

Business Cycles and Intergenerational Mobility: Evidence from the Great Recession of the XXI Century

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This paper looks at how short term economic fluctuations can have long term effects on the welfare of the population. More specifically it measures by how much weight at birth in Mexico was affected by the US economic crisis during the 2008 and 2009 period. Mexico was one of the hardest hit countries by the US recession, with a GDP contraction of -6.5% in 2009, and a sharp increase of monetary poverty (i.e. an increase of 5% when measured by total income, and almost a 10% increase when measured only by labor income). Such analysis is of great relevance as there is growing evidence which suggests that birth weight is an important predictor of latter aspects in life, including: (i) higher probability of infant mortality (Almond, Chay, Lee 2005); (ii) Lung disease, heart disease, type II diabetes, lower cognitive abilities, and learning disorders (Couzin 2002); and, (iii) socioeconomic outcomes later in life (Black, Devereux and Salvanes 2007; Behrman and Rosenzweig 2004). Kramer (1987) shows that weight at birth is a function of length of the gestation and intrauterine growth. The former is likely to be affected by maternal stress, especially during the early quarters of the pregnancy, while the latter is a function of maternal nutrition, and tends to be of greater relevance in the later quarters of pregnancy. Macroeconomic shocks, such as the US great Recession can, both, increase maternal stress and deteriorate maternal nutrition, not only in the US, but also in neighbouring countries such as Mexico. The literature on Intergenerational effects of shocks is mostly focused on education and mortality data, and suggests the multiple and potentially conflicting nature of the incentives introduced by crises [Ferreira and Schady (2009)]. This paper contributes to this literature by exploring the effect of the US Great Recession in a developing country, and the channels through it operates. Drawing from vital statistics databases of birth records, and the quarterly labor income poverty index by state, this paper relies on both the inter-temporal and cross-geographic co-variation between changes in poverty and weight at birth by Mexican state, to identify the effect of the recent crisis on weight at birth. The results indicate significant and substantial effects of poverty fluctuations on weight at birth, and although these results were substantially larger in the poorest municipalities of the country, they tend to concentrate on children of higher weight at birth (above 2500 grams), and from parent with more than primary education completed. These results are consistent with the nature of this shock in Mexico, which tended to affect the lower middle class more than the poorest of the poor.