THE POLITICAL ECONOMY OF THE THIRD AGE

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Abstract

Population aging can have a positive effect on welfare states. This is the surprising conclusion of the political economy of the third age. It contrasts with the conclusion of proponents of neo-liberalism, which suggest a negative effect. The contrast is mainly due to a split between third- and fourth-agers introduced into the political economy of ageing. Third-agers are healthy retirees. Thanks to their good health, social and health care expenditures might increase less than previously assumed. Through productive activities such as volunteering and informal care-giving, they moreover increase the welfare in a country. They might thus be considered as resources to welfare states. Fourth-agers, on the other hand, are retirees in poor health. They represent the traditional stereotype of older persons, who can contribute only little to welfare states.

The present chapter explains the relevance of third-agers for welfare states in an ideal-typical model. First, it develops ideal types of third- and fourth-agers, using a Weberian approach. Then it uses those ideal types to describe the relevance of third-agers for welfare states. Finally, it discusses some factors that might inhibit a translation of ideal-typical considerations into reality. The factors discussed are path-dependency, the redistribution of resources, the identification of third-agers, the welfare mix, and the moral economy of aging. It concludes with some suggestions on topics future studies in social gerontology could pursue.
The political economy of aging in the era of the third age

“Today, more than ever before, older persons take the chance to actively shape their lives. They take responsibility for our country and for future generations. Without their voluntary engagement, our society would not function in many places. The Federal Ministry for Senior Citizens made it its goal to (...) spread this image of an active old age in the public” (von der Leyen, 2009). With these words the German Federal Minister for Family Affairs, Senior Citizens, Women and Youth described the current situation at a national congress for senior citizens. She, thereby, exemplified the perspective typical of the political economy of the third age. This perspective recently started to be applied in various countries.

The political economy of the third age adds a new twist to the classical political economy of aging. In its wider sense, political economy is the application of a political/ideological perspective to otherwise purely economic rationales for government activities (Lee, 2001; Weingast & Wittman, 2006). A central economic rationale is to bring input and output into an optimal relation to each other. A given input should be used to generate maximum output. A given output, on the other hand, should be realized with the smallest possible input (Barr, 2004; Cowell, 2006). Proponents of neo-liberalism used this logic to problematize aging populations. They argued that population aging leads to a smaller working-age population, thus less input of workers into the welfare state. At the same time, it increases demands on pension and health care schemes, thus requiring more output of welfare states (Binstock, 1984; Jackson, 1991; Offe, 1996; Pierson, 2006). From an economic perspective, this situation is challenging: it combines less input with the need for more output. Proponents of neo-liberalism, therefore, conclude that population aging drives the welfare state crisis, necessitating welfare cutbacks and welfare state restructuring (Offe, 1996; Pierson, 2006).
The political economy of aging criticizes such sweeping generalizations about the effects of aging populations. It objects that the group of older persons is too heterogeneous to be captured in generalizations. The classical political economy of aging elaborated on inequalities in older persons’ relation with welfare states along gender and class respectively level of socio-economic status (see e.g. Minkler & Estes, 1999; Walker, 2006b). In the era of the third age, however, a new kind of inequality has emerged: the inequality between third-agers and fourth-agers. Third- and fourth-agers differ in their relation to welfare states. In the context of the political economy, third-agers are depicted as healthy retirees, who can be productive. In continental Europe, their productivity through activities like volunteering and informal care-giving is stressed. In the United States, however, productivity through paid work after retirement is also focused on (see the chapter “From retirement to productive aging and back to work again”). Fourth-agers, in contrast, are understood as retirees in poor health, who are less capable of productive activities (Komp, Van Tilburg, & Broese van Groenou, 2009; Laslett, 1996).

In this chapter I first develop an ideal-typical model depicting the political economy of the third age. This model shows that third-agers can increase the level of welfare in a country. The neo-liberal evaluation of aging populations as a burden on welfare states, consequently, seems overly simplistic and pessimistic. The statement of the German Minister for Senior Citizens supports this perspective. Second, I discuss reasons why the ideal-typical model is being implemented only hesitantly. Finally, I present some lessons for gerontology as a scientific discipline that can be drawn from this chapter.

An ideal-typical model

The logic of the political economy of the third age can be explained in ideal-typical terms. Ideal types are images that result from a combination of characteristics. They are clear-cut and
internally consistent. However, they do not always completely match reality. Instead, real cases usually represent ideal types to varying degrees (Weber, 1904/1973). On the following pages, I first define the third-ager as an ideal type of retiree. Then I characterize the relevance of third-agers for welfare states in ideal-typical terms.

