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New Models for an  
Equitable Economy **Lab**

# Investment Patterns and Leverage

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*Gilder Lehrman Center for the Study  
of Slavery, Resistance, and Abolition*

**Drafting team:**

Genevieve LeBaron, Tom Hunt, Remi Edwards, Jessie Brunner, Luis C.deBaca, Vivek Soundararajan, Andreas Rümke

**Research team:**

Charline Sempéré, Perla Polanco Leal, Michael Massey, Saray Bedoya, Steve Hoeschele

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**Design direction and typesetting by:**

Cafeteria | [thecafeteria.co.uk](http://thecafeteria.co.uk)

**Institutes:**

*Sheffield Political Economy Research Institute* (SPERI) at the University of Sheffield develops and promotes a new understanding of contemporary capitalism and the major economic and political challenges arising from it. [speri.dept.shef.ac.uk](http://speri.dept.shef.ac.uk)

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*The Gilder Lehrman Center for the Study of Slavery, Resistance and Abolition at the MacMillan Center at Yale University* is dedicated to the investigation and dissemination of knowledge concerning slavery and its legacies across all borders and all times. [glc.yale.edu](http://glc.yale.edu)

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**Corresponding authors:**

Luis C.deBaca ([ldebaca@umich.edu](mailto:ldebaca@umich.edu)) and Jessie Brunner ([jbrunner@stanford.edu](mailto:jbrunner@stanford.edu))

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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 an 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; the labour share and value redistribution; ethical certification and social auditing; and worker debt. 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

Investors have recently joined the ranks of stakeholders championing the need for a more humane form of capitalism, highlighting their key role at the ‘top’ of supply chains and the significant influence they wield among business actors. Yet, discussions about how financial actors shape investment patterns and can use their leverage to reduce and eradicate forced labour in global supply chains are at an early stage.

Because social investment initiatives to combat forced labour are so new, there is far less research investigating their precise impacts and effectiveness compared to the other topics covered within this [Forced Labour Evidence Briefs](#) series. Publications to date on the topic of investment risk in this area have represented consortia of industry actors and interested parties in awareness-raising and advocacy efforts, with a focus on firms’ exposure to asset forfeiture and money laundering risks as opportunities for investment-driven change. In-depth empirical research on whether, to what extent, and how ‘ethical investment’ initiatives are influencing the patterns and prevalence of forced labour in global supply chains—or not—is urgently needed.

At the same time, to catalyse and increase the impact of ongoing efforts, it is necessary to tackle the systems-level investment patterns that fuel demand for forced labour in supply chains. Large swathes of investment activity in the contemporary global economy directly support and reinforce—and seek to generate short-term and ever-increasing profit through—prevailing business models. As the [Commercial Contracts and Sourcing](#) brief explains, such business models are key drivers of forced labour. More often than not, investors are not using their leverage to influence business decisions in a way that could improve prospects for decent work in supply chains—rather, they are creating pressures towards exploitation. As well, the legal and normative regimes cutting across several countries that oblige investors to maximise returns remain a powerful barrier against efforts to leverage investment to meaningfully address forced labour risks in supply chains.

No doubt, it is possible to engineer investment models that uphold worker rights, reinforce wage standards, and protect workers from forced labour. But there is a long way to go. For all the buzz around emerging initiatives like Environmental, Social, and Governance (ESG) investing—which promotes a focus not only on financial gain but also the environmental, social, and governance impacts of doing business—there is not yet an agreed-upon, established set of standards to guide this process, and social issues are consistently de-prioritised behind environmental ones in company disclosures. Furthermore, the effectiveness and potential impacts of ESG are contested; ESG has been linked to corporate tax avoidance, has been criticised as a ‘deadly distraction’<sup>1</sup> from meaningful policy reform to address the negative social impacts of investment, and, in any event, is estimated to comprise only around a quarter of investment activity in today’s return-driven global economy.<sup>2</sup>

Solutions to the risks posed by prevailing investment dynamics ultimately need to confront systems-level dynamics and trends—such as the ways in which investment patterns are deepening financialisation of the economy—and the barriers that corporate business models present to actuating fair labour standards. As well, investors must confront the deep and longstanding historical links between investment, slavery, and the trade in enslaved people throughout the history of capitalism in the United States, England, and beyond. This history has helped give rise to powerful financial actors and investment organisations, created today’s business and financial practices, established global manufacturing and sourcing as an integral part of major economies, and deeply shaped contemporary patterns of inequity. The resulting imprint of slavery and of post-Emancipation forced labour systems must therefore be confronted within the solution space. While further research into effective solutions is needed, we lay out a series of early steps that could be taken by investors to promote decent work.

# Problem

Investment patterns, and the leverage that financial actors have over them, are powerful forces in shaping the conditions under which decent work—or its opposite, forced labour—flourishes in supply chains. Recognising this, in recent years there have been repeated calls for financial actors, including private and sovereign wealth funds, asset management firms such as BlackRock and State Street, private and state-owned banks, parent companies, hedge funds, and financial services firms, to use their influence to eradicate forced labour in supply chains.<sup>3</sup>

These calls haven't gone entirely unheeded. For instance, investor-led initiatives have sprung up, committing to anti-slavery action such as to “find, fix and prevent modern slavery, labour exploitation and human trafficking in their value chains.”<sup>4</sup> Investors have also called out and voted against re-electing company board members in cases alleging forced labour and health/safety violations.<sup>5</sup> All the while, toolkits, benchmarks, and briefs designed to aid and support investor decision-making have proliferated. Indeed, there is growing awareness that because investors sit at the ‘top’ of supply chains, they are uniquely positioned to demand corporate action, reporting, and improvement around social metrics and outcomes.<sup>6</sup>

After a few years of anti-slavery activists and advocates calling for change in investment patterns to support the eradication and prevention of forced labour in supply chains, and early steps towards heeding such calls, there is very little evidence to suggest that the necessary scale of change is being realised. In part, this is due to a lack of research and data on the effectiveness and on-the-ground impacts of investor-led solutions addressing forced labour. Compared to the other issues tackled in this [series](#), finance and investment actors and dynamics (and their relation to forced labour) are vastly understudied. Still, the lack of progress in this space also owes to the fact that investor-led efforts that have emerged so far to *fight* forced labour—including ESG investing, investor initiatives, and opportunities to exert leverage over corporate governance—lack the scale

and ambition necessary to be transformative. This is especially troubling when compared to the systemic compulsions within finance and investment that *enable and give rise to* forced labour.

