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New Models for an
Equitable Economy

Labour Share and Value Distribution

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About

This work is part of a series of Forced Labour Evidence Briefs that seek to bring academic research to bear on calls to address the root causes of the phenomenon in global supply chains and catalyse systemic change. To do so, the Briefs consolidate evidence from recent academic research across several disciplines, including political science, law, sociology, and business and management, identified through literature reviews in Web of Science and other academic databases.

At a critical moment when COVID-19 has led to increased focus on conditions in global supply chains and growing calls for systemic change, these Briefs seek to inject new knowledge from academic research into ongoing debates about how practical reforms can be achieved. They focus on six themes: mandatory human rights due diligence and transparency legislation; commercial contracts and sourcing; investment patterns and leverage; labour share and value distribution; ethical certification and social auditing; and worker debt and inequality. Each brief presents new ideas and examples of how business models and supply chains can be restructured to promote fair, equitable labour standards and worker rights.

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Executive Summary

Forced labour remains a prevalent and pernicious problem in global supply chains — and an issue over which business leaders, governments, and civil society alike have expressed concern. The presence of abuse in supply chains results from a series of business decisions, financial practices, and government policies that have skewed the distribution of value across the supply chain so dramatically that exploitation is a feature, not a bug, of the modern economy. The financial and non-financial gains of production are concentrating among brands, retailers, and investors. Amidst skyrocketing corporate profits and increasing financial rewards for CEOs and shareholders across a number of sectors, workers struggle to access a declining share of created value.

Such downward pressure on workers' wages results, in part, from a global retail production model that is increasingly characterised by a fast-paced, low-cost dynamic. Notable power differentials between various supply chain actors enable brands, retailers, and investors to extract and retain value generated elsewhere in the supply chain. For example, profits obtained by implementing aggressive purchasing practices come at a cost to suppliers and workers, as lead firms make it difficult for suppliers to ensure adequate margins to properly compensate workers, set reasonable working hours, or invest in safe working environments.[1] This is especially common in low-wage, labour-intensive industries, where the environment is ripe for severe labour exploitation, including forced labour and debt bondage. Profits flowing up the supply chain through this 'squeeze' should no longer be seen as coming from efficiencies, but recognised as another form of extraction.

These trends emerge after several decades of globalisation and trade liberalisation that have embedded a neocolonial approach into the global economy, reflecting the perpetuation of historic marginalisation, dispossession, and discrimination. There are a number of underpinning dynamics that further drive uneven value distribution in supply chains:

→ **Financialisation:** As the global economy centres increasingly on financial activity, lead firms have shifted attention to profiting from financial activities — such as stock buybacks — and prioritised short-term returns for shareholders and executives over long-term investment in productive activities, including worker wages.

→ **Market concentration:** A proliferation of mergers and acquisitions, and tendency toward common firm ownership by large investment companies further add to lead firms' already disproportionate power in global supply chains. Reduced competition — notably amidst the rise of uber-productive and efficient superstar firms — means more control over pricing and input costs, including labour. The greatest decline in labour share is in industries that are most concentrated.

→ **Limitations on labour organising:** The era of globalised production in which buyers can freely choose from whom and where they source is also one marked by a notable decline in union membership, with many states and employers intentionally repressing freedom of association to attract business. Often facing poverty, unequal access to education, and infringements on fundamental rights, workers at the bottom of supply chains are left with few opportunities to take collective action or enforce their rights (where these exist at all) out of fear of retaliation.

→ **Outsourcing and subcontracting:** Shifting production to geographies with weaker legal frameworks, lower wages, poorer enforcement of labour standards, and lower rates of unionisation opens up access to new populations of workers that are easily exploited, and exacerbates the problems posed by financialisation, market concentration, and anti-labour activities.

At the same time, because they do not significantly disrupt prevailing business models, current efforts to regulate supply chains — such as voluntary due diligence and social compliance reporting, ethical certifications, or private-led corporate social responsibility efforts — have not produced demonstrable results in rooting out forced labour. Reducing the business demand for forced labour requires more value to be distributed throughout the supply chain to ensure it reaches workers' pockets. This will require a concerted and multi-pronged effort among businesses, states, and civil society alike.

→ **State-driven solutions:** Governments must enact critical regulations to support effective governance in supply chains, including: creating meaningful accountability that reaches the top of the supply chain, where key decisions are being made; closing legal loopholes that mask accountability for human rights violations; enacting human rights due diligence legislation that mitigates and prevents the negative implications of business practices on workers; ensuring more equitable ratios of worker-to-executive pay; and strengthening antitrust legislation to serve its intended purpose of ensuring fair market competition to serve as a check on outsized firm power.

→ **Market-based solutions:** Firms can demonstrate leadership in tackling forced labour by reorienting corporate ethos toward stakeholder value, which includes ensuring they are covering the true cost of a living wage and safe working conditions. Further, supporting workers' ability to be involved in decision-making and promoting their ability to organise is key.

Problem

Millions of people around the world face situations of forced labour, most often in the context of poverty, discrimination, weak rule of law and labour enforcement in both buyer and supplier states, and lack of access to sustainable education and employment opportunities. Global supply chains — in which an estimated 450 million people[2] are employed — are marked by inequitable distribution of value as well as colonial legacies of capital accumulation and worker dispossession across the economy.[3] Because of this value distribution imbalance, in which the monetary gains of production amass among brands, retailers, and investors while workers and communities are left scrambling for an increasingly small piece of the pie, severe labour exploitation is a predictable and prevalent feature of the global economy.

