UNITED NATIONS
UNIVERSITY

UNU/SIPA Junior Research Fellowship Paper Series
Number 01 – October 2015

Forced Labour: Does it Make Economic Sense?

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Executive Summary

In the 21st century, forced labour still persists around the world under the pervasive form of a faceless market practice. Although there are significant profits generated from forced labour, this paper challenges the assumption that forced labour is a profitable market practice. It seeks to introduce and begin to sketch an economic argument against forced labour.

This paper presents an initial typology of the costs of forced labour at both the firm and societal level. A cost-benefit analysis of forced labour at the firm level indicates that a rational firm that utilizes forced labour may actually incur significant costs that could potentially outweigh any financial benefits. While the costs will likely vary significantly by case, additional empirical research weighing the total costs of slaves' maintenance and coercion against the savings provided by their labour will help illuminate the economic impact of forced labour.

The costs of a firm's use of forced labour are not limited to the firm itself. Firms affect societies through "externalities" - i.e. the costs and benefits incurred by society as a result of the firms' activities. The negative impacts of forced labour on a country's economy are manifold: lack of investment in human capital, lower state revenues, productivity costs, and depletion of natural resources. To communities and society as a whole, forced labour is a drag on development.

If forced labour is not a straightforwardly profitable market practice, why does it persist? The resilience of forced labour seems to lie in its role as an extractive institution. This finding suggests that it is not sufficient to fight forced labour as an economic practice alone, but rather policy efforts need to address forced labour as an extractive political institution. Policymakers, however, face a major obstacle to implementing such change: the costs of transforming the labour market

ISBN: 978-92-808-9011-2

The costs of transition remain a serious obstacle to policy change and an incentive not to challenge the status quo. To be successful, an anti-forced labour policy requires the coordination of both market and government actors: a governance-oriented intervention will fight power imbalances and weak labour market accountability to manage the politics of forced labour, whereas a market-oriented intervention will make the inefficiencies of exploitative labour practices more visible in order to defeat the establishment of forced labour as a working institution.

This paper uses Brazil as a case study to consider the policy options available to developing countries for combating forced labour. Though a large part of its economy is extractive in nature, Brazil nonetheless has been identified by the 2014 Global Slavery Index as one of the only three governments making an effort to address slavery practices. Brazil's experience addressing the economics of forced labour helps identify the opportunities and obstacles policymakers face in their efforts to facilitate transformation of the labour market. Building on this case study, this paper tries to provide analytical and research directions for understanding how state policy choices can reduce the use of forced labour.

Finally, this paper examines anti-forced labour policy interventions in the context of an increasingly globalized economy. As demonstrated by an examination of Vietnam's experience, the impacts of the globalization and liberalization of the economy on forced labour depend on the institutional environment of domestic labour markets. An important take away for the UN system is that both the World Trade Organization and the International Labour Organization have an important role to play in promoting successful trade liberalization policies by ensuring the enforcement of inclusive market institutions and effective rule of law. International organizations can help promote a principled liberalization through coordinating a global regulatory compact with labour rights provisions. Trade agreements that contain labour and human rights provisions are another type of instrument that can contribute to implementing a consistent rights-based policy framework for governments, businesses, and workers. Trade agreements can promote labour market governance in so far as countries accept the responsibility that comes with the regulatory authority of partnerships. Trade agreements therefore represent an interesting evolution towards the compliance of countries and companies to binding – and not merely voluntary – labour and human rights principles.

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"From the experience of all ages and nations, I believe, that the work done by free men comes cheaper in the end than the work performed by slaves. Whatever work he does, beyond what is sufficient to purchase his own maintenance, can be squeezed out of him by violence only, and not by any interest of his own."[1]

Adam Smith

INTRODUCTION

In the 21st century, forced labour still persists around the world under the pervasive form of a faceless market practice. In Brazil, for instance, it is estimated that about 40,000 people are currently enrolled in rural *slave*[2] labour.[3] Labourers are uprooted, transported away from their families, and held captive in working camps. In the charcoal-making camps, workers are kept under the surveillance of armed guards, and routinely endure precarious, unsafe, and abusive working conditions.[4]

The International Labour Organization (ILO) Convention No. 29 defines *forced labour* as "all work or service, which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily."[5] Within the parameters of this definition, I will focus particularly on forced labour as private economic exploitation.[6] By one estimate, as many as 14.2 million people are subjected to this form of forced labour around the world.[7] Ultimately, forced labour can be understood as an extreme manifestation of the poverty trap, whereby workers are recruited in conditions of utmost vulnerability and insecurity, induced by the many dimensions of poverty (e.g. low incomes, but also illiteracy, unemployment, social exclusion, and the destitution of rights).[8]

It is commonly assumed that the enslavement of workers is profitable, allowing otherwise unprofitable enterprises to stay afloat,[9] and generating additional profits for otherwise profitable enterprises. The total illegal profit generated globally by forced labour has been estimated to amount to $51.2 billion.[10] Slaves can arguably be used as capital, both as directly productive stock and, in some cases, as tradable assets or collateral.[11] Although there are significant profits generated from forced labour, this paper challenges the assumption that forced labour is a profitable market practice. Forced labour is not without important economic costs that may in fact outweigh the economic benefits entirely.[12] Moreover, to communities and society as a whole, forced labour is a drag on development.[13] The Sustainable Development Goals, Member States of the United Nations have included a specific reference to taking measures to eradicate forced labour and end modern slavery - one of the targets identified to reach the Goal 8 of "decent work for all."[14] The United Nations' post-2015 development agenda therefore supports the effort to think of forced labour as economically costly and a major barrier to development. This paper seeks to introduce and begin to sketch an economic argument against forced labour. While forced labour is first and foremost a moral harm and fundamental infringement of individual liberties, the economic argument against it also needs to be made to reach those commercial actors and business organizations run by the principles of utility, effectiveness, and profitability. Such an approach could potentially provoke companies to reflect on forced labour as a practice inflicting costs to their own balance sheets. Moreover, this paper aims to provide policymakers and stakeholders in the field of development economics with an initial typology of the costs of forced labour. This paper attempts to highlight potential areas for future research on the economics of forced labour and identify some of the potential policy implications of the continued uses of forced labour. Even if more robust empirical evidence emerges to validate the conceptual postulates that forced labour is costly, however, policymakers will still face a major obstacle to implementing anti-forced labour agendas: the costs of transitioning to an effective and organized formal and free labour market. This paper therefore tries to provide ideas regarding how a state could effectuate market-oriented changes to reduce the use of forced labour. It focuses on Brazil as a case study that may shed light on the policy choices available to developing countries for combating forced labour.

The first section of this paper will present a typology of the costs of forced labour at both the firm and societal level. The second section will consider what this cost typology may mean in terms of the institutional regulatory framework needed to regulate the labour market and transform forced labour into free labour. The third section looks at Brazil's experience addressing the economics of forced labour and identifies the opportunities and obstacles it has faced in its efforts to transform the labour market. Finally, section four examines Vietnam's experience with trade liberalization and elaborates policy considerations on anti-forced labour interventions in the context of an increasingly globalized economy.

1. THINKING ABOUT THE COSTS OF FORCED LABOUR

There have long been economic arguments against slavery: in 1776, Adam Smith argued that slave labour was inefficient and costly to national economies. Economists have argued that forced labour entails market level and firm-level inefficiencies such as monopsony, risk of strike, costs of coercion, and costs of surveillance and corruption.[15] Moreover, forced labour conveys enormous opportunity costs and negative externalities on the population and countries by preventing the development of the capabilities of the labour force,[16] property rights and purchasing and investment power.[17]
In Brazil specifically, the practice of slave labour has been found to correlate with lawlessness, conflict, violence, and deforestation.[18] Yet despite these economic considerations,

forced labour remains prevalent in many developing countries and the global chains supplying developed countries. An economic policy approach needs therefore to highlight the costs of forced labour to abolish it as an economic institution.

