A Win-Win Solution for Management and Workers in the Tea industry

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Pareto Efficiency is an important concept in economics. It occurs when all win-win opportunities have been fully pursued. In societies as well as in organisations there are numerous opportunities to make changes that leave no one worse off and improve the lot of at least some (win-win for short). But due to over-sight, or lack of analysis these go unrecognised. It is the task of economists to discover such opportunities and recommend them. There are several such opportunities for the tea industry. This article will focus on just one: changing the incentive structure in wages of plantation workers.

Collective Agreement and Two Wages

The current wage-rate and incentive structure for estate workers is primarily the result of the collective agreement between the Employers' Federation and the plantation trade unions, following the privatisation of the plantation sector in 1996. This agreement is renewable once every two years. The last version was signed on 4 April 2013, and was up for renegotiation in April 2015 which is currently in a deadlock.

After each new collective agreement is signed, news headlines inform that estate worker incomes have increased by a significant sum. However, the reality is more blurred. Estate workers have two wages. The **theoretical wage** – which captures the news headlines, and the **basic wage**, which is what most receive. At present, the theoretical wage is Rs. 620 a day. The basic wage is Rs. 450 (theoretical wage is 38% higher).

Mutually Destructive Conditions and Penalties

At first glance, the criterion for receiving the theoretical wage seems reasonable: an attendance of at least 75% in the month. The small print says, however, that it is 75% of the workdays actually ***offered***. As it turns out, estate workers are offered rather a lot of workdays every month. Results of a survey conducted in 2011 are provided in the book 'Red Colour of Tea'[1]. The surveys are conducted across 300 households and include 776 plantation workers. Their results indicate that on average 25 to 26 days are offered. Therefore, the 75% criterion requires at least 19 days of work a month, with no paid leave. Most non-planation employees are offered an average of about 20 days of work a month (261 actual weekdays minus 27 holidays, some of which may fall on weekends). The normal workforce also has a right to paid leave of at least 21 days a year – making the average days worked a month about 18. Therefore, what is termed as 75% attendance is in fact more demanding than a 100% attendance for most of the normal workforce.

The cost of falling below 19 days, by even 1 day, in any given month, is the reduction of about 25% of the whole month's wages. As it turns out, this is not just cruel it is also foolish. The incentive structure is badly designed and works not only against the workers but the plantation companies as well.

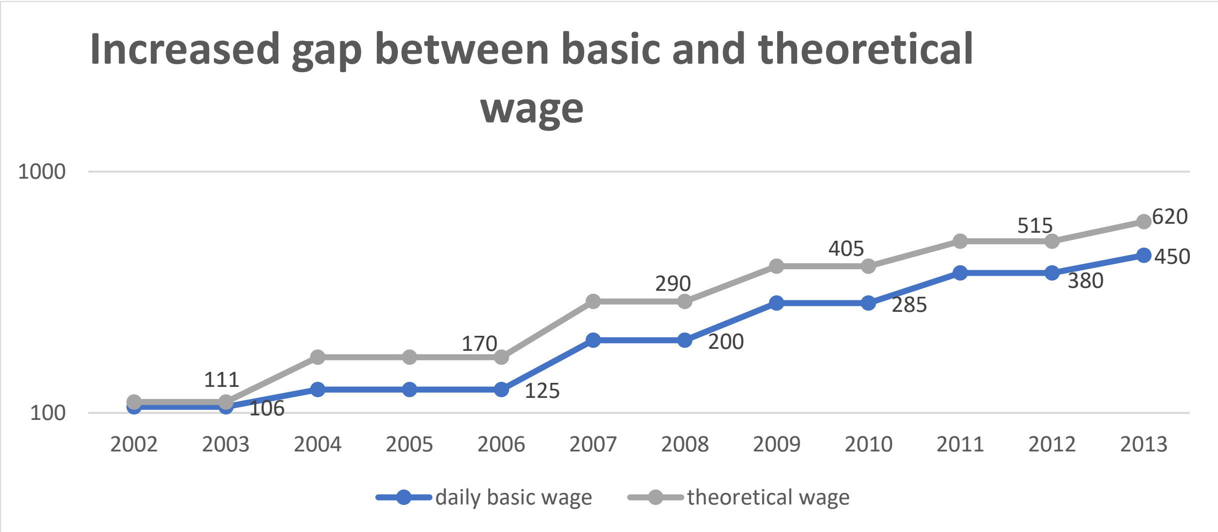
The feedback from plantation companies is that there is a serious shortage of labour, and lack of attendance is an increasingly acute problem. It is hoped that this wage structure would encourage more days of work. But what is happening seems to be the opposite.

The basic wage rate at Rs. 450 basic is so low that a worker who expects only that is likely to skip work for trivial reasons and certainly when better daily-paid opportunities arise outside the plantations. Many of the women workers may not be able to work weekends (due in part to home and child commitments). Then, the current structure implies that falling ill for even a couple of days early in the month will condemn the worker to the low basic rate for the *whole* month. Thus, the incentive to appear at work evaporates. This can help explain why surveys show that, a few years ago, only 1% of the estate workers received a wage of over Rs 9,500 a month. In short, this structure of the attendance incentive may be acting more as a **disincentive** to work rather than as an **incentive** to work.

Most estate sector workers suffer from low levels of literacy and education. It is unlikely that workers themselves will diligently be calculating on a daily basis the probability of being able to achieve the attendance requirement each month. They are more likely to form an expectation about their wages based on past experience. Once they fail to meet the requirements for a few months, they could begin to believe that a sufficient income cannot be attained through working in the plantation (or that the uncertainty in monthly wage is too great). As a result, an external job, even while paying less than the theoretical plantation wage, could offer a greater sense of income security.

Designing a Solution

At a time when negotiations have been going on for nine months, a win-win solution for both employers and trade unions would be to amend the wage structure in order to better align the incentives and outcomes for workers and plantation companies. From 2001-2013, the basic wage has increased from Rs. 101 to Rs. 450 (increase of 345%). However, the hard-to-attain theoretical wage has grown much more significantly from Rs. 111 to Rs. 620 (increase of 486%) over the same period. This is precisely the wrong approach.



The figure is drawn to an exponential vertical scale, so that the visual representation of the "gap" is that of the **percentage difference** rather than the numerical difference, between the theoretical and nominal wage. There is a huge increase in the gap since the collective agreements began in 2002. (The gap was widest in the period 2007-2008).

It is the basic wage, not the theoretical wage that needs to be competitive and increased aggressively in order to remove the incentive for workers being absent or seeking external employment. Incorporating an attendance incentive that is only paid for days worked in excess of a normal attendance (the over-time model of wage setting, which in fact governs others sectors such as the apparel industry) will then serve to encourage that extra effort and attendance.

Proper economic modeling can design a wage structure that increases attendance and improves worker's incomes without necessarily increasing the expected daily cost of labour for the plantation companies. This is the hallmark of a win-win solution. The collective agreement has been in negotiation for over years, it may be time for economists to get involved.

[1]S. Chandrabose and P.P. Sivapragasam, Central Issues that Impact the Tea Plantation Community in Sri Lanka: Red Colour of Tea (2011)