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Prostitution, Economics Of

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To most people, prostitution would seem to have obvious economic dimensions in that it involves the exchange of money for the sale of one's body to another. There is a great diversity of statutory provisions on the subject. There is also discretion in how these are enforced in different places at different times.

The simplest application of economics to prostitution is to look at the determination of prices for the sex sold via the usage of supply-and-demand analysis. The existence of supply-and-demand schedules requires the presence of perfect competition on both sides of the market for sex. Any person could offer himself as a sexual commodity trader, hence the supply could potentially be the population of the world. Some individuals will be specialized traders in sex services, while others may use it as a part-time career to fund other things.

Likewise, on the demand side, the world population constitutes potential clients for purchasing sexual acts. Some persons will be regular purchasers of paid sex, while others only enter the market at times of shortage in their normal source of supply or for other reasons (for example, to avoid commitment entanglements in conventional relationships).

It is obvious from casual empiricism that a large proportion of the world's population does not engage in paid sex. Perhaps this is due to the tendency in most developed economies to have some degree of illegality, or at least heavy regulation in this arena. Exploring that tendency takes us back to the issue of pricing. Economists model prostitutes and their clients as rational (subjective expected) utility maximizers in a situation of risk. These decision makers will have reservation prices (or wages, in the prostitutes' case) based on feelings of guilt, risks of being caught, perceived social stigmas, and so on. Individuals only enter the demand side of the market when the price falls below their reservation price, and suppliers only enter when the offered wage exceeds their reservation wage.

The most prominent recent contribution by economists on this subject, Lena Edlund and Evelyn Korn's study, *A Theory of Prostitution* (2002), emphasized the role of stigma in determining prostitutes' wages. They argue that the stigma of prostitution leads to wage premiums to compensate for loss of value in the marriage market; nevertheless, there has been no systematic empirical evidence on such claims.

The existing empirical work on the economics of prostitution focuses on the supply-side determination of prices via comparative attractiveness, or on the demand-side influence of opportunity and risk variables. There has yet to be any direct measurement of the impact of size of punishment and the risks of punishment (as in general econometric studies of crime) on the supply or demand for prostitution. However, the estimates of Samuel Cameron and Alan Collins, using a U.K. national sex survey, revealed several statistically significant risk factors, such as fear of sexually transmitted diseases (in this case HIV-AIDS) and general personal risk-taking disposition.

Risk factors are central to the economic analysis of policy toward prostitution because the (theoretical) deterrent effect of punishment relies on individuals being sensitive to risks. The economic analysis of law treats the regulation of any activity as if it were designed to maximize social welfare based on a comparison of the marginal costs and benefits of enforcement. For prostitution, there are several costs and benefits that are either directly economic or that could be subject to an economic valuation via some kind of imputed prices. The most obvious costs are disease related, with the specter of HIV-AIDS transmission now overshadowing the former concern with traditional STDs. Perhaps further costs arise due to disruption of family life from prostitution by partners or use of prostitutes by partners.

For the potential benefits of prostitution, there is a broad category of safety valve arguments, many of which have been advocated for centuries. That is, paid sex can be supplementary sex to those receiving an inadequate supply in terms of volume from a partner. Paid sex may be due to outright failure (being unable to find a sexual partner) in the partner market, or may reflect the supply of a type of commodity or service that is difficult to obtain otherwise due to the tastes of partners who may find bondage or role playing to be distasteful.

Many societies make prostitution illegal on largely noneconomic grounds such as religious objections to the selling of sex. However, given the scarcity of enforcement resources relative to the demand for the service, society has to make some decision about the level and type of enforcement activity that goes on.

The market structure related to the supply of prostitutes should influence such decisions. The popular archetypal notion of the operation of supply is that there is a series of local monopolists (in the form of pimps) with groups of prostitutes who they exploit by **[p. 1224 ↓]** taking profits from the women's earnings with actual or threatened violence. Some have argued from survey evidence that pimping is not that pervasive, but one might be skeptical of the answers given in surveys where a pimp is possibly threatening the respondent. In such a situation, the additional suffering inflicted on the prostitutes may be counted as a social cost arising from the illegal status of the occupation.

If pimps or organized crime fully monopolized the market, it is possible that punishing prostitutes would have no impact, because it simply removes supernormal profits from the illegal firm (such as an organized crime syndicate) that controls the trade. If the market is competitive with prostitutes as sole traders, then punishment may bring perverse effects, in that the income effect drives them into increased supply when a fine is increased. A particularly hypocritical use of the law in this context is alleged to exist in Turkey, where the police arrest prostitutes to have sex if the women are too poor to pay off their fines.

The option of punishing the consumer might be an effective mechanism of control. Until recently, police seldom use this approach because legislation has focused on the act of selling. Stigma from social shaming, fines, or enforced attendance at rehabilitation classes adds to the costs of consumption for the buyer and thus should produce income and substitution effects leading to a fall in demand. This should lower the equilibrium amount of prostitution unless the supply curve is vertical, which seems unlikely.

In many nations, there is some trend toward rationalizing prostitution as an economic activity. On one hand, there are punitive and highly publicized crackdowns (wars and so on) on street prostitution but a growing tendency to accept some form of legalized prostitution because it is a necessary evil, in places where there is still moral distaste. Decreasing the social costs of the exchange facilitates tolerance. For example, ordering a prostitute, via the Internet, who arrives and leaves discretely is different for a neighborhood than having provocatively dressed woman and parades of cars in full view of the community.

Because the purpose of regulation, from an economic perspective, is not to control the quantity of prostitution per se, but rather to minimize its social costs (or alternately to maximize its social benefits if a net gain from prostitution is a social possibility), policy may be aimed at regulating the spillover costs of prostitution rather than the prostitution itself. Such activities tend to come under the rubric of ad hoc provision of thirdparty agencies working in informal cooperation with the police. These agencies may dispense health advice, free condoms for prostitutes, or initiate needle exchanges for drug users. If this kind of ad hoc regulation were fully incorporated into the formal policy toward prostitution, it would approach a situation of legalization.

In conclusion, the economic approach to prostitution is to treat it as a conventional service, albeit one with some localized price determination factors related to risk, stigma, guilt, and so on. Economists use the concept of externalities to justify a range of regulatory policies based on the argument of maintaining a necessary evil where there are certain benefits from the trade per se.

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See also

- Cost-Benefit Analysis
- Externalities and Social Costs
- Mafia and Organized Crime
- Markets
- Prostitution, Criminology of
- Questionnaires and Surveys
- Rational Choice and the Rational Actor
- Risk
- Utility Maximization

Further Readings

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