Some attempts to address the costs of forced labour have already been made. International advocacy has emphasized the costs of forced labour to workers. For example, the ILO measures the costs of forced labour in terms of human suffering and lost wages.[19] With data from 2007, the ILO calculated the costs to amount to be approximately $20 billion. This figure approximates to 40% of the total $51.2 billion illegal profits generated globally by forced labour annually, pointing to the remaining 60% coming not from unpaid wages but from rents extracted from the services and products generated by this labour. This paper looks at the issue from multiple levels of analysis – examining the costs of forced labour not only to the individual, but also to the firm practicing forced labour and to society more broadly. By adopting a more expansive approach, this paper seeks to clarify how a costs/benefit analysis of forced labour as an economic institution could be conducted, thus providing an intellectual framework to support the development case against forced labour as a market practice. My analysis, however, relies on a theoretical understanding of the impacts of forced labour as an economic variable. Further applied research would be required to test and control for these effects on an empirical basis.

a) Firm-level Costs

The typology in Table 1 highlights the costs and benefits of forced labour to a firm viewing forced labour as a variable in its production costs. The question here is whether, from a company's perspective, forced labour is really a profitable choice compared to free labour.

Table 1. Firm-level cost-benefit analysis of forced labour

Benefits	Costs
• Directly Productive Stock • Collateral	• Maintenance Costs • Costs of Coercion • Productivity Costs

As shown in Table 1, forced labour generates benefits for slave owners in two ways:

Directly productive stock
Firms that use slave labour save a lot of money on wages – thus lowering their production costs and increasing the value added per product.[20] Similarly, companies reduce their costs by not being liable for the provision of entitlements, severance pay, and other benefits often afforded to salaried workers.

Collateral
Known as the *chattel principle*, slaves have been used as property - liquid assets that can be traded or seized after bankruptcy,[21] or pledged as collateral.[22] As such, slaves are capital that generate access to credit and enable business financing and investments.[23] The treatment of workers across regions in India or Brazil for instance, illustrates the continued existence of slave markets until today.[24] In Uzbekistan, a hike in forced labour occurs at every cotton-picking season: having a slave or indentured labour force is especially useful in highly volatile markets (particularly where labour markets are otherwise illiquid), because it makes the producer resilient in the face of demand spikes.[25]

Table 1 also highlights the potential economic downsides of forced labour. The costs of forced labour to firms are threefold:

Maintenance costs
These include the costs of food, accommodation, and health care needed to sustain enslaved workers. A key feature of contemporary forced labour is that while its functional reality is akin to slavery, firms mostly do not claim ownership of the bonded labour. Modern slaves are therefore "disposable people" to the extent that firms want to keep their maintenance costs down, and can cut off all support when workers are unable to work or no longer required.[26]

Costs of coercion
In the absence of legal labour contracts, firms must enforce the rules themselves. To dissuade slaves against disobedience, firms must ensure that the risk and costs of punishment are higher than slaves' incentives to defect and take action against their oppressors. In Brazil for instance, the Landless Rural Workers Movement (MST) is a very organized social movement joined by enslaved workers to call for land redistribution.[27] To impede the development of slaves' collective contention, the firm must invest heavily in coercive capacity.[28] The enforcement costs of forced labour are multi-dimensional, to include: the costs of surveillance and punishment in order to keep the labour force enslaved; the costs generated by strikes and rebellion, both from the enhanced coercion required to suppress such action, and indirectly (lost production and revenue); and the costs of avoiding state intervention and law enforcement, particularly through bribery, corruption, and profit-sharing.

Productivity costs
Firms bear the costs of sub-optimal productivity, as slaves are not incentivized to work harder than the absolute minimum and have no risk aversion to losses. For instance, in the case of rural slave labour, landowners bear the brunt of exogenous shocks and stress alone (e.g. when the weather is rough or prices of crops are low).[29]

This typology of the costs and benefits of forced labour at the firm level indicates that a rational firm[30] that utilizes forced labour may actually incur significant costs that could potentially outweigh any financial benefits. While the costs will likely vary significantly by case, additional empirical research weighing the total costs of slaves' maintenance and coercion against the savings provided by their labour will help further elucidate the efficiency of forced labour as an economic institution.

b) Social Costs

The costs of a firm's use of forced labour are not limited to the firm itself. Firms affect societies through "externalities" - i.e. the costs and benefits incurred by the society as a result of the former's activities.[31] The following table presents a typology, albeit non exhaustive, of the social costs and benefits of forced labour. The underlying question here is whether society benefits more from slave labour than it suffers as a result of it.

Table 2. Social costs and benefits of forced labour

Benefits	Costs
• Access to capital	• Lack of investment in human capital • Lower state revenues • Productivity costs • Depletion of natural resources

On the one side, forced labour can be said to yield economic benefits to society, such as:

Access to capital
As mentioned earlier, firms can use their ownership over an indentured labour force as capital to enhance investments and business development.

On the other side, the economic costs of forced labour to society are manifold:

Lack of investment in human capital
Forced labour generates limited investment in the human capital of the country: forced labour is often associated with labour-intense production requiring low-skilled workers. An economy running on slave labour therefore is expected to stagnate at the lowest end of the production ladder, in the basic and primary activities with low added value. Interestingly, a study has found that slavery is one of the key determinants explaining the variations in development between regions.[32] Accordingly, the amount of forced labour in a country may be a predictor of its level of human and economic development.

Lower state revenues
The government is not able to collect tax revenues from the income that paid labour would receive. As slaves have a limited or non-existent purchasing power, forced labour takes away the revenues that a state and the local economy would have gained from taxes awnd free workers' consumption.[33] Moreover, assuming that forced labour is illegal, the corruption that goes hand in hand with it frequently incurs considerable costs to the state, for example through tax avoidance and corrupt public contracting.[34]

Productivity costs
As a monopsony and a barrier to competition, investment, and technological changes, forced labour causes the economy to run at sub-optimal productivity levels.
For instance, forced labour yields more added value than free labour on a similar ratio to land. For the same surface of area, land exploited by forced labour is more productive because yields are generated at lower costs. The price of land is therefore overvalued and inflated against what it would be if labour were properly priced. Following the substitution of free labour for forced labour, however, land productivity would get back to lower levels. The subsequent decrease in the value of the land would offer cheaper investments and higher profits.[35] The continuation of forced labour therefore maintains high land prices, which have negative effects for both the firm (e.g. suboptimal production, unrealized profits) and agricultural interests more broadly, and thus, has societal level effects.

Forced labour also entails opportunity costs by preventing the enforcement of efficient legal rights of property and contract: assuming that forced labour is illegal, its practice relies on coercive informal institutions rather than the enforcement of rule of law. It is argued that the implementation of formal institutions such as property rights is essential to inducing investments, enabling access to collateral, and preventing conflicts.[36] The violence and conflicts correlated to the occurrence of forced labour[37] are barriers to the effective functioning of the economy and therefore yield productivity costs.

Depletion of natural resources
There is some research to suggest that the reduced accountability and governance that often accompanies forced labour can result in environmental costs.[38] Slaves, being disenfranchised, cannot serve as a brake on environmentally predatory economic practices in the same way that workers, living in the community, might. Research demonstrates that slavery is at the root of much of the world's environmental destruction (e.g. deforestation, destruction of protected species). In addition, there is evidence that the world's slave population is one of the largest greenhouse gas producers.[39]

Maintaining forced labour therefore yields considerable opportunity costs, resulting in lack of investments and upgrading of the economy, which is detrimental to growth. This impacts not only firms, but also society at large. Further empirical investigations would be required to analyse the extent of externalities induced by forced labour on a country's economy. The impacts of forced labour on a country's trade, liberalization, technology choices, human capital, natural resources, and rule of law are fruitful areas for future research.[40] Empirical evidence will contribute advancing the conceptual postulates that the costs of forced labour outweigh its benefits and indeed act as a drag on a country's economy.

c) If forced labour is costly, why does it persist?