For every investor that has exercised its power to raise labour standards, there are hundreds more pushing corporations to squeeze out more profit through cost-cutting and outsourcing strategies closely associated with forced labour. For every asset management firm urging a corporate board to address worksite issues, there are thousands pushing boards to maintain a narrow focus on financial performance.<sup>7</sup> While social investment strategies are no doubt growing in popularity and becoming more mainstream, the reality is, there are no signs yet that they are making a dent in the system-level finance and investment trends and dynamics that contribute to the high risks of forced labour in many global supply chains. And there is reason to worry that ESG is distracting from and displacing more meaningful action.

Key dimensions of finance's connections to forced labour remain off the table for discussion and change. For instance, while it is often mentioned that financial actors come into contact with the financial proceeds of forced labour, there is far less concern about how investment trends in fact contribute to the conditions under which it emerges. Further, there has been little discussion by those fighting forced labour today of the considerable wealth and power that financial actors amassed through historic slave trades and industries; these realities continue to buttress and shape their position in the global economy today. Further, there exist highly racialised and geographic inequities in wealth and financial dynamics such as terms of lending, common management practices, and even such basic accounting principles as depreciation.<sup>8</sup>

In short, the issue of investment and its relation to forced labour is much more complex and multi-faceted than tends to be mentioned in discussions about these themes. The rest of this section highlights under-discussed elements of the problem that need to be given greater prominence in anti-slavery efforts.



## Element One

# Macroeconomic Matters

A growing body of academic research highlights the risks that dominant systems-level finance and investment trends pose to workers in global supply chains, including risks of forced labour. Five macroeconomic trends are especially important:

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**The shrinking labour share.** As economists have documented, the financialisation of the global economy—or, in other words, the “increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies”<sup>9</sup>—is putting downward pressure on the labour share of income in global supply chains. Financialisation means that profits are increasingly derived “through financial channels rather than through trade and commodity production;”<sup>10</sup> such processes are concentrating wealth and income among top earners, large multinational corporations, and financial institutions, while contributing to the falling share of income available for workers in both developed and developing countries.<sup>11</sup> One recent study estimates that “the labour share of income in 35 advanced economies fell from 54 percent in 1980 to 50.5 percent in 2014.”<sup>12</sup> Within the United States, data from the Bureau of Labor Statistics shows that the labour share fell from 65.4 percent in 1947 to 56.4 percent in 2016, with three-fourths of that decrease happening between 2000 and 2016.<sup>13</sup> Beyond the United States, integration into global supply chains in tandem with financialisation have been found to have a greater negative impact on the labour share of income in developing countries, and financial actors also promote aggressive ‘supply base reduction policies’ which can cut out entire markets from supply chains.<sup>14</sup> These growing distributional inequities are acutely felt by low-income workers,<sup>15</sup> for whom reduced incomes often translate into heightened vulnerability to forced labour and overlapping forms of exploitation. These trends are explored in greater depth in the brief on [Labour Share and Value Distribution](#).

02

**Prioritisation of short-term financial returns.** Relatedly, the growing centrality of the shareholder model of corporate ownership and governance has led to increased pressure by shareholders and creditors for corporate leaders to prioritise short-term financial returns. This trend reconfigures business models around ‘predatory value extraction’<sup>16</sup> as company managers prioritise short-term returns to shareholders while side-lining longer-term goals such as secure employment and environmental protection.<sup>17</sup> Some of the key elements of this trend include: the growth of stock buybacks; re-regulation of markets to allow for greater speculation and financial involvement; and the acceleration of shareholder activism, which often lies behind mergers and acquisitions, hostile takeovers, and changes in corporate board members and governors.<sup>18</sup> As shareholders, creditors, and the financial actors who represent them push corporations towards cost-minimising business models, they open the door to sourcing practices and outsourcing strategies that increase risks of forced labour, as is explored in the [Commercial Contracts and Sourcing](#) brief.

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03

**Declining real investment.** There is declining corporate investment in non-financialised components of supply chains, such as people and production facilities.<sup>19</sup> As businesses have derived more and more income from financial activities over recent decades, they have reinvested lower proportions of their profit back into productive activities.<sup>20</sup> For instance, OECD data on Germany, France, Japan, the UK, and the United States shows that corporate investment in production has declined significantly since the 1970s despite rising corporate profit during the same period.<sup>21</sup> Profits are instead being channelled into financial investments and transactions, such as through mergers and acquisitions and stock buybacks, wherein companies buy their own shares in order to improve their value and improve shareholder returns over time. Between 2008 and 2017, S&P 500 companies spent on average 53% of net income on share buybacks.<sup>22</sup> While in 1980 around 20% of US corporate profit was reserved for dividends and buybacks, by 2006

this had reached 90%.<sup>23</sup> The re-investment of profits into financial activities rather than the material components of supply chains<sup>24</sup> contributes to downward pressures on prices paid to suppliers, and therefore on labour costs. Such practices are closely linked to the cost-minimising labour practices that emerge in this context, including reliance on more precarious forms of outsourced labour and intermediaries, wage violations including the underpayment of wages, and the use of forced, child, and trafficked labour.<sup>25</sup> As well, there is considerable cause for concern that financialisation-driven pressures on labour costs removes incentives to innovate; simply put, if profits are continually expanding by lowering the floor of labour standards, there is little reason for companies to explore potential innovations or gain an edge on competitors through demonstrated good working conditions.

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**04**

**Rise of institutional investors.** Institutional investors—large investment firms that invest in and buy company shares using pooled money—are growing in size and importance. Institutional investment is a highly concentrated industry, dominated by asset management firms such as Blackrock, Vanguard, and State Street. In the US, these three institutional investors combined “constitute the single largest shareholder in at least 40% of all listed companies,” and of the S&P 500 index of US corporations, they constitute the largest owner in 438 of them.<sup>26</sup> Institutional investors tend to practice ‘passive’ investment strategies. Unlike ‘active’ shareholders who buy and sell their shares to express dissatisfaction with management, passive investors hold their shares for long periods of time.<sup>27</sup> While it has been suggested that this may be conducive to encouraging managers to take a more long-term view to value creation and social issues, one recent study found that in 90% of studied cases, institutional investors voted in line with short-terminist tendencies and against proposals from shareholder activists pushing for more responsible business practices.<sup>28</sup> Under pressures from institutional owners to boost returns, companies have further consolidated market power through

processes such as mergers.<sup>29</sup> This increases market concentration and monopolisation, giving a smaller number of corporations greater leverage to squeeze their supply chains, and produces anti-competitive pressures.<sup>30</sup> This contributes to a business demand for forced labour within supply chains, as the [Commercial Contracts and Sourcing](#) brief documents.

