Good mine, bad mine: Natural resource heterogeneity and Dutch disease in Indonesia

Paul Pelzle and Steven Poelhekke

Discussion by Juan Pablo Rud
Take-away message

Why mixed evidence for the Dutch Disease?

**Heterogeneity in extraction technologies** can determine whether the resource sector competes for labour with other sectors

- Labour-intensive extraction: increases demand for labour and wages, creating a problem for firms in tradable sectors.

- Capital-intensive extraction: weaker competition for labour, other benefits may accrue to other sectors through an increase in demand.
The Model

- Some key elements:
  1. A parameter that captures labour intensity in the resource production
  2. Exogenous prices in tradable and resource sectors (endogenous prices for the other sector, non-tradables)
  3. Profits are distributed locally (increasing local income regardless of wages)
  4. A tension between increased local expenditure and labour costs.

An increase in the price of natural resources

- $\uparrow p_R \Rightarrow \uparrow L^d_R \Rightarrow \uparrow \text{income (wages and dividends)} \Rightarrow \uparrow NT^d \Rightarrow \uparrow p_{NT}$. While wage costs increase for NT, increased spending dominates.

- As $p_t$ is exogenous: $\uparrow p_R \Rightarrow \uparrow L^d_R \Rightarrow \uparrow w \Rightarrow \downarrow L^d_T \downarrow T^s$. Only a cost effect at play for T firms.

- Effects amplified with resource sector’s labour-intensity.
Comments: Overlap between mining and manufacturing
Endogenous location? Restrict to relevant districts?
Labour markets and mining

- How to define labour-intensity of the sector? Maybe better to use a relative measure (e.g. to production) rather than just looking at the number of workers? (Table 3)

- The key mechanism in the model is an increase in labour demand by mines: an increase in population in districts with underground mining only is suggestive but need more to show that shocks trigger a heterogeneous Dutch disease. (Table 4)

- Say something about skills in underground v open pit mining: Are these workers substitute for manufacturing workers (in tradable v non-tradable sectors) in this context?
Firm outcomes

- The coefficient of $MR \times \ln(Prices)$ is interpreted as "capital-intensive booms": only mechanism would be through an increase in dividends or other non-wage income. Any evidence?

- Changes to physical outcomes (employment, units sold) are small, while monetary values tend to be substantially bigger (revenues, wages, unit price): is there a process of local inflation in these areas?

- This could be compatible with the mechanisms in mind, but not available in the data: demand for non-tradables such as local food, services, housing may have gone up and their supply may be less elastic.