

## Referee report of:

Public Investment and Economic Activity in Mexico, 1925–1981

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### Summary

This paper explores the role of public investment in economic activity in Mexico in the period between 1925 and 1981. The contribution to the existing literature, is that this paper focuses on the period prior to the process of economic openness of Mexico (in comparison to other papers that analyze the period from 1950 onward). Additionally, this paper disaggregates public investment in five categories, namely: *agricultural development*, *industrial development*, *transport and communications*, *social development*, and *government administration* (in comparison to other works that explore the impact of different physical infrastructures investments, such as Noriega and Fontanela, 2007). The results show a positive association between public investment, and each one of its components, with GDP. In addition, the evidence suggest a *complementary effect* between public and private investment rather than a *crowding-out effect*.

### General Comment

The paper is generally clear and well-written, and has a good structure. However, I think that the paper needs some additional work in order to be considered for publication. My main suggestions are related with some clarifications. I have listed out some suggestions below in this document that I hope help to improve the overall quality of the manuscript.

### Specific Comments

#### *Introduction*

1. The author says that this article is the only that focuses in the period 1925 to 1981. However, some of the data start in 1939, and it seems that there is not much difference with other literature that start in 1950. Why are those previous 25 years to 1950 so relevant? Or, why it is expected different effects from previous works?
2. It seems to me that the real contribution of this paper is the analysis of desegregated components of public infrastructure. Can the author describe more about this point? and why is an important element that has been neglected in previous works. Those heterogeneous effects from Table 2 are very interesting and could also be commented more in the Introduction to motivate the paper.
3. Can the author extend more on the policy implications of the paper? For example, one interesting result with policy implications is explained in Pag. 12, where the author mention that their findings contrast to Nazmi and Ramirez (1997) and Lachler and Aschauer (1998), “... *who suggest that the positive impact of public investment on growth was at the expense of private investment.*”. However, “*results indicate that public investment not only increases the aggregate demand for goods and services but also generates positive benefits for the various factors of production and for the marginal productivity of private investment.*”

#### *Sources and Data*

1. From Graph 1, What is the explanation for the fall in the GDP between 1925 and 1932? Could this be an argument for considering the years previous to 1950 as important?

2. According to the author: “*Due to differences in the availability of information, the start years for the data on investment in industrial development and government administration are respectively, 1938 and 1939...*” However, in Graph 4, it seems that the value for those components is zero in 1938 and 1939 respectively?
3. Does this data of public investment for Industrial Development considers public/private partnerships? How important is this kind of investment for the case of Mexico?

### ***Empirical Analysis and Results***

1. How are the results comparable to others works that the author mention? Are these elasticities similar? If there already evidence documenting a positive association between public investment and GDP, why the period analyzed it is expected to differ from previous works? Does these other works explores the distinction between *crowding-out* and *complementary* effects or this is also a contribution of the paper?

### ***Concluding Remarks***

1. The last paragraph of this section is a little bit disconnected and not well developed. Can the author expand more on the explanation that is giving and how is related with the results of the paper.
2. It would be nice if the author can add a paragraph with future research in this section. There are many things that the paper left, for example, to explore the causal mechanisms behind these results, such as the oil boom, or the SOEs, since the categories of public expenditure are still to aggregate, it is not clear if the explanations that the author gives are really causal effects of these findings. Or how much of the GDP variation is explained by public expenditure?

### ***Minor Comments***

1. The abstract should be rewritten in order to motivate more the results of the paper and clarify some aspects. For example, the author says in relation to the role of public investment in the post-revolutionary period, that: “*...there is no concrete empirical evidence that that was the case.*” But in the introduction in Pag. 2. the works of Ramirez (1994), Nazmi and Ramirez (1997), Lachler and Aschauer (1998), and Noriega and Fontela (2007) are described as existing evidence that focus on the period following 1950. This is mentioned again the *Concluding Remarks* section, in relation to the role of public investment as engine of growth during the following the revolutionary war: “*... previous literature provides no adequate version to support this assertion.*”
2. The title of Table A2 is in spanish, as well as the label for Government Administration.
3. Typo in Line 5 of the first paragraph of the Cointegration Analysis section, in Pag. 9.