The cost-benefit taxonomy of forced labour offered above calls into question the assumption that forced labour is a straightforwardly profitable market practice. Yet despite the myriad costs of forced labour, it persists on a large scale in many countries. Why?

The resilience of forced labour seems to lie in its role as an extractive institution. Extractive institutions concentrate power in the hands of a few who exploit and deplete resources, with the unfortunate effect of generating large inequalities and preventing growth.[41] Ultimately, the economic logic of forced labour needs to be understood in the context of the politics of forced labour; forced labour is an extreme form of inequality, the result of severe power imbalances perpetuated through a specific extractive institution.[42] If we recognize that inclusive institutions are more conducive to growth as they "enforce property rights, create a level playing field, and encourage investments in new technologies and skills",[43] then the realization that forced labour is a manifestation of exclusion and inequality have significant implications for policymaking. It suggests that it is not sufficient to fight forced labour as an economic practice alone, but rather policy efforts need to address forced labour as an extractive political institution.

Policymakers, however, face a major obstacle to implementing such change: the costs of transitioning from extractive to inclusive institutions. On the one hand, policymakers are incentivized to take action against the inefficiencies and sub-optimal outcomes of extractive institutions. On the other hand, a disruption from the institutional path, otherwise known as *critical juncture* entails significant costs and investments. A state intervention to eliminate forced labour would have to bear the costs of the interventions to alter practices and behaviours, the opportunity costs of eliminating the value of forced labour in the country's economy, the public expenditures required for instance to provide education to former enslaved children, the mobilization of political capital to implement policies and enforce laws, and the resources needed to cooperate with the private sector. The costs of transition remain a serious obstacle to policy change and an incentive not to challenge the *status quo*. If the state is successful at bearing the costs of the policy transition, however, doing so may help soften the blowback from the private sector. Moreover, my typology of the costs of forced labour to society indicates that from a government's perspective, the costs of maintaining forced labour may end up being higher than the costs of combating forced labour. Interestingly, research has suggested that the short- to medium-term expenses associated with the elimination of child labour are ultimately outweighed by its benefits.[44]

The costs of forced labour to society and the economy of a country lead us to think of forced labour as a regulatory policy problem: what does it take for a policymaker to fight institutional inertia and start regulating the labour market?

2. CAN LABOUR MARKET REGULATION BETTER SIGNAL THE COST OF FORCED LABOUR?

To be successful, an anti-forced labour policy requires the coordination of both market and the government actors. A governance-oriented intervention will fight power imbalances and weak labour market accountability to manage the politics of forced labour. A market-oriented intervention will make the inefficiencies of exploitative labour practices more visible in order to defeat the establishment of forced labour as a working institution. This two-pronged approach to combat forced labour necessitates the alliance of both governments and businesses.

a) A developmental approach for a governance-oriented intervention

From a government perspective, forced labour needs to be combated as an extractive political institution and a failure of labour market governance. The classic penal approach against forced labour focuses on law enforcement on the basis of a simple dichotomy: victims and offenders. This approach is problematic, however, because in some instances, victims of forced labour paradoxically end up in a coercive state after a *voluntary* choice.[45] Thinking of consent in binary terms (i.e. yes or no) overlooks the central question of whether consent is *informed*.[46] Moreover, throughout the supply chain offenders can be unwitting; some consumers might prefer to ignore the issue rather than recognizing their own involvement in providing the demand that embeds forced labour in global value chains. Given the more complex forms of contemporary exploitation, it would be more effective to couple the classical penal approach with a more developmental approach to combating forced labour. In adopting this approach, national policies against forced labour would treat it as a major barrier to development and the result of costly institutional path dependencies such as the population's vulnerability and weak rule of law.[47]

The development approach needs to both tackle the economic pressure and the failure of market governance that create vulnerability to forced labour.[48] To successfully eliminate forced labour requires applying economic pressure on offenders while also providing effective market governance to prevent and protect victims. Stronger governance of the labour market should not only serve to raid and rescue victims, but also further aim at transforming work through labour institutions. A more inclusive labour market will have a strong floor of labour protection and labour law enforcement especially with regards to wage setting and recruitment systems. Some have argued that effective enforcement systems in this area might take the form of labour inspection services or vigilance committees.[49]

To implement and enforce an inclusive labour institutional environment, empirical research needs to inform policy-makers about those at risk, industries and occupations concerned, processes of recruitment, means of coercion, and actual costs of forced labour in supply chains. Furthermore, in addition to a governance approach to institutional development, forced labour needs to be combated as an economic institution. For this purpose, a market-centred intervention will have to apply economic pressure on coercive institutions by increasing the inefficiencies of exploitative labour practices.

b) Regulatory mechanisms for a market-oriented intervention

The fundamental principle for a market-centred intervention against forced labour is that the costs of coercive institutions must be made more visible to the market's stakeholders. An effective anti-forced labour market intervention is therefore that which increases the costs of labour in coercive sectors of the economy, and decreases the costs of labour in the free labour sectors. To this effect, two main regulatory levers are available: an income effect and a substitution effect.

The income and the substitution effects are complementary to one another. They both tackle the two main motivations driving the practice of forced labour. First, forced labour is practiced because it is perceived as profitable. The income effect is the lever that impacts the income-generating capacity of forced labour. An income effect combats forced labour by undermining the benefits and increasing the costs of forced labour. Secondly, forced labour is practiced as an alternative to the inefficiencies of the formal labour market. The substitution effect is the lever that impacts the efficiency of the free labour sector. A substitution effect is successful at fighting forced labour when it increases the efficiency of free labour alternatives and therefore smoothly organizes the substitution of free labour for forced labour.

- **The income effect eliminates the advantages of forced labour.** Repressive tools to sanction the use of forced labour such as bans, fines, and prosecutions contribute to increasing the costs of the practice of forced labour, therefore making the use of forced labour less beneficial and less competitive. The effectiveness of repression is proportional to two variables: the probability of inspection and the severity of sanctions.
- **The substitution effect improves the availability and the profitability of the use of free labour.** This effect addresses the vulnerability and deficiencies of the free labour sector. The key vector for the substitution effect is the increase of markets' mobility: the labour market (increasing employment options for workers) as well as the credit market.

An example helps illustrate the impact of regulation on markets. In 2005 in the United Kingdom, the *Gangmaster Licensing Act* successfully implemented monitoring and prosecuting mechanisms against the coercive recruitment industry.[50] The new licensing regime brought down unfair competition by sanctioning coercive recruitment (i.e. an income effect). Moreover, the policy increased the profitability and competitiveness of compliant labour providers, as these were not burdened with inspection and auditing costs (i.e. a substitution effect).

In this example, economic traction was obtained through a political will to intervene in labour markets and implement groundbreaking policies. A key policy question is how states can do this when the informal forced labour sectors are strong, especially when they are likely to have limited regulatory capacity. As emphasized earlier, the capacity to enforce norms comes from the alliance of governments and businesses, and the combination of both economic pressures and institutional governance.

Brazil is often praised as a leading example of successful regulatory policies against the practice of slave labour. The next section looks at how Brazil is under-going a transition from extractive to inclusive labour market institutions. This case study helps to illuminate the policy choices available to other developing countries for combating forced labour.

