ECONOMIC MOBILITY: KEY TERMS

ECONOMIC MOBILITY: The ability of a person or family to move up or down the economic ladder – in absolute terms or relative to others – within a lifetime or from one generation to the next.

***INTRA*GENERATIONAL MOBILITY:** *Intragenerational* mobility measures the change in one's economic situation over a period of years within a single generation, or one lifetime. By measuring the evolution of an individual's or family's income over time, one can determine *intragenerational* mobility in absolute or relative terms.

***INTER*GENERATIONAL MOBILITY:** This measure refers to mobility from one generation to the next and captures the extent to which a child's economic success is independent from that of his or her parents. A society will have greater *intergenerational* mobility when there is a weaker correlation between a child's income and his or her parents' income

ABSOLUTE MOBILITY: Absolute mobility measures increases or decreases in a person's income or economic condition over time, both within a lifetime or across generations. For example, upward *absolute mobility* can be due to nationwide economic growth, which normally ensures that each generation is better off than the one before.

RELATIVE MOBILITY: Unlike absolute mobility, *relative mobility* captures the movement of individuals or families *relative* to others in society, irrespective of the strength of the underlying economic tide. Is someone climbing the ladder? Is someone falling? Relative mobility is an important indicator of the health of a society's economic meritocracy. It shows, among other things, how closely a child's chance of achieving financial success is tied to the income of his or her parents.

Absolute and relative mobility are independent from one another – one could see low degrees of relative mobility in societies with high rates of absolute mobility, and vice versa.

INTERGENERATIONAL INCOME ELASTICITY (IGE): IGE is one way of measuring *inter*generational economic mobility and describes the strength (or persistence) of the relationship between parents' and children's income in percentage terms. It describes how much (what percentage) of the income difference between families in one generation persists into the next generation. The higher the IGE, the stronger the correlation between parents' and child's incomes.

Suppose the IGE for a given country is equal to 0.4: if the parents' income is 50 percent above the average income in their generation, the child will be expected to have an income 20 percent above the average (i.e., 0.4 x 50 percent). An IGE equal to 1.0 would suggest that 100% of economic advantages, or disadvantages, are inherited from one's parents, whereas an IGE of zero indicates the absence of any hereditary relationship between parents' and children's incomes. Most studies find that the IGE for the United States is 0.5, with the range of estimates falling between 0.35 and 0.6.

INCOME INEQUALITY: While there are many ways to discuss income inequality, most involve a comparison between our nation's highest and lowest incomes/earners. Unlike mobility which has a time dimension, inequality is a snapshot of how total income is distributed in the population at any given moment in time.

INCOME VOLATILITY: Volatility is a measure of the size and duration of short-term changes in income. In a period of high volatility, for example, a family might earn a sizable income in one year only to have it fall in the next, or vice versa. Volatility (which is also commonly referred to as income instability) is independent from the degree of inequality in society: one could observe low volatility in societies with high inequality and high volatility in societies with low inequality.

By forging a broad and nonpartisan agreement on the facts, figures and trends related to mobility, the Economic Mobility Project hopes to focus public attention on this critically important issue and generate an active policy debate about how best to ensure that the American Dream is kept alive for generations that follow.