance among the 60+ age group was

particularly high in public administration, which may be related to the expansion of public jobs programs for this group.

III. How EITC and CTC Affect Women's Employment

- Gender difference in the impacts of EITC and CTC on labor supply may arise due to various situations that women may face depending on their income levels, which may be affected by their role within the household as well as labor market conditions.
 - Labor supply may vary between men and women depending on whether one is the household's primary earner or the secondary earner (in a spousal role), as well as the presence of children.
 - Other factors may include the age distributions of men and women affected by EITC / CTC, as well as differences in socioeconomic environments and labor market conditions – such as the distribution of work status which in turn would influence the degree of autonomy to adjust work hours.
 - We analyzed how take-up of EITC / CTC affected employment among members of recipient households.
- After a summary analysis of changes in employment rates and yearly work hours before and after the take-up of EITC / CTC, we also used panel data analysis to control for unobserved fixed individual effects (such as attitudes towards work, etc.) that may affect employment.
 - Using data from the 5th ~ 16th waves of the Korea Welfare Panel Study, we restricted the analysis subjects to adults of age 18+ who

were employed at least once between 2008 to 2020 in order to minimize selection bias attributable to take-up.

- EITC appears to have boosted work activity among women householders in the 60+ age group throughout the phase-in range of income (i.e., where minimum wage is applicable), mainly via public / elderly-oriented jobs programs. In the case of women who were spouses of householders, EITC appears to have decreased activity via reduction of work hours.
- As eligibility was broadened to include single-person households, take-up grew particularly among middle-aged and older women (relative to men).
 - Unlike in the US, where the effects of EITC are most pronounced among single mothers, EITC in Korea also encompasses low-income persons without children. Thus, EITC appears to have contributed to employment and income among single-woman households and low-income households with female householders by boosting employment rates among these groups.
- EITC is the foremost of the workfare-type income support schemes targeting the working poor. Given the circumstances in Korea, it also plays an important role in aiding low-income elderly people.
 - Given the particularly high prevalence of old-age poverty in Korea, expanding EITC can provide jobs and the income support that comes with said jobs, encouraging the elderly to keep up an adequate level of activity while alleviating the state's fiscal burden through a combination of basic pensions and public assistance.
- The growing share of female householders among EITC recipients

and the much lower levels of assets held by women relative to men indicate that households headed by women still face greater economic hardships compared to those headed by men.

- Income support measures targeting low-income households, such as EITC, should be further strengthened and play a larger role. That said, such cash payout-based schemes cannot address the gaps in care burden which often hamper women's access to the labor market. Thus, social care must be further reinforced.

〈Table 4〉 Employment rate effect by age group, income category, and occupational status according to household head gender

구분	Female		Male	
	under 60	over 60	under 60	over 60
recipient	0.0135	0.1547 ***	0.0085	0.0651 ***
(se)	(0.013)	(0.013)	(0.006)	(0.015)
F	1.6463	17.6436	1.8567	24.1067
R2	0.6045	0.5949	0.5895	0.6591
N	6169	13131	12180	12499
	phase-in	flat, phase-out	phase-in	flat, phase-out
recipient	0.1233 ***	0.0034	0.0569 ***	-0.0008
(se)	(0.011)	(0.013)	(0.012)	(0.005)
F	18.0417	0.9789	24.8928	1.5824
R2	0.5875	0.4795	0.6308	0.3624
N	16408	2892	15782	8898
	wage	non-wage	wage	non-wage
recipient	0.0000	0.1550 ***	0.0003	0.0441 ***
(se)	(0.010)	(0.013)	(0.005)	(0.012)
F	1.0969	10.9356	1.2012	15.1483
R2	0.4498	0.6409	0.4331	0.7492
N	6747	12553	10446	14234

Note: Year effects and individual characteristics were controlled. *** p<0.01, ** p<0.05, * p<0.1

Source : ;Korea Welfare Panel Study

〈Table 5〉 Effects of annual working hours by age group, income category, and occupational status according to gender of head of household

	Female		Male	
	under 60	over 60	under 60	over 60
recipient	34.625	-25.043	-23.707	-146.84 ***
(se)	(29.67)	(26.08)	(16.91)	(37.68)
F	2.7173	7.1013	5.4622	10.0839
R2	0.6715	0.7484	0.6725	0.7116
N	5543	9017	11640	10108
	phase-in	flat, phase-out	phase-in	flat, phase-out
recipient	11.257	12.976	-104.82 ***	-26.518
(se)	(22.73)	(36.03)	(28.36)	(17.57)
F	8.7749	3.3263	10.9396	5.9156
R2	0.7251	0.6498	0.7017	0.6413
N	11716	2844	12907	8841
	wage	non-wage	wage	non-wage
recipient	46.519	-1.396	-23.556	-108.14 ***
(se)	(27.31)	(28.82)	(18.06)	(32.59)
F	5.4515	4.8192	5.1465	8.4308
R2	0.6957	0.7934	0.7118	0.7465
N	6747	7813	10432	11316

Note: Year effects and individual characteristics were controlled. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source : Korea Welfare Panel Study

- While this study attempted to avoid overestimating the employment effects of tax credit schemes by controlling for individual factors affecting economic activity, it is not entirely free from some methodological limitations.
- In particular, we were unable to estimate the effect of the largest EITC expansion since 2019. Further studies should aim to estimate this effect while taking into consideration the latest developments in the labor market.