3. BRAZIL: AN EXAMPLE OF COMBATING THE ECONOMICS OF FORCED LABOUR

a) An on-going transition from extractive to inclusive institutions

Following its colonization and a succession of military dictatorships, Brazil had a long legacy of extractive institutions characterized by large inequalities, power imbalances, lack of property rights, lawlessness, and a culture of violence.[51] While in 1888, Brazil abolished legal slavery, a system of illegal slave labour lived on. Article 149 of the Brazilian Penal Code defines "slave labour" as "the offence of reducing someone to conditions analogous to slavery by forcing them to work or by subjecting them to exhausting work days or degrading working conditions."[52] The liberalization of the country, demographic explosion, urbanization, and industrialization went hand in hand with large inequalities and poverty.[53] Brazil's modernization has been typically cursed by a system of dual economies and dual labour markets: "on the one hand a modern economy employing a relatively small number of highly skilled workers, and on the other hand a large informal economy with many low-paid workers striving to lead a decent life."[54]

Despite such a large part of its economy organized for extractive purposes, the 2014 Global Slavery Index identified Brazil as one of only three governments who "are making some effort to address modern slavery in government procurement and in the supply chain of businesses operating in their countries".[55] For the past thirty years, Brazil has been trying to combat the remains of entrenched extractive institutions. According to the Ministry of Labour and Employment (MTE), policy interventions helped rescue approximately 40,000 victims from slave labour from 1995 to 2011.[56] Such state interventions would have been unlikely without the public pressure generated by civil society and NGO advocacy. Back in the 1970s and 1980s, Brazilian civil society was the early denouncer of slavery practices: the Catholic Church and the NGO Pastoral Land Commission (CPT) launched advocacy campaigns calling for international attention and especially targeting the ILO. However, it was not until a critical juncture in the fight against power imbalances and coercion that they started to be heard. The landmark happened in 1994 when a coalition between the CPT, Human Rights Watch, and the Centre for Justice and International Law (CEJIL) petitioned the International Commission on Human Rights (IACHR) of the Organization of American States (OAS) about the case of José Pereira, a 17-year old worker who was almost beaten to death after he attempted to escape from slave-like working conditions. In front of the OAS, the Brazilian state was prosecuted against human rights provisions of international law (i.e. the American Declaration of the Rights and Duties and the American Convention on Human Rights).[57]

The Pereira case brought to light the Brazilian state's accountability for slavery practices within its borders. To avoid further public condemnation, Brazil has pro-actively worked to combat slave labour. In 1995, the President officially recognized the existence of slave labour. The personal engagement and leadership of President Luiz Inacio Lula da Silva and his leftist government starting from 2003 also contributed to advancing the agenda against forced labour. Upon his arrival to power, Lula's government signed a settlement agreement with the petitioners in which the state accepted responsibility for the case of Pereira.[58] Following this, the government created the National Commission to Eradicate Slave Labour (CONATRAE), which set up the National Plan for the Eradication of Slavery. Brazil's response to slave labour has been especially successful at setting up a strong labour inspection system with the Special Mobile Inspection Groups. Labour law enforcement also came together to work closely with criminal law enforcement.[59] Moreover, the sanctioning of slavery practices also took the form of a public denunciation of companies found using slave labour who are placed on the "Dirty List," which seriously affects the business of criminal companies as their reputation gets tarnished both to consumers and to creditors.[60]
The government's effort to strengthen the floor of labour protection and enforce labour laws was also supported by a strong lobby from the private sector and from civil society. In 1998, progressive leaders from the private sector formed the Ethos Institute for Business and Social Responsibility to promote corporate social responsibility. Together with the Instituto Observatorio Social and the NGO Reporter Brasil they launched the National Pact to Eradicate Slave Labour in 2005. The Pact works on a voluntary commitment of its members to interrupt business relations with companies involved in the Dirty List (e.g. as suppliers, or as clients in the case of banks). Interestingly, the Pact provides the market with some self-capacity to punish bad behaviour. The Pact complemented the state-led governance and criminal approach by providing efficient and more immediate sanctioning mechanisms.[61] The concurrence of government and business efforts to repress slavery practices by making them unprofitable (income effect) and to promote the availability of free labour options (substitution effect) had a compounding effect, improving their efficacy.

b) Lessons from Brazil

Effectuating policy change on forced labour, as Brazil did in the late 1990s/early 2000s, is not easy. As this section demonstrates, Brazil encountered numerous obstacles, as well as opportunities, in its efforts to facilitate a policy change in the labour market. The case of Brazil sheds light on the necessary dynamics to get the labour market to work in a more inclusive way. First, Brazil's extractive path dependency was jolted by the Pereira Case, which provided the shock needed to force discussion and implementation of pioneering policies. Interestingly, civil society's invocation of international human and labour rights provisions has highlighted the support that international law[62] can lend to local advocacy efforts. The international legal framework helped elevate the Pereira case from a single decision to the foundation of an irreversible institutional change. In the aftermath of the shock, policy efforts were sustained thanks to a series of specific factors that determined the success of the policies:

- **Third Party Political Support:** the support of the ILO has been instrumental in building strong and innovative institutions. The ILO's tripartite approach has been successful at bringing together policymakers, employers, and workers. The ILO helped reinforce the capacity of the government and institutionalize its political will through the creation of the National Commission to Eradicate Slave Labour (CONTRAE). Moreover, the ILO has played in important liaison role that helped the private sector and civil society partner together under the framework of the National Pact.[63]

- **Interagency Coordination:** The coalition of actors working in concert against forced labour was key to the implementation of the national policy. In Brazil, labour inspections systems were successful because they represented routine "collaboration among the labour inspectors, the attorneys, and the federal police".[64] Coordination between actions and stakeholders has been an essential condition for success.
- **Inspection Services with Clear Mandate and Operational Guidelines:** Also central to the success of anti-forced labour efforts in Brazil was the clear mandate and operational guidelines that empowered the Mobile Inspections Units. The Units' authority and power to impose penalties on the spot resulted in a considerable increase in the number of condemnations and settlements.[65]
- **Financial Support**: The successful implementation of anti-forced labour policies also required significant budget allocation to properly resource the monitoring institutions. For instance, in 2013, the MTE's overall budget increased by 13% to reach $29.9 billion,[66] allowing for the further training and skill development of labour inspectors. While such a significant budget allocated to the Labour Department informs us on the strength and scope of the Brazil's state governance capacities, such a resource-intensive approach is likely out of reach for most developing countries. Although no data is available at this stage on the impact of the increase in MTE funding, it is widely acknowledged that increased training and quality of labour inspection are essential to ensure the effectiveness of labour oversight.[67]
- **Private/Public Alignment:** In Brazil, the alignment of key leaders from the private sector with the government's efforts was instrumental. The first state-backed National Plan in 2003 increased coordination efforts between the government, civil society, and the private sector. In 2005, research conducted by the civil society organisation "Reporter Brasil" on the involvement of slave labour in various supply chains, and pressure from the ILO, led to the creation of the National Pact. The Pact's successful alliance with the private sector is evidence of the influence of the civil society and business mobilisation. The combination of private sector concurrence with the National Plan helped dismantle the market connections of the economics of coercion. For example, Brazilian banks used the Dirty List as a risk management tool to alert creditors and investors of the dangers of doing business with non-compliant companies (e.g. the potential of boycott or legal prosecution). As a result, Dirty List companies suffered from the suspension of their credit or a costly increase in interest rates.[68]
- **Regional Policy Coherence:** Finally, there has been an effort to ensure some level of regional policy coherence. In 2005, the Summit of the Americas adopted the first regional action plan "to eliminate forced labour before 2010".[69] In addition, in 2014, the World Cup Pact for Decent Work was launched in Sao Paulo.[70] Brazil's leading position in the fight against forced labour in the region sustains public exposure and helps to sustain political will within the government to address the issue.