**The third-ager as an ideal type of retiree**

For political economy-oriented considerations, one can define the third age as an ideal type. To do so, one needs to group older persons according to their most relevant characteristics. In the context of the political economy, the most relevant characteristics of older persons are their health status and productivity. Figure 1 shows how older persons can be grouped according to those characteristics. As a result, one obtains four ideal types, one of them being the “typical third-ager”.

[Figure 1 about here]

Figure 1 considers all older persons, which it equates to the group of retirees (Kohli, 2007). Figure 1 then divides the group of older persons into third- and fourth-agers. The third age is equated to the healthy life years after retirement, thus time that can be used for productive activities. The fourth age is equated to the time retirees spend in poor health (Komp et al., 2009; Laslett, 1996). It stands for a period with little physical capability for engagement in productive activities.

The groups of the third- and the fourth-agers are further divided into a typical and an atypical group. Typical third-agers are assumed to be productive through a range of activities, reaching from paid work to volunteering, informal care-giving, do-it-yourself and care for
oneself. Generally speaking, any activity that produces goods or services has to be considered as “productive” (Sherraden, Morrow-Howell, Hinterlong, & Rozario, 2001; Walker, 2006a).

Political discussions, however, largely concentrate on older workers and only sometimes also mention older volunteers (Jegermalm & Jeppsson Grassman, 2009; Walker, 2006a). In their discussions, governments sometimes try to give the idea of being a third ager a normative character. They can do this by stressing the responsibility older persons have towards society. Consequently, being productive takes on the character of an obligation instead of a choice (Minkler & Holstein, 2008).

Typical fourth-agers are assumed to be unproductive due to poor health (Laslett, 1996). They lack the physical capability for productivity, which makes them unattractive for governmental programs seeking to increase productivity. Atypical fourth-agers are productive in spite of poor health. They can be seen as persons who are productive despite their physical capabilities. These fourth-agers particularly soften the effect of population aging on the productivity level in a country. Welfare states could benefit from facilitating productive opportunities for fourth-agers. However, addressing them in such programs may not only be viewed as ineffective, it might also provoke moral concerns (Kohli, 1991). This could lead to opposition and a loss of votes in subsequent elections (Vis & Van Kersbergen, 2007).

**The relevance of third-agers for welfare states**

The relevance of third-agers for welfare states can be explained with the ideal types developed above. For simplicity’s sake, I will only use the typical third-ager and the typical fourth-ager in the explanations. In this context, I therefore consider the atypical third-agers as somebody who governments hope will become a typical third-ager if provided proper incentives. I moreover consider atypical fourth-agers a valuable resource for welfare states that governments do not react
to. The relation between typical third-agers, typical fourth-agers and welfare states is portrayed in Figure 2.

[Figure 2 about here]

Figure 2 is based on the economic rationale central to political economy. At the left-hand side, it shows resources governments can use for their activities (input). At the right-hand side, it shows product governments need to provide (output). In the center, it shows the welfare state bringing input and output into an optimal relation to each other (transformation). This model is based on the idea that governments in welfare states redistribute resources in order to regulate risks stemming from market dependency (Svallfors, 2004). In the upper part of the model the input, transformation, and output relating to third-agers is shown. In the lower part of the model, the corresponding information for fourth-agers is given. The inclusion of fourth-agers in the model allows for comparisons and it brings out the specificities of third-agers.

The input third-agers provide is higher than that of fourth-agers. Third- and fourth-agers might contribute to social insurances. This can occur when contributions to social insurances end at a certain age, rather than with retirement. This is, for example, the case in some private insurance plans (Organisation for Economic Co-operation and Development, International Social Security Association, & International Organisation of Pension Supervisors, 2008). It might, moreover, occur when contributions continue throughout the entire life course such as in the German mandatory health insurance (European Commission, 2007). It also occurs when social insurances are tax-financed. Examples for such a mode of financing are the Spanish family allowances and the Austrian long-term care benefits (European Commission, 2007). In contrast to fourth-agers, third-agers also deliver input beyond social security contributions. This input takes
The form of productive activities, such as volunteering and informal care-giving (Van der Meer, 2006).