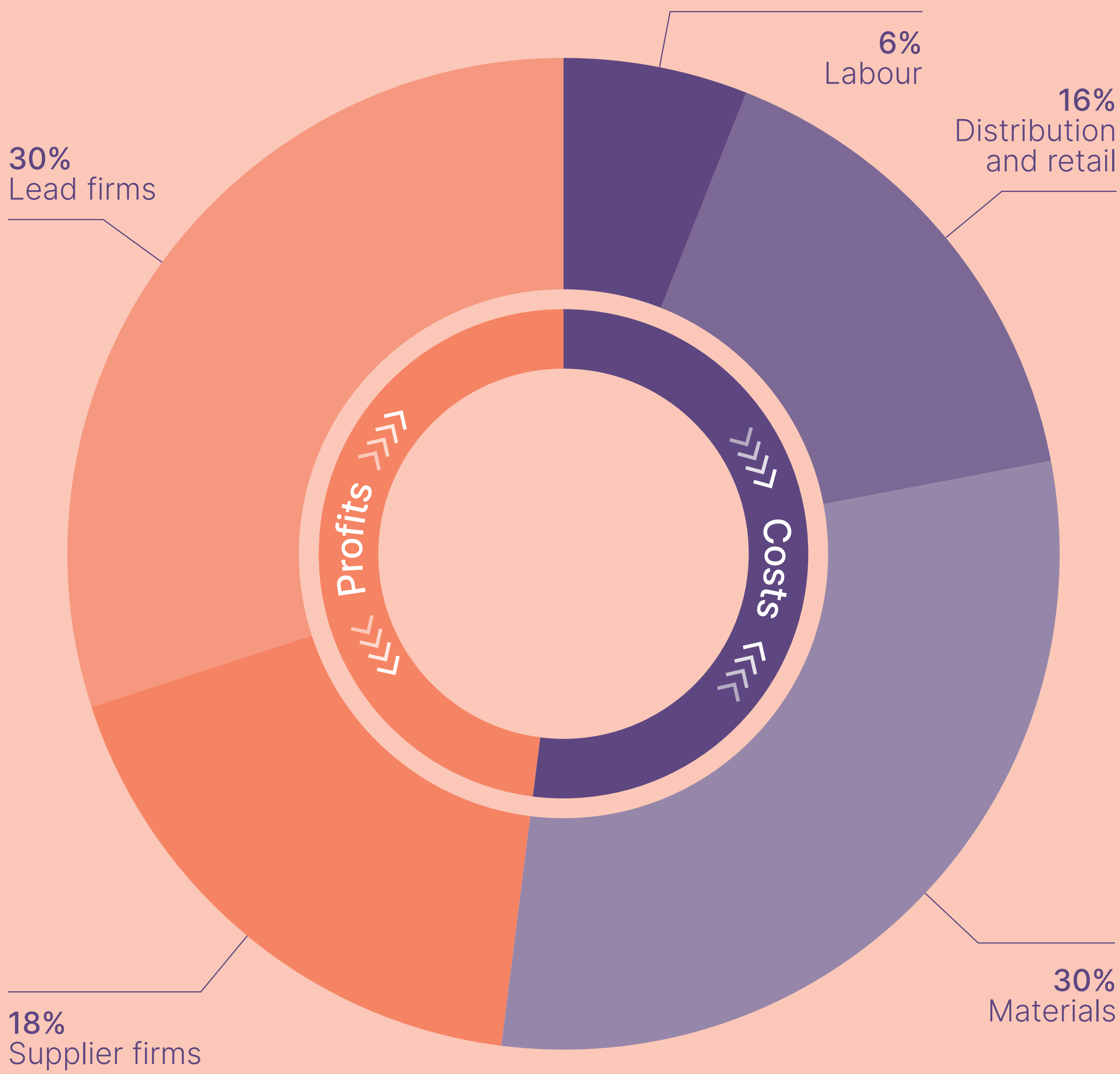
Though conceptions of value in supply chains are varied and not well-agreed, for the purposes of this Brief we understand value distribution as the "allocation of retained earnings among those who contributed resources to value creation and appropriation."[4] More broadly, value can be conceived as a concept of human rights: forced labour and inequitable value chains reflect power differentials that nullify the relationship between a person's inherent worth as a human being and a worker, and the value they are afforded by society and their employer, respectively.[5]

In Focus: What is Value?

Value in the supply chain context is an ambiguous concept, in some cases referring to a subjective perception of an input's (or product's) worth or utility and in other cases denoting the price paid for an input or product. For the purposes of this brief, value is discussed in the context of value capture, meaning the financial and non-financial benefits that are retained by a given supply chain actor as compensation for their participation in the creation of the final product. It is critical to note that although workers "produce valued products which are the source of profits [for the firm], they only capture a proportion of the added exchange value they create" based on perceived bargaining relationships.[6]

While it is often assumed that each contributing party in a supply chain is compensated at a rate commensurate with their contribution, skewed power dynamics arising from varying levels of dependency[7] between firms in a supply chain make it all too easy for brands, retailers, and investors to easily extract and retain value generated elsewhere in the supply chain for themselves,[8] leaving those with less power vulnerable to exploitation. This is especially true in low-wage, labour-intensive industries[9] in which lead firms can be much nimbler than their suppliers. Unsurprisingly, it is the very segments of the supply chain that capture the lowest value share where exploitation and forced labour are most highly prevalent, such as among cotton harvesters,[10] factory workers sewing garments,[11] farmers cultivating cocoa,[12] or miners excavating coltan.[13] Relatedly, lead firms can exert pressure on dependent suppliers to cooperate in tax avoidance schemes[14] or other dodging of regulatory compliance — actions that undercut states' ability to provide governance, worker protections, and sufficiently funded social safety nets.[15] Furthermore, historical legacies across sectors, such as in agriculture, can lead to accumulation at the top of the chain through dispossession at the bottom. For example, a study on sugarcane commercial farming in Uganda[16] explored how changes in land use — with commercial farming displacing subsistence crops — led to a path of development that resulted in modern food insecurity and poor working conditions.

Figure 1:
*Example Distribution of Value in Company X's Electronics Product**



*Numbers are broadly based on historical data of actual electronics products.