The impacts of these key variables are clear from a UN Special Rapporteur's 2010 study of the country. A comparison across the Mato Grosso and Maranhao states led the Rapporteur to conclude that Mato Grosso has been much more successful in eliminating forced labour there because the plan was "well resourced, had political commitment and active members with clearly defined roles; consequently, it was better coordinated and more effective."[71]

Despite the great efforts provided by Brazil to fight forced labour, weaknesses and limits inhibited progress and many remain today. In her 2010 report, the Special Rapporteur points to several on-going challenges:

- **Low Rate of Prosecution due to Gaps Between Law and Policy:** The Federal Police have found that "the current slave labour law was inadequate in providing clear criteria to criminally characterize slave labour" and "out of 26 states, only 6 had state-level programmes to combat slave labour."[72]
- **Gaps in Implementation of the Law:** Moreover, "criminal prosecutions for the crime of slave labour remain rare" in Brazil.[73]
- **Intimidation of Those Working to Fight Forced Labour:** There are reports of "increased intimidation and violence against human rights defenders working to stop slave labour".[74]
- **Gaps in Government Programmes:** The work of the Special Mobile Inspection Group and efforts to sanction Dirty companies are still hampered by lack of resources and continuing impunity for non-compliance.[75] The latter is made even more problematic by the Supreme Court's recent ruling suspending Dirty List blacklisting.[76]

Designing future policies would also highly benefit from an increased access to statistical data on the impacts of current programs. An important avenue for future research would be to examine the Brazilian case – particularly the impact of political and economic policies enacted since the Pereira case – to determine the market implications of ending forced labour. It is beyond the parameters of this research to do the actual empirical investigation, but a study might build on my analysis of labour market institutional development in Brazil. Since there has been a shift in government policy on forced labour, an empirical study of a targeted industry or firm over time will highlight the market effect of such shifts.

- **Industry wide.** A fruitful area of research would be to measure the impact of market regulation on a specific industry over time: How did regulation impact the growth trajectories of industries that historically had a prevalence of slave labour (e.g. cattle ranches, charcoal products)?

- **Firm level.** At the firm level, applied research could compare the revenues and results of two similar companies from the same economic sector over time: How did the growth trajectory of a Dirty List (slave labour) company fare as compared to a compliant company that used free labour?

Moreover, the involvement of the private sector can be fostered through incentives to ensure that companies comply with corporate social responsibility and indicators to measure their performance over time.[77] A potential strategy to enforce the practice of corporate social responsibility could be to create a financial index ranking companies according to their performance in social and environmental impacts. Indicators would report on companies' results and inform investors on the risks associated with illegal corporate behaviour in their portfolios.

Beyond the national factors that contribute to effective anti-forced labour policies, it is necessary to go above a country-level approach. In today's globalized economy, no market exists in isolation. As such, external dynamics will inevitably influence national labour markets. Since labour markets are no longer purely domestic, what are the implications for international governance of labour markets?

4. COMBATING FORCED LABOUR IN THE CONTEXT OF A GLOBALIZED ECONOMY

a) How trade liberalization affects domestic labour markets

Today, globalization and liberalization seriously affect the governance of labour markets and have arguably both destructive and supportive effects on labour rights protection. Once again, the impacts of free trade on forced labour will depend on the two effects studied earlier: the income effect and the substitution effect. More precisely, the effects on forced labour will vary according to how much of a negative income effect and positive substitution effect liberalization has on the domestic market.

- **Income Effect**: On the one hand, free trade values the competitive advantage of forced labour. Indeed, the competition between industries across countries and regions incentivizes companies to keep their production costs low by any means. Since forced labour is commonly perceived as less costly than free labour, companies have an incentive to use slavery practices to lower their labour costs and thus boost their productivity. Ultimately, this mechanism drives a "race to the bottom" on the global scale as companies compete with each other by trying to cut down their expenses in labour maintenance and payment. Moreover, the structural changes entailed by the openness to competition increase the population's vulnerability to modern forms of slavery. First, transition from subsistence farming to production of cash crops, industrialization and urbanization provoke large-scale disruptive changes of the environment. There is evidence that "As native ecosystem and peoples are uprooted, displaced workers, even the urban unemployed, become vulnerable to enslavement."[78] Second, cross-border labour market liberalization incentivizes economic migration by low-skilled workers, which puts them at risk of slavery.
- **Substitution Effect:** On the other hand, competition increases outside options, as per the substitution effect, and challenges the economic inefficiencies of forced labour. It is commonly argued that abolitionism in the United States was driven by the anti-protectionist and liberal advocates. The practice of slavery in the history of the United States can indeed be understood as a resistance against liberalism and an attempt to squeeze market forces out of the practice of farming: "Relying on a competitive labour market – rather than on captive slaves – was a risk that growers were loath to assume, and it was also a risk that would have likely precluded the explosive growth in American cotton production."[79] The same argument appears to be true for the "cotton producers" of the 21st century. A study of the global supply chain of t-shirts, which spans throughout the world from the cotton fields in Texas to the sweatshops in China, highlights that coercive employers are experts at avoiding, rather than competing in, markets. Accordingly, forced labour is a form of protectionism that would be abolished by a genuine practice of liberalism and fair competition.

b) A thought experiment on the relationship between trade liberalization and forced labour: the case of child labour in Vietnam

The effect of free trade on labour protection and forced labour seems mixed. Among all forms of forced labour, child labour is maybe the best proxy to measure the impact of trade liberalization on market governance. Economists usually model child labour as a choice dependent on two factors: household income and child/adult labour substitution.[80] Following trade reforms, the supply/demand model thus predicts that child labour will either increase according to an income effect (i.e. increased demand), or decrease according to a substitution effect (i.e. decreased supply).[81]

Some research has been conducted on the impact of trade reforms on the use of child labour in Vietnam.[82] Trade liberalization was considered a great success in Vietnam as a 30% rise in rice price (induced by trade reforms)[83] went along with a 9% decrease in child labour. Yet it is important to note that this general child labour trend encompasses two sub-categories: the child labour coming from large-net rice producers' households and the child labour issued by sectors such as rice production in Vietnam, liberalization has the power to both increase and decrease slavery practices. Interestingly, in Vietnam, regardless the persistence and increase of child labour in some households, child labour has still predominantly declined. A key feature explaining this overall success is the rather equal distribution of resources, income, and land among Vietnamese households. Following trade reforms, the increase in rice price has benefited rice producers to the detriment of rice consumers. Because the majority of the population has access to land-use rights and Vietnamese agriculture is predominantly produced by small-scale farmers,[84] there is not such a big divide, as in Brazil, between a few agricultural landowners and a majority of landless consumers. As a result, benefits from trade have been more equally spread throughout the population. These structural patterns of the Vietnamese economy prior to trade liberalization had a decisive influence on the outcome of trade policies. An inclusive trade policy should therefore be concerned with these patterns of growth allocation and ensure that both risks and benefits of trade liberalization will be equally shared across the population. The inequality between the educated and skilled rich producers on one side, and the uneducated poor non-producers on the other side is what prevents the fair distribution of trade's benefits. In thinking about moving forward, policymakers should therefore tackle the weaknesses of the market's institutional environment to ensure the inclusiveness of trade reforms.

c) Levers available for labour market governance in a global economy

Building an inclusive institutional environment

As it appears, trade liberalization has mixed effects on the market's use of forced labour. The implications for forced labour in fact depend on the institutional environment through which the risks and benefits of trade are channelled. An important take away for the UN system is that both the World Trade Organization and the ILO have an important role to play in promoting successful trade liberalization policies by ensuring the enforcement of inclusive market institutions and effective rule of law. More specifically, policymakers should identify and address the key variables determining the vulnerability conducive to enslavement such as unemployment, illiteracy, and poverty.