IV. How EITC, CTC, and MW Affect the Economic Activity of Women in Low-Income Households

- Our findings regarding the effects of EITC, CTC, and MW on the economic activity of women living in low-income households are as follows.
- Although there is some overlap between the groups affected by MW hikes and EITC / CTC take-up, they are allotted to separate groups.
 - EITC / CTC target low-income households, whether they are wage-earning or self-employed, with increasing payouts depending on the number of dependent children.
 - Meanwhile, MW targets wage earners in low-wage jobs, regardless of household income or assets.
- Expanding both MW as well as EITC / CTC simultaneously would allow for further support toward low-income households with workers who are most in need of support.
 - Raising the MW can have the effect of boosting EITC payouts for households earning the phase-in range of income.
- Workers eligible for both MW and EITC / CTC may receive payouts at different time points.
 - MW hikes immediately raise wages, thus boosting workers' purchasing power for everyday necessities.
 - Because EITC / CTC are paid out in large lump sums once or twice a year, households may use them to finance one-time expenditures.

- Simultaneously expanding the MW as well as EITC / CTC also means that the public and private sectors can share the cost burden of providing support for low-income households.
 - The cost burden for EITC / CTC falls on the state while the cost burden of MW hikes largely fall on employers and consumers in the private sector.
 - If the expansion of EITC leads to a larger influx of low-skilled labor into markets, this would suppress their wages so that employers can partially enjoy the benefits of EITC. This can be prevented if the MW adequately reflects the wage levels appropriate for low-skilled workers.
- Categorizing groups by EITC, CTC, and MW eligibility, we looked at how eligibility affected changes in household work hours and labor income.
- Analysis was based on 5th~16th wave data from the Korea Welfare Panel Study
 - Because EITC covers both wage earners and self-employed, we only included data from 2014 and later years, where the EITC scheme came into its current form
- Categorizing by eligibility, we defined sub-MW households as follows:
 - if the householder was MW-affected (householder)
 - if either one of the householder couple was MW-affected (couple)
 - if any household member was MW-affected (HH member)
- The following combinations of eligibility for the various schemes

were considered:

- MW: if a household is affected by MW only
- EITC: if a household is eligible for EITC only
- CTC: if a household is eligible for CTC only
- MW+EITC: if a MW-affected household is eligible for EITC
- MW+CTC: if a MW-affected household is eligible for CTC
- EITC+CTC: if a household is eligible for both EITC and CTC
- ALL: if a MW-affected household is eligible for both EITC and CTC

○ Characteristics of households across eligibility categories

- As EITC / CTC eligibility depends on means testing, eligible households had relatively low incomes in terms of current income, equivalized income, and non-labor income.
- Households affected by MW only had similar levels of current, equivalized, and non-labor income as households that were not eligible for EITC or CTC.
- Among the various eligibility types, households that were MW-affected only tended to have significantly larger assets. This result was largely similar when looking at net assets (assets minus debts) as well.

○ How Eligibility Affects Changes in Annual Household Working Hours in the Next Year

- Compared to households that were non-eligible for any scheme, MW and MW+EITC households saw a rise in annual household working hours. Meanwhile, CTC-only households saw a drop in

annual household working hours.

- Looking at the working hours of female household members, MW-only households saw a rise in women's working hours while EITC-only households saw a drop in women's working hours.
- Among MW-only households, those corresponding to broader definitions of MW-affectedness saw significant boosts to working hours.
- This may be attributable to more hours worked by secondary earners (e.g., householder's spouse, children, or parents, etc.) rather than by the primary earner (e.g., the householder).

〈Table 6〉 Effect of changes in annual working hours for women

	MW setting ① householder	MW setting ② couple	MW setting ③ HH member
MW	2.991 (31.12)	85.24*** (24.09)	67.79*** (21.35)
EITC	11.43 (23.11)	21.17 (23.29)	19.75 (23.36)
CTC	-84.93** (38.52)	-89.55** (38.01)	-84.93** (37.83)
MW+EITC	-9.470 (33.49)	13.51 (31.80)	11.18 (31.91)
MW+CTC	-72.25 (136.3)	50.01 (102.7)	-6.393 (80.14)
EITC+CTC	-35.32 (58.00)	-38.31 (60.25)	-34.27 (61.08)
ALL	72.58 (142.1)	85.34 (107.1)	56.37 (106.7)
Number of household members	76.65*** (14.90)	76.78*** (14.87)	75.80*** (14.90)
Female head of household	50.47 (52.82)	52.15 (52.62)	51.04 (52.66)

