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# FORMALISATION OF LABOUR: THE ECONOMICS OF PROSTITUTION IN INDIA

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#### Abstract

Prostitution is one of the oldest professions of the world and has been practiced since the birth of the Indian society. The moral ambiguity that engulfs this practice is increasingly bringing out the question of its formalization. This paper assesses the technical shortcomings in India that go unnoticed in the midst of the social debate of a formal industry for prostitution and objectively lays out a steady path for a better socio-economic development. A historical analogy was employed in the prediction of the outcomes of the policy models of the Dutch and Bangladesh in the Indian context by employing economic theories. This application places the questions asked in the context of the current stage of development of India. Along with Growth Indices, Human Trafficking Statistics and trends on HIV/AIDS are superimposed into this because of the direct impact it has on the Prostitution industry and to examine how the legalization affects these statistics. With reference to the analytical insights studied, the paper arrives at a conclusive inference that India is, as yet, not economically equipped to undergo formalization of prostitution. The developing nation does not have the preconditions for ensuring the upward trajectory in the standard of living. This underlines the ever asserted disparity between Growth and Development and the fact that one does not necessitate the other. The findings are backed by statistical data from surveys from national registries, research and reports.

#### **Keywords**

Socio-Economic Development, Informal Economy, Criminal Economy, Legalization, HIV/AIDS, Human Trafficking, Policy Structure

#### 1. Introduction

The term 'informal economy' became widespread in the 1970's as a label for economic activities that take place outside the framework of official institutions. They stem out of the proliferation of self-employment and casual labour. Scholars have viewed prostitution from three distinctive eyeglasses: as a form of deviant behaviour, as a form of gender oppression and as a type of work. (Boels D., 2016)

In the recent years, prostitution has increasingly been recast as a form of 'sex work' and is a highly contested part of political and economic policy debates. This directs attention to both the work itself and the larger occupational milieu in which it takes place. (Wiezer, 2007) The sex worker sub-culture is often self-contained and shaped by a pervasive sense of exclusion from the mainstream industrial growth in India. In the background of this stigma, there rises the question of its formalisation into the economy and the economic consequences it would have at the macroeconomic level.

The Immoral Trafficking Prevention Act or ITPA (1956) is the main statute dealing with sex work in India. The Act essentially defines Prostitution as "a means of sexual exploitation or abuse of persons for commercial purposes" thereby, defining it as analogous to exploitation itself. Though voluntary prostitution prevails, it remains at a stark minority of 3% and a majority reporting involuntary labour in the industry panning to poverty, domestic violence, ill treatment, runaways, heredity or being trafficked for cheap labour. Major brothels are located and continue to run in the metropolitan cities of Mumbai, Kolkata and Chennai, along with Andhra Pradesh, Tamil Nadu and Nepal. (Dandona et al. 2006)

By virtue of inconsistent policies, sex workers are faced with a contradictory situation where, although it is not illegal for one consenting adult to sell sex to another, a number of measures such as prohibition of brothel-keeping and soliciting constrain their working circumstances in the industry.

#### 2. Background

In 2016, Amnesty International, a human rights charity, announced its support for decriminalising prostitution between consenting adults. Those in support of legalization—point to the fact that keeping prostitution underground can have ugly consequences. The policy regarding prostitution has been largely beneficial in terms of economic return in countries where its expansion took place, but has significantly hurt the crime statistics. The existing research literature, mostly entailing surveys and trends indicate mixed results of legalizing prostitution on the economy depending on the policy adopted. In Rhode Island, the research found that, apart

from an expansion of the indoor sex market, legalizing prostitution also resulted in a decline of reported rape offenses and female STIs. Similar patterns were found in the Greece and Thailand model where sex workers earned twice the average minimum age and contributed significantly to the economy. It is considered as a relief from poverty (Liz Hilton, 2013) however it continued as a marginalised occupation projected as a 'social evil' The law has also seen another side of increased violence and trafficking as a result of legalization in New York, Canada and United Kingdom in 2013 and 2015 respectively. The German and Dutch models for prostitution are especially prominent in highlighting the downside of legalizing prostitution through excessive government regulation and licensing, the latter of which is elaborated further in this paper. In contrast to the legalization model is the decriminalisation model which minimises the state's involvement in the profession and restricts it to the crime surrounding it. (Sanger, 2015; Guista, 2016, Savona, 2017) This was first adopted in New Zealand in 2003 which treats prostitution as a means of employment. (Reed et. al., 2010). The country further added prostitution to its official list of employment skills for immigrants and visa applications (New Zealand Herald, 2018). This framework aimed at giving a progressive opportunity to voluntary sex workers in the market. The literature on prostitution, thus, reflects inconsistencies in its success to achieve its objective and this decision has major implications in a developing country like India where the discussion of sex worker rights as a judicial decision rose as late as in 2010 as a public interest litigation (Budhadev Karmaskar v. State of West Bengal, (2011) 2 SCR 925 (India) filing on behalf of several sex workers. The court directed the National Commission of Women (NCW) to suggest legislative reforms for the prostitutes. The NCW submitted a proposal for legalizing prostitution in 2014 in order to regulate the trade and cover various employment rights such as healthcare and labour hours, however, the proposal remains controversial among the public at large and also certain sex worker communities. A statistical survey from a government- commissioned study by K.K. Mukherjee (2007) found that the supply of prostitution as a service has viewed a steady and significant rise of 50% from 1993 to 2005 which highlighted the inelastic demand for prostitution, which will inevitably see a rise when the profession is formalised as it does away with the disincentive of legal charges and proceedings. (Upasana Bhat, BBC, 2006) This increment in the demand for young prostitutes among the consumers has induced a large number (35%) of prostitutes entering this profession before the age of 18.