International organizations can help promote a principled liberalization through coordinating a global regulatory compact with labour rights provisions. The United Nations Global Compact adopted in 2010 already marked a first step towards involving the private sector in a coordinated initiative to implement human and labour rights in global supply chains. Compliance with the Global Compact Principles, however, remains entirely voluntary. In order to be more effective, combating forced labour across borders requires coordination across stakeholders that can be enforced through an authority with some regulatory capacity. An interesting avenue on this front is the implementation of worldwide labour market governance mechanisms. A universal social protection floor is one illustration of such innovative global governance mechanisms. A first attempt in this direction was made in 2010, when a joint ILO and WHO (World Health Organisation) initiative created an advisory group to design a social protection floor for a fair and inclusive globalization.[85]

Role of trade agreements

Likewise, trade agreements that contain labour and human rights provisions are another type of instrument that can contribute to implementing a consistent rights-based policy framework for governments, business, and workers. The current debate on the Trans-Pacific Partnership (TPP) in the U.S. Congress illustrates the lively relationship between labour regulation and regional free trade agreements. While the TPP participants are still negotiating the implementation of the Pact,[86] the Obama administration has argued that the Partnership will uphold workers' rights in Asia.[87] For instance, the Obama administration has claimed that the approval of the deal would be conditional to an agreement enforcing members' compliance with basic international labour standards and "meaningful consequences" for violations.[88] While scepticism has been raised regarding the actual regulatory capacity of trade partnerships to enforce compliance with labour protection,[89] trade agreements did prove to be effective tools to raise labour standards in the past. Beginning with the 1993 North American Free Trade Agreement (NAFTA), many international trade agreements have included clauses that emphasize signatories must enforce their labour laws and provide mechanisms for oversight. Labour provisions within trade agreements have been used to bring attention to abuses, seek redress, and according to some, provide "opportunities for labour and human rights advocates to work together filing complaints and backing them up with new forms of cross-border labour solidarity."[90] In a report published in February 2015 to defend its pro-TPP engagement, the Obama administration mentioned the role of trade partnerships in redressing labour violations in Colombia, Bangladesh, Burma, and Guatemala.[91] For example, under the North American Agreement on Labour Cooperation (NAALC), a labour-side agreement associated with NAFTA, Human Rights Watch, and partner advocacy organizations in Mexico combated employers' use of pregnancy testing for workers, a form of gender discrimination. Moreover, the labour standards included in trade agreements also provide labour markets with stronger governance mechanisms. For instance, the 2000 bilateral trade agreement between Jordan and the United States included provisions to protect core ILO labour standards. These provisions were later used as a justification for investigating labour practices in Jordan, and once abusive working conditions were discovered, spurred the Jordanian Ministry of Labour to initiate an inspection campaign and penalize offending companies.[92]

As these examples demonstrate, trade agreements with strong labour rights and related oversight provisions can promote labour market governance in so far as countries accept the responsibilities that comes with the regulatory authority of partnerships. As long as they incentivize countries to commit to an effective regulatory framework, trade agreements can represent an interesting evolution towards the compliance of countries and companies to binding – and not merely voluntary – labour and human rights principles.

5. CONCLUSION

This paper sought to highlight the potential costs of forced labour and raise awareness about the future economic avenues for combating forced labour. The market practice of forced labour has proven to be a major obstacle to political and economic development. To firms, forced labour conveys severe productivity costs that could potentially outweigh any financial benefits. To societies, the negative impacts of forced labour are equally manifold: lack of investment in human capital, lower state revenues, productivity costs, and depletion of natural resources. Fruitful future research areas could empirically test the conceptual postulates that the costs of forced labour outweigh its benefits and indeed act as a drag on a country's economy.

This paper created a framework for thinking about how policymakers can better incorporate the true costs of forced labour into market regulation The paper suggests that it is not sufficient to fight forced labour as an economic practice alone, but rather policy efforts need to address forced labour as an extractive political institution. Policymakers, however, face a major obstacle to implementing this change: the costs of transforming the labour market.

The approach of the paper focuses on the collaboration of policy and market actors, marrying anti-forced labour policy with incentives for market actors' compliance. While a governance-oriented intervention will fight power imbalances and weak labour market accountability to manage the politics of forced labour, a market-oriented intervention will make the inefficiencies of exploitative labour practices more visible in order to defeat the establishment of forced labour as a working institution. Brazil's experience addressing the economics of forced labour helps identify the opportunities and obstacles policy makers face in their efforts to facilitate a transformation of the labour market.

The paper ends with policy considerations on anti-forced labour interventions in the context of an increasingly globalized economy. International organizations have an important role to play in promoting successful trade liberalization policies by ensuring the enforcement of inclusive market institutions and effective rule of law. A major take away for the United Nations system is to move from a voluntary to a regulatory approach to fighting forced labour. Governments and businesses need to jointly commit to promoting principled globalization through complying with a global regulatory compact. Trade agreements that contain labour and human rights provisions are another promising instrument that can promote labour market governance in so far as countries accept the liability that comes with the regulatory authority of trade partnerships. This paper therefore argues that international governance needs to evolve towards the compliance of countries and companies to binding – and not merely voluntary – labour and human rights principles. The considerations and implications of this paper can also be applied to advance similar research avenues and policy agendas on an even wider spectrum of exploitative practices, such as forced recruitment or sexual slavery.

ENDNOTES

[1] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book I, Chapter VIII (London: Methuen and Co., 1776).

[2] I will use the terms "slave" and "slavery" to refer to the exploitative use of workers without their free, prior, and informed consent. Forced labour, which is performed as a result of a profit driven economic approach, is only one of the different forms that slavery can take, along with sexual slavery or forced military recruitment, among others.

[3] International Labour Organization, *Forced Labour in Brazil: 120 Years After the Abolition of Slavery, the Fight Goes On*, 13 May 2008, available from http://www.ilo.org/global/about-the-ilo/newsroom/features/WCMS_092663/lang--en/index.htm.

[4] In a 2010 study of slavery in Brazil, the Special Rapporteur reports that workers had "no potable water, nutritious food, place to sleep or adequate protective equipment." See A/HRC/15/20/Add.4, p. 8.

[5] International Labour Organization, Convention C029, Forced Labour Convention, 1930. (No. 29).

[6] My analysis focuses on forced labour in the market context but also has potential implications for, and applications to, an even wider spectrum of exploitative practices, such as forced sexual exploitation, state-imposed forced labour, and forced military recruitment.

[7] International Labour Organization, *14.2 million are Victims of Forced Labour Exploitation in Economic Activities*, available from http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_181961/lang--en/index.htm (accessed 15 June 2015).

[8] Nicola Phillips, "What has Forced Labour to Do with Poverty?" Open Democracy, 7 February 2015, available from https://www.opendemocracy.net/beyondslavery/nicola-phillips/what-has-forced-labour-to-do-with-poverty (accessed 3 August 2015).

[9] See for instance the role of child labour in marginal, family-run enterprises in the fishing industry in Ghana: ILO, *Analytical Study on Child Labour in Volta Lake Fishing in Ghana*, August 2013, available from www.ilo.org/ipecinfo/product/download.do?type=document&id=25876 (accessed 3 August 2015).

[10] International Labour Organization, *Profits and Poverty: The Economics of Forced Labour*, (Geneva, International Labour Organization, 2014), p. 13.

[11] Thomas Piketty, *Capital in the Twenty-First Century,* (Boston: Harvard University Press, 2014).

[12] Kevin Bales and Monti Narayan Datta, "Slavery is Bad for Business: Analyzing the Impacts of Slavery on National Economies," *Brown Journal of World Affairs*, Volume 19, No. 2, 2013, p. 205-222.

[13] Kevin Bales has already posed the founding stones of an economic case against slavery and has developed empirical tests against it in Bales, "Testing a Theory of Modern Slavery," available from http://www.yale.edu/glc/events/cbss/Bales.pdf (accessed 3 August 2015).

[14] Goal 8.7 reads, "Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms." "Transforming Our World: The 2030 Agenda for Sustainable Development, Outcome Document for the UN Summit to Adopt the Post-2015 Development Agenda", A/69/L.85, finalised text for adoption, 31 July 2015.

[15] Suresh Naidu, "The Law and Economics of Bound Labour," Presentation to the Columbia University Seminar on Political Economy, New York City, 5 March 2015.