This downward pressure on workers' already-low wages[17] is, in part, a consequence of a modern global retail production model increasingly characterised by: 1) a fast-paced, low-cost dynamic,[18] and 2) severe power differentials between firms wherein there is a heavy concentration of market power among corporations at one end, and intense competition between suppliers — and therefore workers — at the other. Demands for cheaper goods delivered ever-faster — including among households in the Global North that are experiencing budget tightening driven by falling real wages and cuts to social spending — drive wild competition at the lower value-added stages of production,[19] where buyers such as brands and retailers increasingly pressure suppliers to maintain the high quality of their products while facing ever-shorter production lead times.[20] Farms and factories often lack the capacity to meet these harsh demands, but risk losing business if orders are not fulfilled. Such actors pass the 'squeeze'[21] onto their workers through depressed wages and poor working conditions:[22] "the only margin they have to play with."[23]

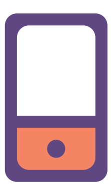
Such a situation may result in underpayment, excessive hours (including compulsory and unpaid overtime to meet fluctuations in demand), and exploitative piece-rate pay systems that amount to severe exploitation and forced labour.[24] Double bookkeeping, falsification of documents, and coaching workers to hide such abuses from auditors[25] are also commonly used tactics, as has been demonstrated in such industries as cocoa and tea production.[26] Poor working conditions can all too easily reproduce racialised relations reminiscent of colonial periods, and revive other forms of social discrimination. For example, a study in Mozambique's cashew processing industry showed how managerial practices dehumanised workers from diverse backgrounds, mirroring colonial-era practices.[27]

Data from various industries demonstrates that the deeper into a supply chain one delves, profit margins for subcontracted firms shrink and labour practices likewise deteriorate.[28] Instead of the value necessary to pay workers a living wage, what emerges upon moving down the supply chain is the risk and liability of high-volume, quick turnaround retail markets,[29] adding to an operating environment already disposed toward exploitation. To borrow from Edna Bonacich and Richard Appelbaum: "What provides wonderful flexibility for the manufacturer provides unstable work, impoverishment, and often abusive conditions for the workers."[30]

The effects are particularly pernicious among workers living in poverty and/or who are otherwise marginalised, with each turn of the screw raising the risk factor for the worst forms of exploitation, notably forced labour. Current efforts to regulate supply chains — such as voluntary due diligence and social compliance reporting, ethical certifications, or private-led corporate social responsibility efforts — have had minimal effect in combating forced labour, namely because they do nothing to challenge these underlying economic patterns and business practices.[31]

Research in a number of sectors illustrates the reality that, amidst skyrocketing corporate profits and increasing financial rewards for CEOs and shareholders, labour share has decreased significantly.[32] For example:

→ Even in a rather fragmented industry like apparel, various estimates have factory workers taking home only 0.6% to 2% of the retail cost of a T-shirt. About 60% is going to markups that benefit retailers and intermediaries, while suppliers are left with only 1 to 4% of the total value as profit.[33] Though not driven by the extremes of market concentration seen in other sectors, the value distribution imbalance in apparel stems from a combination of very low minimum wages in garment-producing countries; seasonable demand cycles that drive compulsory (often undercompensated) overtime that amounts to forced labour;[34] and a high volume of orders that gives buyers "substantial bargaining power in an asymmetrical market relationship."[35, 36]



→ Looking to the electronics sector, past data indicate labour costs in smartphone manufacturing were estimated at about 2% of the product price for the manufacturing entity and only 0.5% of the retail price, despite representing more than 40% of the real manufacturing cost. In other words, workers were making $2 USD for every $500 USD smartphone sold,[37] and these margins have likely shifted further in brands' favour in the interim. All Asian suppliers combined capture just 5.7% of the total value in profit, while the retailer captures a staggering 58.5%.[38] There are high profile examples of forced overtime and worker suicides in the electronics sector, even as it pays out tens of billions to shareholders every year.[39] A high non-added value markup pricing model drives much of this reality, with prices ratcheted up by a given percentage at every stage of the supply chain.

→ Turning to the agricultural sector, research demonstrates that 70% of the value — and 90% of the total margins — generated across the cocoa supply chain between West Africa and France accrues to brands and retailers.[40] In Cote d'Ivoire, where one-fifth of the population is engaged in cocoa cultivation, more than half of cocoa growers and their families live below the poverty line.[41] For the more profitable parts of the supply chain, the market is highly concentrated: the four largest chocolate manufacturers held a total market share of over 40% in 2014, while in the next year the processing market's top four companies accounted for over 60% of the total market share.[42] The poverty wages of the workers starkly contrasts with the $41 million USD the largest chocolate manufacturer payed to its top six executives in 2019, or the $3.1 billion USD (of $10 billion USD in gross profits) that was paid out to shareholders in 2020.[43] The agricultural sector continues to be marked by gendered and racialised colonial legacies, such as the case of Caribbean food systems, where remnants of plantation systems have shaped economic development.[44]

No matter the sector, this repeating pattern is occurring in a global context where, despite record corporate profits, the share of corporate and national income going to labour in the form of wages and benefits has been steadily declining for several decades, both in advanced and emerging economies.[45] Across the OECD countries, the median labour share dropped from 66.1% in 1990 to 61.7% in 2009, with some countries experiencing more than a 10% decrease.[46] Furthermore, rising labour income inequality in key states is driving an even harsher decline for the bottom quintile of workers, whereas the highest earners saw an increase in their share of earnings.[47] Not only does the reality of stagnating wages and declining labour share further deepen inequality and reduce workers' purchasing power, it increases the ability of companies to benefit from — intentionally or not — a position of worker vulnerability.[48] This is compounded by political, economic, and social impediments to labour organising, historically a critical check on corporate power.[49] The postcolonial conditions that foster cheap labour across the globe can be observed across many sectors (e.g. health care, domestic work, electronics, and agriculture) where entire workforces are virtually *exported* from lower-income Global South countries to higher-income Global North countries as part of development strategies grounded in remittances.[50] Countries in the Global South can offer training at a lower cost, but also lower wages compared to those in the Global North, thus providing a steady supply of well-trained labour.

Financialisation of the economy

Financial services as a proportion of the overall economy have exploded in the last several decades[51] amidst notable government deregulation of the financial industry, allowing "financial motives, financial markets, financial actors and financial institutions"[52] to exert outsized influence over the broader economy. This process of financialisation — by which "the tendency for profit making in the economy to occur increasingly through financial channels rather than through productive activities"[53] — is a key driver of inequitable and unsustainable value distribution in global supply chains. Of particular relevance is the financialisation of non-financial companies,[54] a process through which shareholder ownership models dominate, leading company managers to prioritise paying shareholders short-term returns over long-term investment in productive activities — including in employment and worker wages — despite increasing profits.[55]

Furthermore, companies increasingly make money through financial activities, such as stock buybacks,[56] rather than productive activities. In simpler terms, companies generate more profits from moving money around than they do selling their products and/or services.