The transformation from input to output is more strongly influenced by third-agers than by fourth-agers. Both third- and fourth-agers influence governmental activities through voting (Goerres, 2008). Third-agers additionally shape governmental activities through their participation in political parties and interest groups. This participation is possible because of third-agers' good health. It is moreover facilitated by the third-agers' interest in political activities. This interest has been reported to be strong in many countries (Goss, 1999; Karisto, 2007).

The output is more strongly oriented towards the demand of fourth-agers than those of third-agers. Both third- and fourth-agers receive pensions. Those pensions can be public, private or occupational (Myles, 2002). Where they are insufficient, they might be supplemented with social assistance payments (Gornick, Munzi, Sierminski, & Smeeding, 2009). In addition to pensions, fourth-agers receive health care and possibly also benefits from long-term care insurances. Long-term care insurances exist in several countries including Germany, Austria, Luxembourg and in the Northern Italian province Bolzano-Alto Adige (Autonome Provinz Bozen-Südtirol - Abteilung 24 Sozialwesen, 2008; European Commission, 2007; Pavolini & Ranci, 2008). In contrast to fourth-agers, third-agers might also receive governmental support in their productive activities. This support could aim to motivate older persons to engage in productive activities or increase the time they spend on such activities (Jegermalm & Jeppsson Grassman, 2009; Vellekoop Baldock, 1999; Warburton, Paynter, & Petriwskyj, 2007).

Summing up, the third-agers’ relevance for welfare states differs drastically from that of fourth-agers. Today’s ideal-typical fourth-agers largely depict the stereotype of older persons that was prominent in the 1980s. At that time, politicians portrayed older persons as being unlikely to contribute to welfare states while extensively profiting from them (Binstock, 1984; Walker,
Ideal-typical third-agers, on the other hand, turn this relationship upside down. They can contribute to welfare states on a large scale, while benefitting from them to a smaller degree than do fourth-agers. They moreover draw attention to the relation between citizens and welfare states. While fourth-agers mainly interact with welfare states through the exchange of goods and services, third-agers can take a more active approach. When volunteering and providing informal care, they perform tasks that governments would otherwise have to organize themselves (Evers, 2005; Svetlik, 1993). When participating in political parties and interest groups, they moreover directly influence political processes. Fourth-agers, in contrast, rely on voting for a representative who acts on their behalf (Goerres, 2007).

The long way from the ideal-typical model to reality

While policy makers usually acknowledge the existence of third-agers, they have not yet implemented all the ideas resulting from a political economy of the third age. There are various reasons for this neglect. Some reasons, such as path-dependency and the redistribution of resources, are common to all welfare reforms (Alexander, 2001). Other reasons, such as the identification of third-agers, the welfare mix, and the moral economy of aging, are typical for the political economy of the third age. In the following section, I discuss these reasons in turn.

Path-dependency

The concept of path-dependency describes how decisions are informed by previous decisions (Kay, 2005; Wilsford, 1994). On the one hand, it implies that established points of view are applied to new situations and new phenomena (Kay, 2005). In our case this means that established perceptions of older people are applied to third-agers. Third-agers might thus be addressed as persons in need of support, even though they are capable of providing support themselves. An
example from Italy illustrates this: In 1993, the President of the Regional Council of Tuscany, Paolo Benelli, attended a meeting of the regional council of AUSER. AUSER is an association of older volunteers, who supports inter alia frail older persons. During this meeting, Benelli underlined the contribution the social services provided by AUSER made to their older users’ health and social integration. However, he never addressed the point that the persons he was talking to, who were providing these services, were older persons themselves (Anonymous, 1993). On the other hand, path-dependency implies that established approaches for dealing with a situation are transferred to new situations (Scarborough, 2000; Wilsford, 1994). In our case this means that support programs for third-agers are likely to resemble established support programs for fourth-agers. Both aspects of path dependency hinder political activities that are sensitive towards the third-agers’ specificities.