	MW setting ① householder	MW setting ② couple	MW setting ③ HH member
Age of head of household	-8.682*** (3.007)	-8.658*** (2.996)	-8.676*** (3.004)
Education year of the head of household	-0.181 (8.814)	-0.154 (8.795)	-0.223 (8.796)
Net asset	-0.0002 (0.0002)	-0.0002 (0.0002)	-0.0002 (0.0002)
obs.	26,843	26,843	26,843
Number of Household	6,435	6,435	6,435
R ²	0.014	0.014	0.014

Note: *** p<0.01, **p<0.05, * p<0.1, Parentheses are robust standard errors. The square variable of household head age and the year dummy variable were controlled.

Source : ;Korea Welfare Panel Study

○ How Eligibility Affects Changes in Annual Household Income in the Next Year

- Among MW-only households, there were no significant changes in household income.
- Among MW+EITC households, those corresponding to broader definitions of MW-affectedness saw a rise in annual household income.
- Looking at household income after equivalizing for the number of household members, MW-only households (defined as such if any household member was MW-affected) saw increases in equivalized household income.
- Furthermore, increases in equivalized income were observed among MW-affected households that were not eligible for EITC.

〈Table 7〉 Effect of changes in annual household equalized income for women

	MW setting ① householder	MW setting ② couple	MW setting ③ HH member
MW	13.82 (37.60)	44.54 (33.75)	66.10* (34.40)
EITC	31.05 (27.80)	34.23 (28.63)	34.59 (28.81)
CTC	-310.5*** (47.82)	-313.6*** (49.19)	-310.8*** (49.79)
MW+EITC	59.17 (35.99)	61.66* (33.59)	71.83** (32.92)
MW+CTC	-276.2** (126.6)	-229.0*** (84.38)	-224.7*** (71.50)
EITC+CTC	-197.8*** (65.64)	-199.5*** (67.31)	-201.3*** (67.69)
ALL	-87.64 (143.5)	-108.3 (99.22)	-89.00 (105.0)
Number of household members	105.6** (44.94)	105.7** (44.93)	104.8** (44.95)
Female head of household	339.9*** (80.49)	341.0*** (80.35)	339.3*** (80.27)
Age of head of household	56.09*** (7.195)	55.96*** (7.193)	55.77*** (7.182)
Education year of the head of household	164.5*** (20.86)	164.3*** (20.82)	163.9*** (20.78)
Net asset	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)
obs.	26,843	26,843	26,843
Number of Household	6,435	6,435	6,435
R ²	0.012	0.012	0.012

Note: *** p<0.01, **p<0.05, * p<0.1, Parentheses are robust standard errors. The square variable of household head age and the year dummy variable were controlled.

Source : ;Korea Welfare Panel Study

V. Conclusions

- Some measure for improving the EITC, CTC, and MW schemes are as follows.
- In Korea, the means testing ceiling for EITC eligibility was relaxed substantially (to a much higher level) during the revision of 2018.
 - Given the fact that the cut-off for identifying low-income households in Korea is at 75% of median income, the current EITC means testing ceiling appears somewhat high.
 - Excessive relaxation of the means testing criterion not only leads to higher fiscal spending – it may not be an efficient means for stimulating labor participation or improving redistributive outcomes.
 - In this study, we found that EITC stimulated labor activities among female householders in the 60+ age group earning incomes in the phase-in range. Also, labor activation and income boosting was observed among low-income households in the MW+EITC group. These findings suggest that the positive effects of EITC are maximized among those earning lower incomes.
 - Possible revisions to EITC include tying the means testing ceiling to household median income levels, as well as automatically adjusting the size of maximum payouts according to inflation.
- Improvements to MW include strengthening monitoring and supervision for compliance – especially in industries with high incidence of noncompliance.
 - Revisions to the MW scheme took the form of steadily raising

the MW level.

- While this would have boosted the incomes of low-wage workers who were mostly MW-affected, more than 10% of all wage earners still earn less than the MW.
 - In the future, it will be important to incentivize and supervise workplaces and firms so that they comply with MW requirements. Furthermore, supervisory efforts must be implemented in a cautious manner, so as to minimize the decrease in labor demand may arise from rising employment costs.
- With regards to CTC recipient households with dependent children, cash support must be accompanied by a strengthening of social support that facilitates women's access to the labor market.
- Take-up of CTC was found to be associated with substantial decreases in household work hours and income. The key household attribute here is the presence of dependent children.
 - The need to care for dependent children may drive household members to divert hours from labor supply to care labor, thus leading to a decrease in household income. CTC may play a role in making up for this income loss.
 - However, because such cash-based support is unable to address the care burden that hampers women's access to the labor market, the need to strengthen social care remains pressing.

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