The resulting prioritisation of short-term gains over more sustainable, long-term benefits is a key driver of business models that encourage labour exploitation. Financialised businesses are also more likely to have lengthy global supply chains,[57] demonstrating that short-termism incentivises companies to outsource and cut costs, with supply chain workers often feeling the squeeze. Value is concentrating in financial activities, making less available to pay suppliers and, in turn, workers. An outcome of this process is increased returns to executives and capital owners[58] (at the expense of workers) that further drive higher market valuation and concentration. For example, S&P 500 companies spent $4.3 trillion USD — or 52% of their net income — in stock buybacks between 2009 and 2018.[59] This practice has directly hampered the use of profits on dynamic gains and adequate supplier and worker income.[60] At the same time, financial rewards for executives have increased, with the average compensation of CEOs in the 350 largest U.S. firms being $21.3 million USD in 2019, up nearly 1200% since 1978, adjusted for inflation.[61] This signals that while there is plenty of value to be allocated, few (if any) constraints are placed around pay at the top of the chain, whilst workers are left struggling for decent pay and treatment in a global business climate that has come to characterise cuts to worker pay and conditions as efficiency, rather than extraction.[62]

> S&P 500 companies spent $4.3 trillion USD — or 52% of their net income — in stock buybacks between 2009 and 2018.

Increased market concentration and rise of superstar firms

Firms' often already disproportionate power in the global economy and in their supply chains is exacerbated by increasing market concentration due to mergers and acquisitions, common firm ownership by large investment companies, and speculative trading.[63] This results in less competition between buyers. In some cases, concentration increases buyers' price-setting ability, as they are under little pressure to ensure labour protections as a retention strategy — at least prior to the COVID-19 pandemic, the jurisdiction-hopping nature of modern supply chains ensured that rather than compete for workers on pay or conditions, firms could always shift to a new crop of potential workers in evermore precarious conditions that would do the same work for less money.[64]

With concentration, there are fewer competitors against whom a company would need to position themselves or their suppliers as employers of choice through better wages or working conditions. Further, without proper competition, firms can exert more control over pricing and input costs, including labour.[65] Documented rises in aggregate markups — and thus profits — since the 1980s further demonstrates increased market power and a resulting decline in labour share.[66] Higher industry concentration is associated with lower wages[67] and labour share[68] at the local level, and evidence shows that as profits grow for these large firms, their suppliers see diminishing returns.[69] As suppliers manage the strain of low margins, outsourcing and subcontracting tend to increase, especially to organisations and individuals who can compress costs under legal minimums.

In the United States, where a significant number of the Fortune Global 500 companies remain headquartered:

75% of industries saw increased market concentration between the late 1990s and early 2010s[70]

3X the number of mergers and acquisitions tripled in the past 30 years, with over 18,000 in 2019[71]

1/5 of all U.S. GDP is accounted for by the top 20 firms — a dramatic change from the 1950s, when the top 60 firms combined made up a smaller proportion.[72]

The International Monetary Fund acknowledges that the trend toward increasing corporate market power "could weaken investment, deter innovation, reduce labour income share, and make it more difficult for monetary policy to stabilize output."[73] As firms grow ever larger, they can more easily access the legal and financial resources to create more complex corporate structures that allow tax avoidance — which is estimated to cost governments $500 - $600 billion USD each year in lost corporate tax revenue[74] — or skirting of other 'inconvenient' regulations.

The rise of superstar — or 'winner take most' — firms (those that gain a competitive advantage in terms of productivity and efficiency through technological innovation) is crowding out smaller, less competitive firms and contributing to this tendency toward market concentration.[75] Research into nearly 700 industries over a period of 30 years demonstrates a marked upward trend in the concentration of superstar firms across all six economic sectors examined and an associated decline in labour share. The most concentrated industries experienced the largest labour share reduction.[76]

The annual revenue of these large firms can easily exceed the GDP of entire countries[77] — Apple quietly passed the $2 trillion USD market cap amid the pandemic[78] — and there are troubling trends toward market concentration across such varied industries as pet food, beverages,[79] and extractives.[80] A recent investigation by *The Guardian* documents that as increasingly more of the beef processing industry is controlled by fewer mega firms with mounting profits, farmers are earning less despite consumers paying higher prices.[81] Such labour market monopsony — in which single companies control entire markets and can set wages and working conditions with minimal consideration to workers based on disproportionate power — is spreading, and permeating across sectors.

> As firms grow ever larger, they can more easily access the legal and financial resources to create more complex corporate structures that allow tax avoidance or skirting of other ‘inconvenient’ regulations.

Limitations on labour organising

The power amassed by lead firms via increased market concentration and financialisation arguably results, in part, from the same *laissez-faire* regulatory landscape that has been both cause and consequence of "labor's countervailing power [being] more notable for its absence than its presence."[82] Financialisation is happening against the backdrop of a precipitous decline in union membership[83] and deliberate quashing of labour organising, which further adds to declining wages and reduced labour share.[84] Unsurprisingly, research demonstrates a positive relationship between bargaining power and labour share.[85] Further, union membership is associated with higher pay, particularly among low-wage earners,[86] who often come from historically marginalised populations that have also been systematically deprived of equal access to education. Legacies of discrimination on the basis of race, ethnicity, citizenship, and other classifications exacerbate this problem within migrant worker populations. Migrants are often excluded from formal labour organising, and earn 13% less than nationals, on average.[87] Gender implications are even more dire, with female migrants suffering doubly.[88] Against the backdrop of poverty and unequal access to education, workers who are particularly vulnerable often struggle to meaningfully act on and enforce their rights out of fear of retaliation, such as blacklisting.

Simply put, a significant barrier to realising better labour standards in supply chains is the accumulation of value at the top of the supply chain and the negligible margins at the bottom. Until this is addressed, countless workers will remain highly vulnerable to forced labour and other severe human rights violations.