The redistribution of resources

The adoption of a political economy of the third age entails a shift of priorities and activities in governmental activities. Consequently, resources need to be re-distributed to support these new priorities and activities (Barr, 2004). For example, some of the finances and manpower used to support social care services and civic initiatives could be used to support productive ageing activities. While persons who receive more resources might support re-distribution, those who are provided fewer resources will most likely disagree with the change. Their disagreement is particularly likely to hamper the process of redistribution in two cases: when a critical mass of persons is concerned or when strong lobby groups coordinate efforts to support those viewed as being disenfranchised (Hacker, 2004; Pierson, 2006). Plans to allocate resources to support programs for third-agers might, therefore, create opposition.
This opposition becomes particularly complex when the needs of third-agers are posed against the needs of fourth-agers. This can occur when the resources governments use to support productive ageing activities are taken from budgets formerly used to support services for frail older persons. Such redistribution is advantageous for policy makers, because it requires only a slight reallocation of budgets. It, thereby, puts comparatively weak pressure for justification on policy makers (Schyns, 2006). At the same time, however, it creates a complex network of opposition groups. This occurs in three ways. First, a great number of persons are affected, which means that the opposition groups are especially large and potentially powerful. For example, if all retirees in Austria are affected, then this includes about 1.8 million persons which is more than 60 per cent of the population aged 50 and over (Brugiavini, Croda, & Mariuzzo, 2005; Statistik Austria, 2010). Second, older persons are generally perceived as deserving, which makes budget cuts affecting them morally controversial (Kohli, 1991, 2007). The controversy is likely to be even stronger if fourth-agers are affected by the cuts. Fourth-agers are considered deserving because they have both a long history of paid work, and they face problems related to poor health. If this group faces diminished resources in any capacity, lobbyist groups are likely to coordinate strong oppositional support. Third, third-agers often are members of associations (Erlinghagen & Hank, 2006), in which they have forums by which to make their opinions heard. Summing up, redistribution of resources could potentially place the needs of third-agers at conflict with the needs of fourth-agers and create complex oppositional support mechanisms that may divide older adults as a group.

The identification of third-agers

The political economy of the third age depends on the differentiation between third-agers and fourth-agers. Correctly identifying third-agers among older persons is essential for political
intervention drawing on the political economy of the third age. It helps governments to estimate how urgent such intervention is, it helps in the design of the intervention and it is necessary when evaluating the effects of the intervention. Without an accurate way of identifying the young old, intervention based on a political economy of the third age can be difficult and imprecise at best.

In practice, the identification of third-agers is difficult for several reasons. First, older persons are usually classified according to their age, not according to their characteristics (James & Wink, 2007; Neugarten, 1974; Settersten & Mayer, 1997). The only exception is informal care, where care-givers are often classified according to their relation to the person in need of care (e.g. Papastavrou, Kalokerinou, Papacostas, Tsangari, & Sourti, 2007; Philip, 2001). The established system of classifying persons would, therefore, have to be fundamentally changed so that third-agers are identified based on their unique characteristics, not their age. Second, the established measures used to evaluate the impact of population aging are also usually based on age. The best-known of these measures, the old age dependency ratio, even links productivity to a certain age-groups (Crown, 1985). It defines persons aged 20 to 64 as “productive” and everyone above those ages as “unproductive.” By dividing the number of unproductive persons by the number of productive persons, the dependency ratio indicates how many older persons a middle-aged person supports (Bruckner, 2009). In the era of the third age, this approach is especially problematic. It neglects to consider productivity after retirement and thereby, overlooks the essence of a political economy of the third age. Adapting this measure to fit the idea of the third age, however, is challenging: The necessary data about healthy retirees in a population is not readily available. It would have to be calculated from suitable datasets (see the chapter “The third age as a socio-demographic variable for cross-country comparisons” for suggestions on how this can be done).

*Welfare mix*
The welfare mix describes the contribution of different kinds of actors for welfare production in a country. It usually considers the state, the market, voluntary associations (the third sector), and families as actors (Esping-Andersen, 1990; Evers, 1993). This focus on a multitude of actors is important for third-agers because their contributions to welfare production usually take the form of paid work, volunteering and care-giving within the family (see e.g. Hank & Stuck, 2008; Laslett, 1996; Morrow-Howell, Hinterlong, & Sherraden, 2001). The more attention governments give to the welfare mix, the easier it will be for them to implement policies based on a political economy of the third age.

While policy makers have paid increasing attention to the welfare mix over the last years (see e.g. Evers, 2005; Pavolini & Ranci, 2008; Powell & Barrientos, 2004), they still largely focus on paid work when it comes to productivity in old age. For example, governments and intergovernmental organizations such as the European Union and the World Health Organization have promoted active aging for more than a decade (Walker, 2002). In their discussions, they stressed aims such as increased productivity, health, and well-being. The list of activities that were relevant for those aims included paid work, volunteering and informal care-giving (Walker, 2006a and 2009). In practice, however, paid work is in the center of governmental activities and remains the only productive activity supported in this capacity (Walker, 2009).