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**Speculation and commodity trading.** Besides the financialisation of lead firms, most other elements of supply chains are also becoming financialised with equally adverse impacts for workers. This has been well documented in relation to food supply chains, where increases in speculative activities like commodity trading have driven down global prices of producers, such that they are largely struggling to stay afloat and observe labour standards.<sup>31</sup> Hedging practices can be employed by commodity traders to mitigate the impact of price volatility. However, they are being used increasingly by speculators who are not interested in the commodity itself, but in investing money in future contracts in order to make a profit from price fluctuation. These practices further contribute to price volatility itself, the impacts of which are absorbed by producers with limited access to hedging and mitigation strategies. As price pressures mount, producers in many supply chains have experienced increased vulnerability to debt and poor living conditions,<sup>32</sup> and have turned to exploitative labour practices as a strategy to stay afloat in volatile markets. These practices are also leading to higher food prices in the Global South, increasing people's desperation for money, and often their willingness to take on dangerous and risky jobs to get it—creating vulnerability to forced labour.<sup>33</sup> The situation is compounded by investment patterns around land and housing, particularly linked to foreign investments in land for large-scale agriculture, manufacturing, tourism, mining, and real estate development in the Global South. More often than not, these practices displace rural communities from their traditional land, creating a supply of people who tend to struggle to find work and are thrust into low-paid, risky, and

exploitative work.<sup>34</sup> Research demonstrates the links between land dispossession and high vulnerability to debt bondage.<sup>35</sup>

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These five macro-economic trends are not unfolding in isolation, but rather are mutually reinforcing. For instance, a study of retailers between 1990 and 2007 found that despite sales growth falling over this period, company return on equity rose significantly – from 11.9% to 23.9%,<sup>36</sup> meaning they were able to retain profitability through financial channels despite a loss of revenue. Another study of 35 sectors in the US between 1998 and 2006 found that firms with extensive supply chains were also among those distributing the greatest amounts of profits to shareholders and share repurchases.<sup>37</sup> These examples illustrate how financialised business models incentivise cutting costs and downsizing core business operations, such as through outsourcing production activities; promote funnelling of funds into financial activities; and fundamentally transform dynamics of profitability and investment.<sup>38</sup>

## *Element Two*

# Global Business Operates in a Historical Context Rooted in Slavery

While many of these investment and finance trends are new and have only recently been made possible by the de- and re-regulation of markets during the globalisation era, they build upon an extensive history of investment and financial practices profiting from and enabling slavery.

As economic historians have powerfully demonstrated, investors have enabled, profited from, and sustained slavery through the history of capitalism.<sup>39</sup> For instance, in the 19<sup>th</sup> century United States, financial actors including international creditors, banks, investment bankers, mortgage brokers, and insurance firms were absolutely fundamental to the trade, exploitation of, and profit from enslaved human beings.<sup>40</sup> By some calculations, the amount of capital invested in slaves was equal to or exceeded the capital invested in factories.<sup>41</sup> The most famous banking houses financed the purchase of enslaved people (which often required credit), and at times owned them directly;<sup>42</sup> by the 1830s, around a third of the Bank of the United States' capital was invested in the then-American Southwest's economy in enslaved peoples, helping to draw in and attract international capital from Europe.<sup>43</sup>

Far from being passively involved, financial actors developed the accounting systems and technologies to quantify and value the lives, bodies, and deaths of enslaved peoples, and to maximise profit extraction during their enslavement.<sup>44</sup> Banks and professional financiers accrued vast sums through trade and speculation in the products produced through slavery, including cotton, sugar, rice, and alcohols. Indeed, while sometimes these actors were smaller domestic firms, many had global interests and were involved in the transatlantic slave trade and related businesses.<sup>45</sup> These businesses "succeeded because of their talents for turning people into chattel and money, for managing the logistics of exchanging those people systematically

over great distances, and for leveraging their advantages as they insinuated themselves into financial networks and outdid or subsumed rivals.”<sup>46</sup>

The history of investments in slavery is important because it highlights: the ways in which a plethora of financial actors accrued wealth and power from historic enslavement and forced labour; the vast continuities in speculation, trade, and investment in goods made by forced labour and investment patterns that enable businesses to produce them; and the ways in which financial actors have reoriented their business models to continue to profit from and finance exploitation following its legal abolition in most countries in the world.<sup>47</sup> It underscores that the problem is not simply and straightforwardly ensuring that investors prompt other businesses to tackle forced labour in their supply chains, but rather, that they confront their own businesses’ historic and contemporary entanglements and profits from enslavement and overlapping forms of exploitation.

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### Element Three

# Limitations (and Opportunities) of Nascent Approaches

As mentioned, several investor-led efforts have emerged so far to *fight* forced labour – including ESG investing, investor initiatives, and moments of leverage over corporate governance. However, there is mounting evidence that these are insufficient, namely when considered alongside the true scale and nature of the problems described above.

For instance, considerable optimism surrounds the rise of socially responsible investment (SRI) and ESG investing<sup>48</sup> as a means through which finance can be reoriented away from businesses dependent on forced labour and towards supporting and profiting those that follow decent work standards. However, as the financial sector forecasts a steep rise in the assets channelled into ESG funds over the next decade,<sup>49</sup> academic and grey research has questioned the effectiveness of ESG investing and whether it is truly the step forward that the private sector and some anti-slavery activists claim it to be. Some of the key problems identified include:

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Whilst the intentions of socially responsible investors may be to help achieve long-term change, this exists in tension with a focus of investors to obtain short-term financial returns.<sup>50</sup> The motivations of institutional investors tend to be market-led, not value-led.<sup>51</sup> A study found large majorities of both SRI and non-SRI investors agree that financial return is the most important factor when making investment decisions;<sup>52</sup> this reinforces the status quo of business models dependent on razor-thin margins, with all of the negative consequences this holds for workers (see [Commercial Contracts and Sourcing](#) brief). Fundamentally, ESG disclosures by issuers of shares tend not to focus on “critical, material issues that are relevant to a company’s business strategy and products.”<sup>53</sup>



02

ESG investment applies an econometric lens to environmental, social, and governance data, leading to non-financial metrics being analysed in the same way as financial data. This enables financial analysts to understand factors traditionally related to moral concerns as market signals that can be used to inform valuation practices that guide investment decisions. Scholars have argued that ESG investing exploits moral concerns to “create new speculative activities and profit.”<sup>54</sup>

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03

By applying the same analytical frames to economic, political, and social activities, ESG investment criteria and benchmarking strategies have been critiqued for their ahistorical and apolitical nature, which overlooks “institutionalised forms of racial, gendered, ethnic and/or religious discrimination, relations of power and domination.”<sup>55</sup> As such, ESG does little to challenge the systematic oppression and exploitation that enables businesses to profit from forced labour, and relevant historic continuities and legacies.