[16] Amartya Sen, *Development as Freedom*, (New York: Anchor, 1999).

[17] Hernando De Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York, Basic Books, 2000).

[18] See Leonardo Sakamoto, "Slave Labour," in Beate Andrees and Patrick Belser, *Forced Labor: Coercion and Exploitation in the Private Economy*, (Boulder: Lynne Rienner Publishers, 2009); and Kevin Bales, " Brazil: Life on the Edge", in *Disposable People: New Slavery in the Global Economy*, (Berkeley: University California Press, 2012).

[19] Lost wages are "the amount of income that is lost because a person is in forced labour instead of being free." Alexandra Vinogradova, Michaëlle De Cock, and Patrick Belser, *Measuring the Costs of Coercion to Workers in Forced Labour*, (Geneva: International Labour Organization, 2009).

[20] The ILO measures this extra value added at the firm-level by calculating "the difference between the usual share of value-added that goes to low skilled labour (i.e. labour stripped of human capital) and an estimate of the actual wage payments made to forced labourers. We then multiply the average underpayment of wages by the number of forced labourers." Ibid., p. 4.

[21] See Edward Baptist on the large role of slavery in American economic development and how slavery was tied up in credit networks and resale markets. Edward Baptist, *The Half Has Never Been Told: Slavery and the Making of American Capitalism*, (New York: Basic Books, 2014).

[22] A formal title allows property to be pledged as collateral. See De Soto.

[23] Felipe Gonzalez, Guillermo Marshall, and Suresh Naidu, *Start-up Nation? Slave Wealth and Entrepreneurship in Civil War Maryland*, (Santa Fe: Santa Fe University Press, 2014).

[24] "Construction projects need more workers than can be spared from the fields, and local officials will import families from other states in much the same way as the Brazilians are recruited from great distances to service the charcoal industry." Bales, *Disposable People*, p. 241.

[25] Hope for Children Organization, *Global Slavery Index* 2014, 2014, p. 70.

[26] Bales, *Disposable People*, p. 54.

[27] International Labour Organization (ILO), *Forced Labour: The Example of Brazil* (Geneva: International Labour Office, 2009), p. 40-41.

[28] See the collective action problem and the "dictator's dilemma" explained in the literature on authoritarian regimes in Beatriz Magaloni, "Credible Power-Sharing and the Longevity of Authoritarian Rule," *Comparative Political Studies*, Volume 41, No. 4/5, 2008 , p. 715-741.

[29] See the literature on the economics of contracts in the principal-agent framework. "Efficient contracts balance the costs of risk bearing against the incentive gains that result." Quoting Paul Milgrom and John Roberts, *Economics, Organization, and Management*, (Englewood Cliffs, NJ: Prentice-Hall, 1992), p. 207 in Douglas Allen and Dean Lueck, "Risk Preferences and the Economics of Contracts," *The American Economic Review*, Volume 85, No. 2, 1995, p. 447-551.

[30] In economic terms, a rational actor is one who makes decisions that maximize benefits and reduce costs to maximize profits. See the definition of Pareto efficiency in John Nash, "The Bargaining Problem", *Econometrica*, Volume 18, No. 2, 1950, p.155-162.

[31] Robert Coase, "The Problem of Social Cost," *The Journal of Law and Economics*, Volume 3, 1960, p. 1-44.

[32] "What Smith did for the first time was to conduct a multilevel analysis that included Bales' measure of a country's level of slavery as a determinant of the country's level of human development, with the country being nested in its region, along with the other countries in the region. Slavery explained the between-region variability in human development and had a strong effect on the country's level of development." In Bales, "Testing a Theory of Modern Slavery."

[33] "While it is true that slaveholders make profits from their enslaved workers and that they enjoy the benefit of those profits, they are not as likely to spend those profits in the ways that average workers do – for local food, housing, clothing, and so forth – that benefits directly local shops and artisans. Likewise, enslaved families are unlikely to buy school supplies, pay teachers, access medical care or other services that both are part of the local economy and benefit the community." Bales, "Testing a Theory of Modern Slavery."

[34] For instance, Bales argues government corruption went hand in hand with slavery in Brazil. For example, with regard to the practice of slavery in large-scale eucalyptus plantations in the 1970s, the military government and multinational companies reached agreements whereby in exchange for buying federal land, companies benefited from an "immense tax-avoidance scheme", in which they "received over $175 million as tax relief." Ibid., p. 125.

[35] See Edmond Ruffin, "How the Substitution of Free Labour for Slave Labour Would Finally Operate on Agricultural Interests," in Slavery and Free Labour Described and Compared, 1860, available from http://memory.loc.gov/cgi-bin/query/r?ammem/rbaapc:@field(DOCID+@lit(rbaapc25000div0)) (accessed 3 August 2015).

[36] De Soto.

[37] In Brazil, labour rights expert Leonardo Sakamoto reports that "regions with a high incidence of slave labour are the same regions also have a high incidence of overall violence." See Sakamoto, "Slave Labour."
[38] Research on the destruction of the Amazon has indeed demonstrated that a typical supply chain for steel or iron production relies on "clandestine" camps, which are "operating without licence inside protected and community lands, or on indigenous land. Workers are often living in slave-like conditions." See: Greenpeace International, *Driving Destruction in the Amazon: How Steel Production is Throwing the Forest into the Furnace*, (Amsterdam: Greenpeace International, 2013), p. 7.
[39] Bales, *Blood and Earth: Modern Slavery, Ecocide, and the Secret to Saving the World,* forthcoming.
[40] Daron Acemoglu and Alexander Wolitzky, "The Economics of Labor Coercion," *Econometrica*, Volume 79, No. 2, 2010, p. 555-600.
[41] Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, (New York, Crown, 2012).
[42] Acemoglu and Wolitzky define the politics of coercion as "the conditions under which producers can use the state or other enforcement mechanisms to exercise coercion and pass laws reducing the outside option of their employees." Acemoglu and Wolitzky, p. 570.
[43] Acemoglu and Robinson, p. 423.
[44] The ILO's research finds that while a government intervention against child labour initially entails the costs of interventions, education, transfer programme, and opportunity costs, within 16-18 years, the net economic and financial benefits of the intervention are comfortably positive. ILO, *Investing in Every Child: An Economic Study of the Costs and Benefits of Eliminating Child Labour*, (Geneva: International Labour Organiation, 2003), p. 85.
[45] For example, in Brazil, the law recognizes that "forced labour" does not necessarily mean that labourers are recruited by force, but that they are ultimately maintained in a state of dependence and coercion with degrading working conditions (Article 149 of the Brazilian Penal Code). This same problem has been at the centre of debates around human trafficking in the last two decades, especially in relation to sex work. See Megumi Makisaka, "Human Trafficking: A Brief Overview," *Social Development Notes: Conflict, Crime and Violence*, No. 122, Dec. 2009.
[46] This idea emerged from discussion with James Cockayne, Head of Office at the United Nations University in New York, June 2015.
[47] See the 2014 Global Slavery Index for further analysis on the relation between vulnerability and prevalence of slavery.
[48] See Andrees and Belser and take note of the use of "active" and "passive" victims as a terminology for situations of forced labour.
[49] Andrees and Belser detail the role of labour market inspections such as labour inspection services, vigilance committees, monitoring mechanisms on the recruitment industry, victim protection and empowerment. Ibid.
[50] Ibid.
[51] Sakamoto, "Slave Labour," p. 22. For example, in the agricultural sector, the 1850 Land Act (*Lei de Terras*) sold the state's property to major landowners and left a long-lasting legacy of large scale agricultural exploitations owned by a few. See A/HRC/15/20/Add.4, p. 3.
[52] Ibid., p. 5.
[53] Kevin Bales estimates that there are 50,000 Brazilians who own "almost everything, especially the land", while 4 other million peasants share 3% of the land. Bales, *Disposable People*.
[54] Sakamoto, "Slave Labour," p. 16.
[55] Hope for Children Organization, *Global Slavery Index* 2014.
[56] Brazil, Ministério de Trabalho e Emprego, *Relatórios Específicos de Fiscalização Para Erradicação do Trabalho Escravo*, available from http://www.mte.gov.br/fisca_trab/resultados_op_fiscalizacao.asp (accessed 3 August 2015).
[57] ILO, Fighting Forced Labour: the Example of Brazil.
[58] Ibid.
[59] In 2002, the Labour Court issued the first sentence for slave labour in the history of Labour Courts: Public Ministry of Labour v. Lazaro Jose Veloso, Judgment No. 218/2002, 30 April 2003. In 2004, a court decision set a crucial precedent by requesting the seizure of an estate for having used slave labour. Ibid.
[60] The Bank of Brazil, Bank of Northeast Brazil, Bank of the Amazon, and National Bank for Economic and Social Development (BNDES) have consequently withheld credit from these Dirty companies.
[61] See Lisa Carstensen and Siobhan McGrath, "The National Pact to Eradicate Slave Labour in Brazil: A Useful Tool for Unions ?" Global Labour Column, available from http://column.global-labour-university.org/2012/12/the-national-pact-to-eradicate-slave.html (accessed 9 July 2015).
[62] As mentioned earlier, Brazil's failure to abide by the labour and human rights provisions included in the American Declaration of the Rights and Duties and the American Convention on Human Rights was ultimately dealt with through the Inter-American human rights system.
[63] Leonardo Sakamoto, personal interview with the author, New York City, 15 July 2015.
[64] Andrees and Belser, p. 118.
[65] Ibid., p. 117.
[66] "Brazil: Significant Advancement", in United States Department of Labour, Bureau of International Labour Affairs, *2013 Findings on the Worst Forms of Child Labour*, (Washington D.C.: US Department of Labour, 2013).
[67] See Article 10 of ILO Convention C150 – Labour Administration Convention, No. 150, 1978.
[68] Sakamoto, "Slave Labour",, p. 17.
[69] IV Summit of the Americas, "Plan of Action: Mandates: Creating Decent Work A.1 National Commitments," available from http://www.summit-americas.org/Iv%20Summit/eng/mainpage-eng.htm (accessed 16 July 2015).
[70] Building and Wood Worker's International, "World Cup 2014: Pact for Decent Work Launched in Sao Paulo", available from http://www.bwint.org/default.asp?index=5140 (accessed 16 July 2015).
[71] A/HRC/15/20/Add.4, p.11.