Solutions

Financialised business models that prioritise making value available to shareholders and the ensuing tendency toward short-term profit maximisation are deeply ingrained in current business models underlying a global economy rife with severe exploitation. Thus, successful solutions will need to be multifaceted and led by both the public and private sectors, with broad civil society participation, in a mutually reinforcing way. Given evidence suggesting that existing industry-led reforms and initiatives have achieved little in improving outcomes for workers,[89] achieving the goal of eradicating severe labour exploitation will further necessitate the participation of workers and their organisations in high-level decision making about business models and governance structures — and their implementation. Fundamentally, these solutions need to achieve more equitable value distribution in supply chains to be successful.

Market-based solutions

There are steps the private sector can take to meaningfully weed out severe labour exploitation in supply chains via more equitable value distribution, both in how they manage day-to-day operations and more broadly in how they shape company ethos and value allocation. When firms step up and lead, they have the opportunity to drive up the standards, reversing the race to the bottom.

Allocate value along supply chains to align with true labour costs.

As established, ensuring that corporate practice does not contribute to the risk of forced labour in supply chains will necessitate increasing the value share going to workers, including through proper cost modelling and wage benchmarking based on established living wage calculations.[90] When input costs for labour are not benchmarked at living wage levels, workers are essentially allocated the leftovers after profits are allocated along the chain. Benchmarking costs 'pre'distributes value in a way that ensures that the final product price takes into account the true cost (and value) of labour from the beginning; in other words, workers' basic living conditions are assured before CEO bonuses and shareholder dividends are paid out.

As of 2020, 327 million wage earners were paid at or below the minimum wage, more than 80% of whom were earning less than the minimum hourly wage owing to either non-compliance or laws that exclude certain classes of workers from relevant laws.[91] This can only be addressed via industry-wide campaigns to implement policies known to offer protection against the worst forms of labour exploitation, a key component of which is the payment of a living wage.[92]

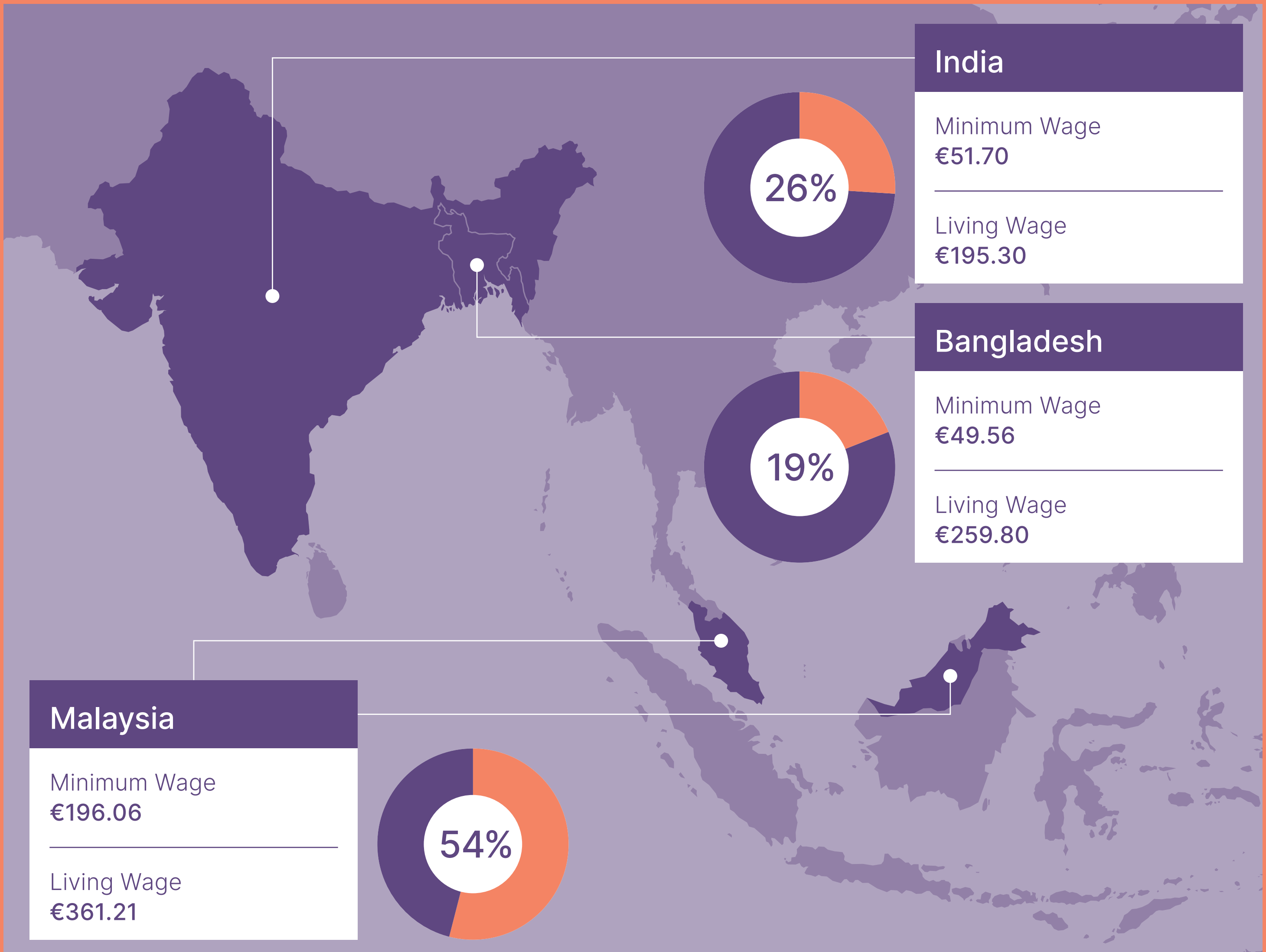
A living wage accounts for a more robust notion of the cost of living in a given locality, including data on the cost of food, housing, childcare, health care, transportation costs, and other basic necessities — in other words, the lowest level at which a worker can meet subsistence needs. This contrasts with the setting of a minimum wage — a legally conceived lowest allowable pay rate typically anchored on (problematic) poverty indicators.[93] A living wage is about supporting workers' livelihoods rather than just meeting a minimum threshold that keeps them at the official poverty line. As such baselines are typically set at levels that are generally well-below liveable, such an approach constrains workers' agency, leaving them highly vulnerable to labour exploitation. Ensuring living wages are paid is a meaningful way to more equitably distribute value in supply chains and thus reduce the prevalence of forced labour.