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04

Academic research, as well as research by financial sector analysts, has also questioned the quality of data that is used to inform ESG investing.<sup>56</sup> A proliferation of ESG metrics (similar to the proliferation of CSR indicators in the 1990s) means that there is a lack of standardised, independent and comparable data upon which to make decisions. Moreover, even when this is available, investors tend not to use it. ESG indicators relating to social outcomes which cover labour standards are particularly unreliable and often have a thin conceptualisation of human rights.<sup>57</sup>

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Research suggests that shareholder efforts to positively influence company managers to act with social responsibility, such as by using their shareholder vote in proxy elections, selling their shares to demonstrate dissatisfaction with company practice, or via direct engagement with management themselves, have little impact.<sup>58</sup>

This is in part due to attention to change happening only after revelations of abuse have been exposed by the media or through enforcement activity, as opposed to proactively.<sup>59</sup> Furthermore, this approach to changing company practice—for example with regard to labour practices in their supply chain—is limited because it continues to accept the primacy of shareholder returns over achieving social aims.

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Ultimately, there is little evidence that ESG investment challenges the policies, practices, and legal structures of a model of business that privileges shareholders over all other stakeholders; instead, it operates within and solidifies that existing framework. At worst, an ESG approach may even pose further risks to workers by giving the impression that it is solving the problem of endemic labour and human rights abuses in supply chains.

While hard data on on-the-ground outcomes spurred by ESG is limited, there is ample cause for concern that prevailing approaches to ESG reinforce—rather than challenge—the investment patterns that lead to forced labour in supply chains, and fail to effectively use the leverage that investors have. The lacking substance and low quality of ESG data along with the way in which that data is being utilised give rise to investments privileging the status quo and incremental change rather than tackling the structural bases of exploitation and their relationship to investment practices.

# Solutions

Prevailing patterns of investment pose risks to workers and vulnerable communities. Without systemic and far-reaching change, large swathes of investment will continue to support business models that severely exploit workers, including through forced labour, and many financial actors will continue to build power and wealth rooted in historic trades in enslaved peoples. Given the paucity of data and the early stage and limited number of interventions to address these problems, in this section, we highlight fresh thinking and key actions that can be taken to progress relevant solutions.

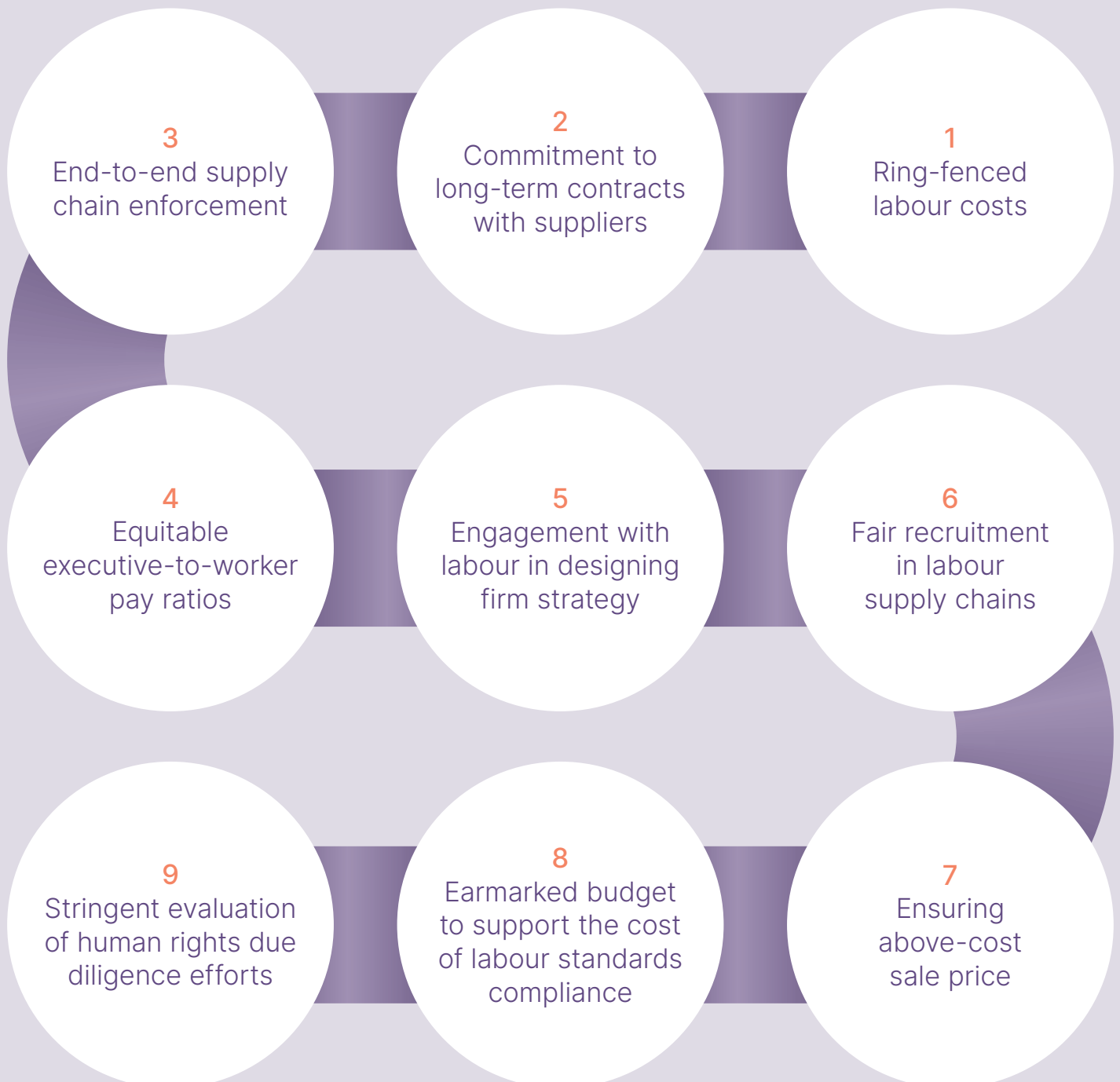
Traditional efforts to encourage more socially responsible forms of investing, principally through ESG initiatives, can be useful, but there is an urgent need to ensure that they: rely on rigorous social indicators relevant to forced labour and reliable, meaningful data about labour standards; rigorously uphold social and labour standards; and spur real change in the business models that give rise to forced labour in supply chains.