The moral economy of aging

The moral economy draws attention to the social norms and moral assumptions underlying social interaction (Mau, 2004). In the moral economy of aging, the focus is on the norms and moral assumptions regarding old age. In the context of a political economy of the third age, the most important of these assumptions is that older persons deserve to be unproductive and inactive, if they desire such a state. Older persons contributed to society and the welfare state through
decades of paid work. By the time they reach retirement, it is assumed that they have fulfilled the socially defined requirement of contributions to society (Kohli, 1991 and 2007). Consequently, encouraging older persons to contribute to the welfare state could be considered excessive and unfair. It could thus lead to protest, opposition, and the loss of votes in subsequent elections (Vis & van Kersbergen, 2007). Governments might therefore consider pursuing a political economy of the third age to be risky and distance themselves from it for strategic reasons.

**Future steps: Issues to consider**

In the era of the third age, the political economy of aging gains in importance. It helps us get a better understanding of the impact aging populations have on welfare states. When differentiating between the impact of third- and fourth-agers, we find that population aging does not necessarily place a strain on welfare states. Due to third-agers’ engagement in productive activities, the effect of population aging on welfare states might just as well be neutral or positive. This challenges the neo-liberal argument that population aging necessitates welfare state cut-backs (Pierson, 2006). It seems important that future studies in gerontology and political science consider the arguments made by the political economy of the third age. This way, they could paint a more accurate picture of the welfare policies needed in the era of the third age.

Advancement of the political economy of the third age depends on two things. First, productive activities other than paid work have to be socially recognized. This perspective has been stressed under the rubric of “productive aging” for several years (see e.g. Bass, Caro, & Chen, 1993). By now, the gerontological community seems to have accepted this perspective, while other scientific disciplines and policy makers still seem to lag behind. Future gerontological studies, therefore, need to continue stressing this issue. Second, third-agers need to be recognized as a social group with unique characteristics, not as an age-group. Such a perspective makes their
specificities more visible and governmental intervention more effective. The book at hand provides a foundation by which to promote this perspective. Future studies can further develop this perspective by exploring the challenges and opportunities its emergence implies. They can moreover facilitate its use by developing ways to identify third-agers (see the chapter “the third age as a socio-demographic variable” in this book). Ideally, a variable identifying third-agers should be included in datasets.

Although it can help us reorient discussions about population aging to be more opportunity-oriented rather than problem-oriented, promoting the political economy of the third age also brings with it some risks. Labeling third-agers as “productive” and as a resource to welfare states impacts the image of fourth-agers. They are indirectly labeled as “unproductive” and described as a burden on welfare states (Phillipson, 2005). The political economy of the third age will, therefore, not necessarily resolve the negative image of older persons. Instead, it might simply concentrate this negative image on fourth-agers. The result is likely to lance a new form of ageism (Hagestad & Uhlenberg, 2005).

Such negative stereotyping of fourth-agers is not only undesirable, it also cannot be justified with the ideal-typical considerations presented in this chapter. It rarely happens that real persons perfectly correspond to an ideal type. In lieu thereof, they usually fall in between ideal types, combining characteristics of multiple types (Weber, 1904/1973). This could, for example, happen when a person’s health status fluctuates or when they repeatedly pick up and stop participating in productive activities. Moreover, this chapter focused on one kind of inequality only: the one between third- and fourth-agers. It did not consider other kinds of inequalities, for example across genders, levels of socio-economic status, and degrees of urbanization. To make a more accurate statement about the situation of a person, all those kinds of inequalities need to be jointly considered. This is essential for future gerontological research.
In summary, the effects of population aging need to be re-evaluated in the era of the third age. The political economy of the third age demonstrates how the effect of aging populations on welfare states might be opposed to what was previously assumed, especially neo-liberalist conceptions. Population aging can have a positive effect on welfare states if productive activities other than paid work are also considered. However, we must be cautious so as not to create new forms of ageism when applying this perspective.

References


Figure 1: Ideal types of retirees

- **Health (Good)**
  - High Productivity: Typical third-ager
  - Low Productivity: Atypical third-ager

- **Health (Poor)**
  - High Productivity: Atypical fourth-ager
  - Low Productivity: Typical fourth-ager
Figure 2: The relevance of third- and fourth-agers for welfare states