There are several promising examples of successful companies that have established business models that more equitably distribute value across the supply chain, helping to ensure workers are free from exploitation. Key components of these approaches include long-term commitments to and predictable pricing for suppliers/farmers to ensure income security and the opportunity to make investments into raising their productive capacity, as well as paying top-of-market prices or even premiums slightly above the market price of inputs. For example, companies in the coffee industry have worked to **implement cost-sharing models** whereby coffee growers receive payouts as a percentage of the brand's profits to increase their value share without affecting productivity.[94] This allows growers to enhance their income and invest in their communities directly, ensuring they develop in a way that reflects local preferences. Furthermore, such profit sharing can result in less tangible benefits, such as a deeper sense of agency and loyalty.[95]

The simple truth is that combatting the built-in demand for forced labour on the business side will require reducing the supply of vulnerable workers by getting more income into workers' pockets to increase their resilience and shifting costs (e.g. around recruitment) to employers.

Figure 2:
Minimum Wage vs. Living Wage

The gap between the official minimum wage and what constitutes a living wage is staggering in many countries feeding into global apparel supply chains.



The figure is adapted from Asia Floor Wage Alliance data. All figures are for a monthly salary. See https://archive.cleanclothes.org/livingwage/afw/living-wage-versus-minimum-wage.

In addition to setting wage benchmarks, **undertaking cost modelling that considers the actual price of inputs and labour** is also a key factor in improving the business model to combat forced labour.[96] To be successful, the adoption of living wage standards needs to be met by distributing value from one end of the supply chain to the other instead of cost-cutting within production nodes. Research has demonstrated that this can be done without having a significant impact on consumers.[97] In sum, enabling workers to meet their basic needs reduces vulnerability to forced labour and assures firms that they are less likely to find such abuses in their supply chains.

Promising examples of how value can be more equitably distributed in global supply chains often rely on the cooperation of brands, buyers, suppliers, civil society, workers, and governments.[98] As established, the precarity workers often face cannot be disentangled from the fact that suppliers are under increased pressure to produce efficiently at ever-lower costs due to monopsony, thus an ideal solution would **foster relationships of more equitable joint dependency**[99] between suppliers and buyers in an effort to draw value and power deeper into supply chains.

Support opportunities for workers to be centrally involved in supply chain decision making and implementation, including, but not limited to, unionisation efforts.

Meaningful change in increasing labour share will necessitate more than advances in productivity and re-allocation of value along supply chains, namely strengthened bargaining power and direct, stable engagement with buyers. Historically, union membership has been a key toward better wages for all workers regardless of union status[100] — a notable marker of value in global supply chains — and improved working conditions. Furthermore, there is a demonstrated positive association between higher union density and wage share.[101] Opportunities for workers to organise — including non-union forms of collective representation — help **overcome the collective action problem and reorient power in the global economy**, which is key in negotiating value distribution related to when and where to sell, and at what price point. Unfortunately, the ability of traditional organised labour to function as a meaningful check on corporate power has been eroded over recent decades.[102]

Furthermore, just as supply chains have grown more complex and reached evermore places, the success of unions (noting they are currently legally barred in certain geographies and among certain sectors of workers) and other collective organising approaches will depend on the **ability of workers to organise beyond a single worksite and across sectors and borders**, particularly in hyper-competitive, low-margin sectors marked by intense pressure on workers' wages.[103] Though a fairly nascent approach, worker-led binding and enforceable sector-wide agreements with employers that include consequences for suppliers and brands that violate minimum standards have demonstrated increased effectiveness in combating forced labour through a model of worker-driven social responsibility, as compared to standard corporate social responsibility initiatives.[104] This further supports business in ensuring brands do not have to stand alone and that changes to costing models do not create a competitive advantage/disadvantage for actors choosing to opt out/in.

There are also encouraging models emerging of **unions working in partnership with other civil society actors**[105] around demands that benefit the broader community over the long term.[106] This might also include strategies that leverage relevant financial assets such as pension funds and endowments to ensure they are invested in firms that reflect more sustainable business models.[107] In regard to ways that labour organising might broadly benefit society, it has been documented that white union members in the United States consistently possess lower levels of racial resentment and greater support for policies that will benefit Black workers.[108] This suggests that a further benefit of worker organising is dismantling discriminatory patterns that have been historically used to justify labour exploitation — including slavery — in the first place.[109] In sum, labour's collective bargaining power can serve as a much-needed countervailing force within supply chains.

Efforts to amplify 'worker voice' in supply chains, particularly with regard to combatting forced labour, have gained significant traction in recent years. In addition to making such efforts more than just a buzzword, one key challenge remains **protecting workers from possible retaliation and ensuring such mechanisms broadly represent worker experience.**[110] The latter point is best addressed by ensuring such initiatives remain democratic, governed by norms of representation, accountability, and worker agency.[111] Multi-stakeholder collective agreements that leverage the power of brands, retailers, and consumers alongside workers[112] — such as the Accord on Fire and Building Safety in Bangladesh and the Fair Food Program in the United States — are key in reallocating value more equitably when they are:

01 Legally binding and enforceable;

02 Independent;

03 Transparent, especially as to consequences and remediation for violations;

04 Inclusive mechanisms and funding for remedy;

05 Democratic;

06 Worker-centred, including having workers as monitors.[113]

Research demonstrates that such binding cost-sharing accords are successful in combating the squeeze that suppliers often face — which in turn limits the labour share — by centrally integrating workers and binding lead firms to share in the cost of improved working conditions, thus reorienting power structures.[114]

Taken together, these solutions point toward the need for corporations to be increasingly guided not only by shareholders but a broader set of stakeholders — notably workers — whose lives are intertwined with and affected by global supply chains. Pressure has been mounting behind this idea: it was the theme of the 2020 World Economic Forum, the Business Roundtable recently issued a statement on corporate purpose committed to this idea, and a large-scale, global poll released in early 2020 revealed that more than half of people surveyed believe "capitalism does more harm than good in the world."[115] As part of this reformist impulse, meaningfully integrating workers' experience and perspective into decision-making as key stakeholders in global supply chains will drive reduced vulnerability to exploitation.