Fundamentally, devising solutions to the risks that dominant investment patterns pose to workers requires broadening the conversation and the scale of ambition. Systemic, macro-economic trends and financial and government actors' shared responsibility need to top the agenda for change. This means confronting the ways in which investment patterns and financial flows contribute to the conditions under which forced labour emerges in supply chains, as well as confronting the historic dynamics that have shaped contemporary racialised and geographic inequities in wealth, ownership, and freedom within labour markets. Ultimately, it requires transforming the short-terminist, shareholder-driven economy focused on managing risks to investor profits and performance—including the overarching legal regime—to one that centres workers and ensures investors do not pose risks to their fundamental human rights.



**Figure 1:**

*Here we posit broad categories to consider when evaluating a firm's compliance with S(ocial) considerations in the context of ESG investing.*



## Widening the lens

Changing contemporary investment patterns will require bold action by advocates, consumers, states, and workers themselves, including actions that go far beyond most solutions being discussed in the mainstream. The key actions that investors, corporations, governments, and academics need to take include:

- **Investors** need to divest from business models that profit from forced labour, and examine and take action to change their own business practices where they are part of the problem. The onus of responsibility needs to shift from workers and their advocates to investors, given the profits they make and power they wield in supply chains. In the current practice, the rewards of abuse accrue not just to the trafficker or exploitative manager, but also to the international buyers and investors while the physical, financial, and emotional consequences of modern slavery are off-loaded to workers and vulnerable communities as an externality. Responsibility and risk must be more closely aligned to reward. In other words, investors should demonstrate that their ESG offerings are credible; that strong measures are in place to proactively prevent, detect, and correct forced labour within their investments, including rigorous due diligence programs; and that they are not supporting businesses reliant on forced labour, rather than relying on workers and their advocates to provide evidence to the contrary. Investors and financial actors should examine their own contemporary business practices and the history of their organisations to assess the extent to which they are profiting from, reinforcing, and facilitating human exploitation and commerce in goods produced through forced labour.
- **Corporations** receiving investment should provide transparent, credible, and relevant information regarding forced labour, labour rights and standards, and worker protection in their supply chains. For details on meaningful reporting related to forced labour in supply chains, see the [Due Diligence and Transparency Legislation](#) brief. Corporations should take action to address their business practices and those of commercial partners that create pressure towards and facilitate the use of forced labour within supply chains, including with respect to sourcing, commercial contracts, and wages.

- **Governments need to:** effectively balance the power of financial actors, enact stronger standards to transform the macroeconomic trends described above and mitigate their impact on workers, properly regulate socially responsible and ESG investment industries to ensure they are not providing misleading information to those seeking to invest money into ethical channels that uphold labour rights, and ensure there are consequences where this is provided. They should reform legal regimes to redirect corporate objectives away from an exclusive focus on shareholder value and towards more pluralist, stakeholder-oriented conceptions of corporate purpose that rigorously uphold social standards and labour protections.<sup>60</sup>
- **Academics**—including in international political economy, business and management, and labour studies, among others—should research the effectiveness of public and private sector efforts to leverage investment patterns to address forced labour in supply chains.

The rewards of abuse accrue not just to the trafficker or exploitative manager, but also to the international buyers and investors while the physical, financial, and emotional consequences of modern slavery are off-loaded to workers and vulnerable communities as an externality.

## Investor responsibility to understand and address social risks

While, as mentioned, research on the impacts and effectiveness of ‘ethical’ investing is still in progress, there is already a considerable body of work on social risks within supply chains. Investors should take this research seriously and draw on it to inform their understandings and actions to address social risks, going far beyond concerns of geopolitical risks faced by companies where they operate to also consider the risks their investments create for workers within supply chains.

For investors to exercise their responsibility and leverage effectively, they should:

- **Heed research.** Ensure understandings, metrics, and measurement techniques around social risks align with existing research, and modify them as new research becomes available. Researchers have developed detailed frameworks and classifications systems for social risk to inform ethical supply chain management, including a Social Risk Taxonomy<sup>61</sup> and quantifiable social indicators that investors can use to inform their strategies. As well, multi-sector data and evidence clearly establishes the causes, patterns, and business models of forced labour in supply chains. This research is available, ready to be operationalised, and must be given prominence in investor decision making.
- **Firm up the ‘S’ and give it equal consideration.** Dominant approaches to ESG tend to prioritise the ‘E’ and the ‘G.’ As discussed in the previous section, the ‘S’ is often poorly defined and de-prioritised compared to environmental efforts with clear-cut cost savings or new opportunities for profit.<sup>62</sup> However, several resources are available that would enable investors to firm up the ‘S’ and give it equal weighting. For instance, toolkits have been developed to enable investors “to identify and address human rights risks, including modern slavery risks, in their investment portfolios.”<sup>63</sup>
- **Request meaningful reporting from corporations on forced labour and efforts to detect, report, prevent, and remediate it.** Investors can use their leverage to help close the “big gap between companies’ human rights policies and practices, and the impacts on rights holders on the ground” by requesting information that reveals whether the anti-slavery measures implemented by corporations are actually effective – and in turn reward those making good faith efforts.<sup>64</sup> There are several toolkits and resources that investors can use to guide the collection and assessment of this

information. For instance, the Slavery & Trafficking Risk Template is an example of a “free, open-source industry standard template used to assist companies in their efforts to comply with human trafficking and modern slavery legislation and improve their supply chain-related public disclosures.”<sup>65</sup> Greater scrutiny from investors can catalyse corporations to improve their ESG disclosures and strengthen the policies and practices on which they are based.

- **Review existing anti-slavery tools and initiatives in supply chains to ensure they are not inadvertently harming the populations they claim to help.** As is explored in greater depth in the [Social Auditing and Ethical Certification](#) brief, research demonstrates that private sector initiatives such as worker reporting tools and hotlines, ethical auditing, and certification can have perverse effects and inadvertently harm workers in supply chains when those initiatives are not worker-driven. Investors can prompt review of these tools and initiatives and demand accountability for their role and effectiveness in relation to locating, reporting, and addressing forced labour in supply chains. In particular, where workers are demanding adoption of a worker-driven social responsibility (WSR) solution to address a human rights risk in a company’s supply chain, investors can, and should, follow the lead of those workers in pressing the company to adopt that solution—especially in industries where WSR programs already exist and have been proven effective, as some investors have lately begun to do.<sup>66</sup>
- **Channel investment away from dominant low-cost business models until they are reformed.** As the [Commercial Contracts and Sourcing](#) brief describes, prevailing business models hardwire risks of forced labour into supply chains. Investors should leverage the resources, research, and data described herein to demand that these are meaningfully reformed.



