DEMOLAND: A COMPREHENSIVE GUIDE TO PRACTICAL EXERCISES

Demoland is a data set that represents the demographic make-up, economy and social sector of a hypothetical country. For the purpose of our exercises some real-country data have been borrowed (without naming names); other data are purely fictional but were needed in order to create a complete country case. The Demoland data set may be consulted on the ILO website or obtained in the form of a CD from ILO FACTS.

General information

Demoland is a low-income country in southern Africa. It ranks ninety-second in the world in GDP purchasing power parity (US$5,400, whereas the world average was US$6,490 in 1999). Life expectancy is 47 years for men and 49 for women (17 and 20 years lower, respectively, than the world averages). A few years ago, before the AIDS pandemic hit the country, these values were 61 and 65; the decline is dramatic.

Demoland emerged from colonial dependence fairly recently. It is currently a functioning democracy but its parliament and government are still dominated by one major party, the successor of the former freedom-fighter movement. The Cabinet is composed of highly qualified experts, variously trained in the country, in South Africa or, inevitably, at Harvard. You will be dealing with the Minister of Labour.

and Social Affairs (a former trade unionist with a Maastricht degree in international economics, who has been hardened by innumerable wage negotiations); the Minister of Finance (who was brought home from the IMF, where she was starting a big career as the first African woman in a tough world) and the Minister of Health (a nurse with a Harvard degree in public health, who saw many people die in the war of independence). They are all icons of the national resistance movement. They are politicians but they are also number-literate.

Social protection information

With considerable support from the ILO, Demoland introduced its first social security law in 1990. Social insurance now provides benefits in case of maternity and sickness. Survivors’, disability and old-age benefits are paid only to public sector workers. Various private or occupational pension schemes operate in the formal sector. Social security provisions are complemented by benefits under the Workmen’s Compensation Fund, which is financed by employers and provides benefits in case of occupational injuries and diseases. The Social Insurance Fund has registered about 200,000 workers, of whom roughly 75 per cent contribute to the scheme on a regular basis. The labour force numbers some 682,000, of whom 450,000 are actually employed. If immediate dependants are included as possible beneficiaries, it can be assumed that the scheme covers some 50 per cent of the country’s total population of about 1.8 million. That leaves the other half of the population uncovered and without access to even basic social protection in case of poverty, old age, disability, sickness and maternity.

Health services are operated by the Ministry of Health and financed from general revenue. Like many other public services, the health care system – in particular rural health stations and hospitals – suffers from chronic underfunding and hence cannot provide adequate quality of care. The Ministry of Health struggles with permanent budget shortfalls, and a considerable proportion of national health expenditure is already financed by out-of-pocket payments. Only public sector workers are covered by a social insurance health scheme.

It was estimated in the mid-1990s that about 30 per cent of the population was living below the poverty
line, and unemployment is estimated to have reached a level of 30-40 per cent of the workforce, depending on the definition. National social assistance benefits that could be extended to all the poor cannot be financed from the government budget (says the Minister of Finance).

**Economic and fiscal policy**

Real GDP growth has been somewhat erratic in recent years, oscillating between 3 and 8 per cent. Long-term expectations are in the order of 3-4 per cent. While most of GDP growth in the recent past has been absorbed by population growth, the Ministry of Finance expects a long-term real per capita growth of about 2 per cent. Not unlike the South African government, the government of Demoland is walking on a tightrope. It is maintaining a strict fiscal policy and a deficit of 3-4 per cent of GDP. Attracting foreign direct investment is the cornerstone of its economic policy since the potential for increasing domestic savings as a source of further investment funding appears very limited.

The government is trying to maintain relative price stability by various means, including an alliance with the trade union (most of whose members belong to the governing party) that would keep wage increases at the rate of marginal productivity, although it had to make some concessions with respect to the minimum wage and minimum early-retirement benefits for veterans of the independence movement. It is attempting to contain the demand for land redistribution and the redistribution of other productive assets by its own party members, but is seeking to achieve at least some redistribution through social security for all.