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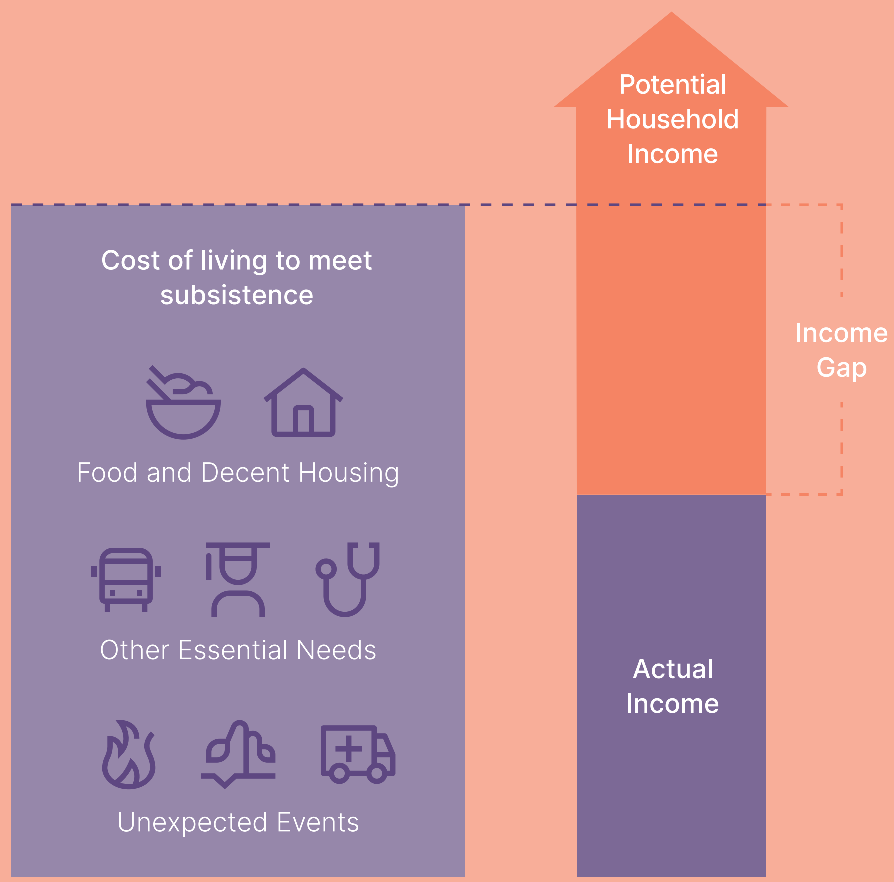
State-driven solutions

While there are many positive steps that the private sector can take toward eliminating forced labour from supply chains, government action is critical to reform existing incentive structures that drive exploitation. Notably, this centres on enacting regulations that ensure human rights-respecting corporate ethos and good governance extend deep into global supply chains.

Figure 3:
Understanding a Living Income

The Living Income Differential (LID) policy enacted recently among cocoa farmers in Ghana and Cote d'Ivoire provides an example of how governments might get involved to ensure value is more equitably distributed throughout supply chains. Given their combined market power, these two countries collaborated to charge an extra premium on all cocoa sales to guarantee a fixed price for their farmers throughout the growing season. This is complemented by a price stabilisation fund that can supplement as needed based on seasonality and the variability of global markets. Given this policy was just implemented last year, the long-term impacts are yet unknown, but it is a promising example of how governments can regulate to ensure workers receive their fair share.



Credit to Uncommon Cacao for inspiring this graphic.

Governments must use legal levers to reduce inequities within — and arising from — global supply chains. One important step will be to **close loopholes that allow 'fissuring'**[116] of business structures in which companies can easily shapeshift to avoid adequate wages and fair labour standards, highlighting a notable discrepancy between lead firms' legal responsibilities and the degree of control exercised in the market. Combatting this tendency requires mandating 'organisational glue' that ensures entities connected to lead firms — albeit peripherally — maintain standards and worker protections needed to combat forced labour.[117] As previously discussed, the ability of workers to collectively organise is key to addressing the accountability gaps that arise from such fissuring.

This may also entail legislating for corporate **mandatory human rights due diligence** to ensure that company practice does not negatively impact a range of stakeholders.[118] This will help to ensure that companies do not solely prioritise the returns of shareholders, but are required by law to demonstrate that they are mitigating and preventing the negative implications of their business practices on workers, incentivising them to make more value available to cover the costs of decent work.

To ensure more value reaches workers without unduly impacting consumers via price pass-throughs, it will also be necessary to consider ways for states **to limit opportunities for high-level company executives to extract inequitable levels of value**. For years, companies continued to innovate and generate sustainable profits whilst CEO pay was set at a more reasonable ratio to the average worker. This contrasts to today, with the average compensation of CEOs among the 350 largest U.S. firms being $21.3 million USD in 2019, up nearly 1200% since 1978, adjusted for inflation.[119] One attempt to combat this with a positivist approach comes from the State of California in the United States, where there has been proposed legislation that would set tax rates on locally based companies with more than $10 million USD in taxable income based on their ratio of the highest-paid executive to the average employee, with higher rates assigned to companies with a broader gap.[120] Another suggestion is introducing a luxury tax on compensation over a certain amount.[121]

Furthermore, **re-evaluating antitrust legislation and strengthening its enforcement**, in tandem with more stringent labour and consumer protection policies, will be key in rebalancing power in global supply chains; as it exists, the imbalance of market and bargaining power makes it all too easy to carve up profits in ways that deprive workers of their fair share. Moreover, the current, more lax approach essentially allows collusion that results simultaneously in upward pressure on consumer prices and downward pressure on supplier compensation, which limits the labour share. Existing scholarship supports the notion that antitrust frameworks in their current, severely attenuated form directly contribute to regressive distributions of wealth, perpetuating the vulnerabilities that give rise to easily exploitable labour.[122]

As illustrated by the Living Income Differential example (see page 27), many of these solutions necessitate **cooperative action by the public and private sectors**, with direct participation from civil society. The capital needed to support this work exists to be reallocated: profits for the Global Fortune 500 firms stood at $2.1 trillion USD in 2019 (up more than 150% in a decade),[123] meaning these reorientations should be achievable without passing significantly higher costs on to consumers. Evidence shows that solutions that do not work are often displacing other actions that could prove more impactful.[124] Just as we need survivors and other impacted communities directing efforts within the anti-trafficking field more broadly, we need workers sitting alongside other business actors to drive much-needed reforms to ensure equitable value distribution. Though this reorientation may feel like a significant shift, we must also remember that any model, institution, or market is simply a function of human-created policies and politics; chattel slavery was once a central component of doing business in much of the world, after all.