## State action to spur private sector change

Governments ultimately set the rules of the game for how the economy functions, the ways power dynamics are negotiated between businesses and workers, and the extent to which historic and ongoing wrongs associated with the trade and profit from enslaved peoples are made right or allowed to persist. As such, they must take action to protect workers and address the macroeconomic drivers of exploitation, including financial and investment trends. Some first steps include:

- **Tackle monopolies.** States must address market concentration, monopoly, and the unchecked market power of large corporations. Tackling these key drivers of anticompetitive behaviour and uneven value distribution will ensure that there is sufficient value available to cover the costs of relevant labour standards and protect worker rights. (See the brief on [Value Distribution and Labour Share](#).)
- **Enact stringent consequences for investment, speculation, and profit made through forced labour.** Forced labour is illegal and so too should be considered the large swathes of investment gains, shareholder returns, and profits that are generated through it. Governments should address the current climate in which money is made through investments reliant on forced labour with virtual impunity.
- **Require corporations to provide meaningful data.** As discussed in the [Due Diligence and Transparency Legislation](#) brief, the introduction of mandatory human rights due diligence legislation (mHRDD) would require companies to address adverse human rights impacts linked to their supply chains, including forced labour, and increase the quality and meaningfulness of information disclosed about them. mHRDD legislation should also encompass investors, who should report on how social standards—specifically labour rights, conditions, protections, and human rights—are upheld across their portfolios. Taken together, mHRDD and investment that is truly socially responsible can help reshape the conception of a public corporation as being responsible to a wide swath of stakeholder groups and holding multi-fiduciary duties.<sup>67</sup>

- **Coordinate international action.** Recognising the international nature of modern business, it is important that states coordinate their actions with regulators from around the world. Wherever possible, states should seek to place similar reporting requirements on companies (for example, regarding ESG disclosures) so that investors assessing companies located in different jurisdictions can effectively compare ESG indicators.<sup>68</sup> Recognised international metrics such as the ILO's International Labour Standards could be used, not least as this would enhance international comparability of data, but also because such standards are typically more wide-reaching than ESG indicators developed by companies and industry bodies.<sup>69</sup> Furthermore, new academic evidence finds that an effect of the 'substantial disagreement' across ESG rating agencies regarding how to rate company performance against different ESG metrics is associated with higher return volatility.<sup>70</sup> This therefore suggests that the standardisation of ESG metrics could not only help investors to make more informed decisions about where to invest, but could also lead to more predictable and stable returns.
  
- **Require investors and corporations to right historic wrongs.** Ensure that those who have amassed power and wealth through historic trades in enslaved peoples and commerce in the goods they produced play an active role in addressing those harms.



## Towards systems-level reform

Success in reforming investment will not only require concerted effort on the part of institutional investors and by states, but by all actors in the investment ecosystem including pension funds,<sup>71</sup> trade unions,<sup>72</sup> and banks.<sup>73</sup> The solutions mapped out in this brief contribute towards challenging the prevailing structures in the economy, which privilege shareholder-driven governance and short-term financial returns for investors.

Ultimately, addressing the problem of forced labour-dependent investment will require far-reaching change in the economic system. Until corporate ownership and governance structures are reorientated away from profit-maximization at the cost of social standards and towards decent work, investors will continue to invest in and profit from businesses that use forced labour. This could be done via widespread adoption of mHRDD by governments to ensure companies not only have a responsibility to their investors, but also to the wide-ranging stakeholders affected by their business practices, most importantly workers.<sup>74</sup>

Until corporate ownership and governance structures are reorientated away from profit-maximization at the cost of social standards and towards decent work, investors will continue to invest in and profit from businesses that use forced labour.

# Notes

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<sup>2</sup> See: Greg Iacurci, “Money invested in ESG funds more than doubles in a year,” *CNBC*, February 11, 2021, <https://www.cnbc.com/2021/02/11/sustainable-investment-funds-more-than-doubled-in-2020-.html>

<sup>3</sup> For instance, the Liechtenstein Initiative seeking to mobilize the financial sector against modern slavery and human trafficking: “Liechtenstein initiative: Finance against slavery and trafficking,” *United Nations University*, accessed October 8, 2021, <https://www.fastinitiative.org>

<sup>4</sup> Quote from “Investors Against Slavery and Trafficking Asia-Pacific,” IAST APAC, accessed October 8, 2021, <https://iast.fastinitiative.org>; See also CCLA Investment Management coalition described here: Simon Jessop, “UK Investors expand anti-slavery push to construction, material sectors,” *Bywire News*, April 12, 2021, <https://bywire.news/articles/uk-investors-expand-anti-slavery-push-to-construction-materials-sectors>

<sup>5</sup> Reuters Staff, “BlackRock raps board of world’s biggest glove maker over worker safety,” *Reuters*, January 7, 2021, <https://www.reuters.com/article/uk-malaysia-top-glove/blackrock-raps-board-of-worlds-biggest-glove-maker-over-worker-safety-idUKKBN29C0J4?edition-redirect=uk>. We are seeing some similar efforts in the environmental space from activist investors, see Matt Phillips, “Exxon’s Board Defeat Signals of Social-Good Activists,” *New York Times*, June 9, 2021, <https://www.nytimes.com/2021/06/09/business/exxon-mobil-engine-no1-activist.html>

<sup>6</sup> See, for instance, Casey O’Connor, and Sarah Labowitz, *Putting the “S” in ESG: Measuring Human Rights Performance for Investors* (New York: NYU Stern Center for Business and Human Rights, 2017).

<sup>7</sup> For instance, see: Jan Fichtner, Eelke M. Heemskerk, and Javier Garcia-Bernardo. “Hidden Power of the Big Three? Passive Index Funds, Re-Concentration of Corporate Ownership, and New Financial Risk,” *Business and Politics* 19, no. 2 (2017): 298–326.; Jan Fichtner, and Eelke M. Heemskerk. “The New Permanent Universal Owners: Index Funds, Patient Capital, and the Distinction Between Feeble and Forceful Stewardship,” *Economy and Society* 49, no. 4 (2020): 493–515.

<sup>8</sup> See, e.g., Caitlin Rosenthal, *Accounting for Slavery: Masters and Management* (Cambridge: Harvard University Press, 2018); Richard K. Fleischman, David Oldroyd, and Thomas N. Tyson, “Plantation Accounting and Management Practice in the US and British West Indies at the End of their Slavery Eras,” *Economic History Review* 64, no. 3 (2011): 765–797.