[72] Ibid.
[73] Ibid., p. 12.
[74] Ibid.
[75] Ibid., p. 13.
[76] In a forthcoming report, current Special Rapporteur Urmila Bhoola draws attention to the challenges posed by companies against the constitutionality of the Dirty List. In a controversial litigation strategy in 2012, Zara Brasil filed a lawsuit against the Brazilian authorities, arguing that "the Ministry of Labour should not create penalties (e.g. blacklisting), but should only apply those penalties already provided for in existing laws or collective bargains." Following a decision taken by the Supreme Court in December 2014, the Dirty List was suspended. See André Campos, Mariëtte van Huijstee, and Martje Theuws, *From Moral Responsibility to Legal Liability: Modern Day Slavery Conditions in the Global Garment Supply Chain and the Need to Strengthen Regulatory Frameworks: The case of Inditex-Zara in Brazil*, (Amsterdam: Reporter Brasil and SOMO, May 2015).
[77] "By 2007 Ethos had transformed CSR into a prominent national movement, which had even helped strengthen enforcement of some laws such as the prohibition of child labour. How can leaders from the private sector strengthen the idea that businesses have moral obligations to society? How should they define corporate social responsibility? How can they marshal influence to secure compliance with CSR norms?" Jonathan Sclefer and Mark H. Moore, "The Ethos Institute: Helping Business Become the Vanguard of Social Progress in Brazil," *Harvard Business Review*, May 2009, available from https://hbr.org/product/the-ethos-institute-a-helping-business-become-the-vanguard-of-social-progress-in-brazil/HKS464-PDF-ENG (accessed 3 August 2015).
[78] Bales, Disposable People p. 122.
[79] See Pietra Rivoli, *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade* (Hoboken NJ:, John Wiley, 2009).
[80] Kaushik Basu and Pham Hoang Van, "The Economics of Child Labor," *American Economic Review*, Vol. 88, No. 3, 1998, p. 412-27.
[81] On the one hand, trade liberalization is an incentive to use child labour for competitive advantage (income effect). On the other hand, trade liberalization reduces child labour by increasing household incomes and generating more opportunities for outside options (substitution effect).
[82] Eric Edmonds and Nina Pavcnik, "Does Globalization Increase Child Labor? Evidence from Vietnam," NBER working paper 8760, 2002, p. 32.
[83] "Vietnam is the major-low quality long-grain rice exporter. Therefore tariff reforms by importers of this type of rice would mostly benefit Vietnam. Exports would be expected to increase from 2.7 million metric tons to 3.1. million metric tons, and prices would rise moderately to $185 per metric ton. Vietnam has steadily increased its volume of high-quality milled long-grain rice. Trade reform would increase this volume moderately as well as its price. In aggregate, Vietnamese consumers would lose from higher prices by $210 million annually, but producers would gain $229 million." Eric J. Wailes, "Rice: Global Trade, Protectionist Polices, and the Impact of Trade Liberalization," in Ataman Aksoy and John Beghin, eds., *Global Agricultural Trade and Developing Countries* (Washington DC: The International Bank for Reconstruction and Development, The World Bank, 2005), p. 189.
[84] Quy-Toan Do and Lakshmi Iyer, "Land Rights and Economic Development: Evidence from Vietnam," World Bank Policy Research Working Paper 3120, 2003.
[85] ILO, *Social Protection Floor for a Fair and Inclusive Globalization: Report of the Advisory Group chaired by Michelle Bachelet, Convened by the ILO with the collaboration of the WHO*, (Geneva, ILO, 2011).
[86] The first signatories of the TPP in 2006 were Brunei, Chile, Singapore, and New Zealand, followed in 2008 by Australia, Canada, Japan, Malaysia, Mexico, Peru, the United States, and Vietnam.
[87] Steven Greenhouse, "Trans-Pacific Partnership Won't Improve Workers' Rights in Asia, Critics Warn," The Guardian, 21 May 2015, available from http://www.theguardian.com/us-news/2015/may/21/trans-pacific-partnership-obama-trade-deal-asia-workers (accessed 6 August 2015).
[88] Ibid.
[89] Criticism of the TPP has been voiced by Senator Elizabeth Warren and Nobel Prize winning economist Joseph Stiglitz. See "Broken Promises: Decades of Failure to Enforce Labor Standards in Free Trade Agreements," prepared by the staff of Senator Elizabeth Warren, available from http://www.warren.senate.gov/files/documents/BrokenPromises.pdf (accessed 3 August 2015) and Joseph Stiglitz, "How Trade Agreements Amount to a Secret Corporate Takeover," *The World Post*, 18 May 2015, available from http://www.huffingtonpost.com/joseph-e-stiglitz/trade-agreements-amount-to-corporate-takeover_b_7302072.html (accessed 6 August 2015).
[90] Lance Compa, *Unfair Advantage: Workers' Freedom of Association in the United States Under International Human Rights Standards*, (Ithaca, NY: Cornell University Press, 2005).
[91] Greenhouse.
[92] "In 2006, the US-based National Labour Committee (NLC) investigated labour practices…and denounced abusive working conditions, including forced labour, in a highly publicized report… The Ministry of Labour initiated an inspection campaign shortly after…As a result of the campaign, a total of 114 penalties were issued and two establishments were closed." Andrees and Belser, p. 119.