> Antitrust frameworks in their current, severely attenuated form directly contribute to regressive distributions of wealth, perpetuating the vulnerabilities that give rise to easily exploitable labour.

Recommendations

The inequitable patterns of the labour share and value distribution throughout global supply chains are deeply entwined in the same social, economic, and political realities that drive widespread — and mounting — inequality around the world. As such, any effective intervention to address forced labour will require a multipronged, coordinated effort to ensure economic value is distributed in a way that reduces both worker vulnerabilities and the demand for forced labour that cloaks itself in a mantle of efficiency. Doing so will foster a market environment that is more resilient and serves a broader populace than the current system, which has been built upon legacies of exploitation and discrimination.

Policy changes and corporate reforms that simply build on existing structures, undergirded by a history of racialised exploitation, will not root out the problem of forced labour in supply chains. Some ideas for achieving this in day-to-day operations and functions are offered herein, noting that more significant normative shifts in the understanding of 'value' to better reflect the longer-term interests of workers, communities, and the societies in which businesses operate will also be imperative to success. Though consumers have a role to play (and have been key in supporting discrete campaigns to ensure workers get a fairer share),[125] their role must complement the government — and business-led reforms proffered in this Brief. Lastly, as societies and economies alike begin recovering and rebuilding in the wake of the pandemic, the tendency to return to the pre-pandemic status quo must be resisted to instead take advantage of this opportunity to reimagine a future that balances equity and sustainability with efficiency.

Recommendations for Governments

→ **Legislate limitations and ensure corporate commitment to retaining a certain amount of profits for business development (both capital and labour)** to limit practices associated with the financialisation of the firm, such as stock buybacks, and ensure suppliers are not taking on added costs of better pay and worker protections in a way that squeezes wages.

→ **Take a multifaceted approach to strengthening antitrust laws, particularly in the United States, to better reflect their original purpose of constraining corporate power to protect suppliers and consumers.** This requires viewing antitrust as a political issue, not only an economic one. Establish clear rules to govern lead firm conduct, with a special focus on how mergers and other behaviours affect labour markets and lead to monopoly/monopsony power. Resource regulatory agencies at an adequate level — including equipping them with relevant firm-level labour market data and reinforcing their ranks with labour economists and other technical experts that bring labour market awareness to the forefront. Consider how a given merger, whether horizontal or vertical, might specifically impact market power in labour markets.

→ **Reimagine legal and taxation regimes vis-a-vis the corporation**, including setting an effective corporate global minimum tax rate and giving special consideration to an excess profits tax (as has been historically used in wartime) on 'super profits' that large companies derive solely via events out of their control, such as a pandemic, as a way to limit the growth of superstar firms. Make financial support to businesses, such as bailouts, contingent on such practices as maintaining payrolls, honouring contracts, and freezing bonuses and dividend payouts. Implement controls on tax evasion schemes to ensure firm profits are adequately accounted for in determining labour's share.

→ **Lead by example by ensuring public procurement — which represents 13% of GDP for most countries, according to the World Bank — supports companies who are leading in providing more equitable outcomes to workers**, notably those demonstrating a more equitable labour share and engaging in worker-driven social responsibility efforts around relevant goods and services.

- **Move away from minimum wage regimes toward those of a living wage.** The negotiation of trade agreements might provide an opportunity to consider how states representing lead firm headquarters can encourage raising of minimum wages/establishment of living wages, and likewise, supplier countries can push for conditions that support adequate social programs for workers and enhanced working conditions.
- **Ensure workers are integrally involved in shaping corporate oversight and monitoring processes of all relevant state agencies.**
- **Consider implementation of localised, tailored social policies that guarantee a basic income** to ensure workers are not essentially forced to accept bad jobs. Work with researchers to evaluate pilots, and scale up where effective.

Recommendations for Lead Firms

- **Adopt living wage policies and place limits on executive pay, taking into account ratios of executive pay to the average worker.** Reorient executive bonus structures around learning and long-term goals in addition to a broader notion of performance beyond the market (such as worker satisfaction or safety records at worksites) and limit to a percentage of base salary. Set adequate pricing models that include a ring-fenced living wage labour cost. Revise incentive structures so that bonuses are predicated not only on measures of efficiency, but also sustainability and resilience.
- **Support worker involvement in setting company policy, whether through collective bargaining or other mechanisms, and create opportunities for labour organising to strengthen across borders and sectors.** Ensure workers have equal access to participation regardless of migration status and other demographic characteristics. Ensure campaigns are driven by and for workers, and support ways to take them beyond the workplace to support broader social services, such as supporting migrant communities or offering childcare.

- **Rewrite corporate purpose statements/charters to reflect the reality that businesses exist with the public's permission and therefore must be accountable to the public**, including by ensuring the board's fiduciary duties extend beyond shareholders to a broader stakeholder class and accounting for 'negative externalities' of their business models. This will further necessitate reforms to corporate governance and decision making, including elevation of forced labour detection and remedy to a business-critical, Board-level issue.

- **Work with governments to establish Inclusive Ownership Funds or other similar democratic, worker-driven mechanisms that ensure a company's returns to capital are shared more equitably across the supply chain and society**, while also providing a check on the influence of institutional investors by safeguarding a percentage of ownership for those with a demonstrated commitment to a company's long-term success, given the very direct linkage to their livelihood.

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