<sup>9</sup> Gerald A. Epstein, “Introduction: Financialization and the World Economy,” in *Financialization and the World Economy* ed. Gerald A. Epstein (Cheltenham: Edward Elgar, 2005), 3.

<sup>10</sup> Greta R. Krippner, “The Financialization of the American Economy,” *Socio-Economic Review* 3, no. 2 (2005): 173–208.

<sup>11</sup> For evidence of this trend OECD and post-industrial countries see Evelyne Huber, Bilyana Petrova, and John D. Stephens, “Financialization, Labor Market Institutions and Inequality,” *Review of International Political Economy* (2020): 1-28; Mark Heil, “How Does Finance Influence Labour Market Outcomes? A Review of Empirical Studies,” *Journal of Economic Studies* 47, no. 6 (2020): 1197-1232; Petra Dunhaupt, “Determinants of Labour’s Income Share in the Era of Financialisation,” *Cambridge Journal of Economics* 41, (2017): 283-306; Lenore Palladino, “Financialization at Work: Shareholder Primary and Stagnant Wages in the United States,” *Competition and Change* 24, no. 3-4 (2021): 382-400. Embryonic research that takes into account the labour share in a more global perspective and demonstrate similar trends includes Onur Özdemir, “Financialization and the Labor Share of Income,” *Review of Economic Perspectives* 19, no. 4 (2019): 265-306; Özlem Onaran, and Alexander Guscanski, *The Causes of Falling Wage Share: Sectoral and Formal Level Evidence from Developed and Developing Countries – What Have We Learned?* Greenwich Political Economy Research Centre, Working Paper No. PB23-2018 (2018).

<sup>12</sup> James Manyika, Jan Mischke, Jacques Bughin, Jonathan Woetzel, Mekala Krishnana, and Samuel Cudre, “A new look at the declining labor share of income in the United States” *McKinsey & Company*, May 22, 2019, <https://www.mckinsey.com/featured-insights/employment-and-growth/a-new-look-at-the-declining-labor-share-of-income-in-the-united-states>

<sup>13</sup> *Ibid.*

<sup>14</sup> Florence Palpacuer, Peter Gibbon, and Lotte Thomsen, “New Challenges for Developing Country Suppliers in Global Clothing Chains: A Comparative European Perspective,” *World Development* 33, no. 3 (2005): 409-430.

<sup>15</sup> Manuel Martínez, and Pietro Borsari, “The Impacts of Subordinated Financialisation on Workers in Peripheral Countries: An Analytical Framework and the Cases of Brazil and Columbia,” *New Political Economy* (2021). Mai Chi Dao, Mitali Das, and Zsoka Koczan, “Why is labour receiving a smaller share of global income?” *Economic Policy* 34, no. 100 (2019): 723-59.

<sup>16</sup> William Lazonick, and Jang-Sup Shin, *Predatory Value Extraction: How the Looting of the Business Corporation Became the US Norm and How Sustainable Property Can Be Restored* (Oxford: Oxford University Press, 2019); James Crotty, “The Neoliberal Paradox: The Impact of Destructive Product Market Competition and ‘Modern’ Financial Markets on Non-Financial Corporation Performance in the Neoliberal Era,” in *Financialization in the World Economy*, ed. Gerald A. Epstein (Cheltenham: Edward Elgar, 2005); Gérard Duménil, and Dominique Lévy, “Costs and Benefits of Neoliberalism: A Class Analysis,” in *Financialization in the World Economy*, ed. Gerald A. Epstein (Cheltenham: Edward Elgar, 2005).

<sup>17</sup> Mark Heil, “How Does Finance Influence Labour Market Outcomes? A Review of Empirical Studies,” *Journal of Economic Studies* 47, no. 6 (2020): 1197-1232.

<sup>18</sup> Genevieve LeBaron, *Combatting Modern Slavery: Why Labour Governance is Failing and What We Can Do About It* (Cambridge: Polity, 2020).

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<sup>20</sup> Lazonick and Shin, *Predatory Value Extraction*; James Crotty, "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Markets on Non-Financial Corporation Performance in the Neoliberal Era," in *Financialization in the World Economy* ed. Gerald A. Epstein (Cheltenham: Edward Elgar, 2005); Gérard Duménil and Dominique Lévy, "Costs and Benefits of Neoliberalism: A Class Analysis," in *Financialization in the World Economy* ed. Gerald A. Epstein (Cheltenham: Edward Elgar, 2005).

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<sup>22</sup> Lazonick and Shin, *Predatory Value Extraction*, 3.

<sup>23</sup> William Milberg, "Shifting Sources and Uses of Profits: Sustaining US Financialization with Global Value Chains," *Economy and society* 37, no. 3 (2008): 420-451; p. 437, data from US Federal Reserve Bank online database.

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<sup>25</sup> LeBaron, *Combatting Modern Slavery*; Milberg, and Winkler, "Financialization and the Dynamics of Offshoring," p. 277.

<sup>26</sup> Fichtner, Heemskerk, and Garcia-Bernardo, "Hidden Power of the Big Three?" 314.

<sup>27</sup> Fichtner, Heemskerk, and Garcia-Bernardo, "Hidden Power of the Big Three?" 298-326.

<sup>28</sup> Fichtner, Heemskerk, and Garcia-Bernardo, "Hidden Power of the Big Three?" 298-326; Fichtner, and Heemskerk, "The New Permanent Universal Owners," 493-515.

<sup>29</sup> Chris Brooks, Zhong Chen and Yeqin Zeng, "Institutional Cross-Ownership and Corporate Strategy: The Case of Mergers and Acquisitions," *Journal of Corporate Finance* 48, (2018): 187-216; Durand and Gueuder, "The Profit-Investment Nexus," 126-153; Jennifer Clapp, "The Rise of Financial Investment and Common Ownership in Global Agrifood Firms," *Review of International Political Economy* 26, no. 4 (2019): 604-629; Jennifer Clapp, and Joseph Purugganan, "Contextualising Corporate Control in the Agrifood and Extractive Sectors," *Globalizations* 17, no. 7 (2020): 1265-1275; IPES-Food, *Too Big to Feed: Exploring the Impacts of Mega-Mergers, Consolidation and Concentration of Power in the Agrifood Sector*, (2017), [http://www.ipes-food.org/\\_img/upload/files/Concentration\\_FullReport.pdf](http://www.ipes-food.org/_img/upload/files/Concentration_FullReport.pdf).

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<sup>37</sup> Milberg, and Winkler, "Financialization and the Dynamics of Offshoring," 288.

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<sup>39</sup> See, for instance: Eric Williams, *Capitalism and Slavery* (North Carolina: The University of North Carolina Press, 2021); Edward E. Baptist, *The Half Has Never Been Told: Slavery and the Making of American Capitalism* (New York: Basic Books, 2014); Joshua D. Rothman, *The Ledger and the Chain: How Domestic Slave Traders Shaped America* (New York: Basic Books, 2021); Sven Beckert, and Christine Desan (ed.), *American Capitalism: New Histories* (New York: Columbia University Press, 2018); Sven Beckert, and Seth Rockman (ed.), *Slavery's Capitalism: A New History of American Economic Development* (Philadelphia: University of Pennsylvania Press, 2016); Mehrsa Baradaran, *The Color of Money: Black Banks and the Racial Wealth Gap* (Cambridge: Harvard University Press, 2017); Robin Blackburn, *The Making of New World Slavery: From the Baroque to the Modern, 1492-1800* (New York: Verso, 1997); Stephen Behrendt, "Markets, Transaction Cycles, and Profits: Merchant Decision Making in the British Slave Trade," *William and Mary Quarterly* 58, no 1 (2001): 171-204; Walter Johnson, *River of Dark Dreams: Slavery and Empire in the Cotton Kingdom* (Cambridge: Belknap Press, 2013).

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<sup>46</sup> *Ibid*, (p. 6).

<sup>47</sup> Andrew Crane, Genevieve LeBaron, Kam Phung, Laya Behbahani, and Jean Allain. "Confronting the Business Models of Modern Slavery," *Journal of Management Inquiry* (2021).

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<sup>50</sup> Frank Wagemans, Kris Van Koppen, and Arthur Mol, “The Effectiveness of Socially Responsible Investment: A Review,” *Journal of Integrative Environmental Sciences* 10, no. 3-4 (2013): 235-252. In their 2016 study, Van Duuren, Plantinga and Scholtens conclude that ESG investing is highly similar to fundamental investing. See: Emiel Van Duuren, Auke Plantinga, and Bert Scholtens “ESG Integration and the Investment Management Process: Fundamental Investing Reinvested,” *Journal of Business Ethics* 138, no. 3 (2016): 525-533.

<sup>51</sup> *Ibid*, (p.238).

<sup>52</sup> Starr, “Socially Responsible Investment and Pro-Social Change,” 51-73.

<sup>53</sup> Hortense Bioy, Tancred Fulop, Jon Hale, Haywood Kelly, Dan Kemp, Doug Morrow, Andy Pettit, Madison Sargis, and Aron Szapiro, *Sharpening the Tools of the ESG Investor* (Chicago: Morningstar Inc, 2020), 8.

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<sup>56</sup> *Bioy et al., Sharpening the Tools*; Ruggie, and Middleton, “Money, Millennials and Human Rights,” 144-150.

<sup>57</sup> Ruggie, and Middleton, “Money, Millennials and Human Rights,” 144-150.

<sup>58</sup> Frank Wagemans, Kris Van Koppen, and Arthur Mol, “The Effectiveness of Socially Responsible Investment: A Review,” *Journal of Integrative Environmental Sciences* 10, no. 3-4 (2013): 235-252; Lazonick and Shin, *Predatory Value Extraction*.

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<sup>60</sup> Scholarship that discusses ways in which shareholder primacy can be challenged includes: Lazonick, and Shin, *Predatory Value Extraction*; Grant M. Hayden, and Matthew T. Bodies, *Reconstructing the Corporation: From Shareholder Primacy to Shared Governance* (Cambridge: Cambridge University Press, 2021); see also: Hayden, and Bodies, *Reconstructing the Corporation*.

<sup>61</sup> Luiza Cunha, Paula Ceryno, and Adriana Leiras, “Social Supply Chain Risk Management: A Taxonomy, a Framework and a Research Agenda,” *Journal of Cleaner Production* 220, (2019): 1101-1110. A systematic literature review found the five most frequently cited risks to be, in descending order: health and safety at work; discrimination and harassment; forced labour; low or unfair wages and overtime and child labour.

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<sup>66</sup> Interfaith Center on Corporate Responsibility, *Shareholders Calling for Human Rights Protections for Essential Food Chain Workers Prevail at Wendy's Annual Meeting* (New York: Interfaith Center on Corporate Responsibility, 2021).

<sup>67</sup> John G. Ruggie, Caroline Rees, and Rachel Davis, "Ten years after: From UN Guiding Principles to multi-fiduciary obligations," *Business and Human Rights Journal* 6, no. 2 (2021): 179-197.

<sup>68</sup> Further and more detailed recommendations about actions for regulators to take can be found in this report by financial sector analysts: Bioy *et al.*, *Sharpening the Tools*.

<sup>69</sup> Bernd Waas, "The "S" in ESG and International Labour Standards," *International Journal of Disclosure and Governance* (2021).

<sup>70</sup> Dane M. Christensen, George Serafeim, and Anywhere (Siko) Sikochi, "Why is Corporate Virtue in the Eye of the Beholder? The Case of ESG Ratings," *The Accounting Review*, (2021).

<sup>71</sup> Hester Holtland, and Anke Höften, *Dutch Pension Funds and Forced Labour: Speak Up* (Utrecht: Dutch Association of Investors for Sustainable Development, 2018).

<sup>72</sup> Examples of trade union efforts to influence company practices through pension investments include the Trade Union Share Owners (TUSO) initiative established by the British Trades Unions Congress "New share owner group will ensure union values are reflected at company AGMs," Trades Unions Congress, March 26, 2013, <https://www.tuc.org.uk/news/new-share-owner-group-will-ensure-union-values-are-reflected-company-agms> and the Committee on Workers' Capital (CWC), a joint initiative of the International Trade Union Confederation (ITUC), the Global Unions Federations (GUFs) and the Trade Union Advisory Committee to the OECD (TUAC) "About Us," Committee of workers' capital, <http://www.workerscapital.org/about-us-1> Academic research about trade union activities to influence corporate governance is provided here: Paul Bridgen, and Marek Naczyk, "Shareholders of the World United? Organized Labour's Preferences on Corporate Governance under Pension Fund Capitalism in the United States, United Kingdom and France," *British Journal of Industrial Relations* 57, no. 3 (2019): 651-675.

<sup>73</sup> Maria Anne Van Dijk, Marijn De Haas, and Ruben Zandvliet, "Banks and Human Trafficking: Rethinking Human Rights Due Diligence," *Business & Human Rights Journal* 3, no. 1 (2018): 105-111.

<sup>74</sup> Ruggie *et al.*, "Ten Years After," 179-197.

# Re: Structure Lab

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Equitable Economy