### 3. Hypotheses

a. Formalization of Prostitution, as a form of work, will benefit India's economic development.

b. Economic policies in India channelize the working of the sex industry and not the other way round.

### 4. Objectives

- i. To gauge into the informal economy of prostitution in various countries and examine its imperativeness on India's 1. economic development 2 policy making schemata 3.socio-economic relevance
- ii. To outline the difference between the informal economy and the criminal economy whilst engaging with this variable (secondary objective)

### 5. Methodology

By virtue of the type of data required for this paper, the analysis of the paper will mainly be a qualitative one by exploring the enforcement and outcomes of different distinctive policy models. The findings are backed by statistical data from surveys from national registries, research and reports. The unavailability of adequate statistical data and an inability of primary data collections remain the two shortcomings of this study. The paper employs a historical analogy in the prediction of the outcomes of the said policy model in the Indian context by employing economic theories. This application places the questions asked in the context of the current stage of development of India. To further examine this objective, a Demand-Supply model is used to highlight the flaws in each model. The research on this paper is conducted with reference to the present social and ethical context for they carry much weight in this domain. Human Trafficking Statistics will be superimposed into this because of the direct impact it has on the Prostitution industry and to examine how the legalization affects these statistics. Further, it explores solutions to an ideal national policy model.

### 6. The Dutch and Bangladeshi Model

The perpetual incline toward legalizing the sex industry in India has been largely negative by both the central and state authorities. (*The Hindu*, 2015) However, arguers have drawn attention to its benefit in combating the highly prevalent crime of sex trafficking. This is analogous to the policy model of the Netherlands which legalized prostitution in the year 2000, to ensure the enforcement of a highly regulated market to root out trafficking and its resultant exploitation. The model demanded to license all prostitutes and brothels in order to regulate their functioning, thereby, lifting the ban on brothel-keeping. In keeping with this, the model prohibits involuntary prostitution of any form and has set a legal age of 18 (later 21) for sex workers. Contrary to the said aim, the seemingly flawless model of Legalising Prostitution in the

Netherlands displayed a withered result over time. (Kleemans et al) This is because the model was based on the assumption that the criminal aspects of prostitution can be diminished by 'normalising' the profession. This follows a further assumption that the economic behaviour of the owners of these legalized businesses as well as the sex workers and the nature of the industry would have a negligible impact during the aftermath.

The policy model in Bangladesh (ratified in 2000) was targeted toward the dignity of the sex workers by legalising Prostitution, brothel keeping and pimping as long as the act is voluntary.

### 7. Analysis

#### 7.1 Growth Trends in the Economy on Legalization (GDP)

Global statistics have reflected that the sex industry, has been responsible for boosting the county's growth index. (Moni Nag, 2001) Netherlands has displayed a notable rise in the prostitution revenue, of \$800 million that forms up to 0.4% of their GDP (2000-2005). The credit for this goes to the flourishing sex tourism and the successful creation of employment. (Escritt, 2014) That being noted, in Bangladesh from the onset of legalization of the industry, its contribution, was a mere 0.0001% or \$24 million to the total GDP. This disparity is due to vast differences in the contextual factors of the two countries. While the individual economic returns of a prostitute in Bangladesh are, in fact, relatively greater than those of any fulltime earning profession, a strong social stigma attached to prostitution cancels out the industry's relative expansion which is concentrated among women who are either BPL or Trafficked. This renders prostitution as a profession undertaken by coercion and therefore, has displayed no significant economic growth since its legalization.

Mapping this trend on India (under the assumption of the Netherlands model which subsumed a similar aim of law enforcement to that of India) it is observed that the prostitution sector, with annual revenue of \$8.5 billion cumulates up to 0.03%. However, similar to the Bangladeshi model, the present day context of the industry in India would curtail the expansion of the prostitution industry in spite of the resultant boost in the GDP.

This infers that the increment in the growth indices would be redundant to the industrial expansion.

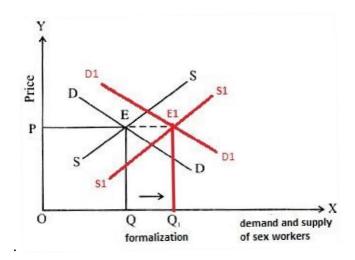
Though it is also essential to factor in the taxes liable to be paid by the prostitutes and the job creation for the supporting economies, this percentage contribution is relatively negligible in comparison to the present scenario as it would remain concentrated in a limited area.

#### 7.2 On combating trafficking

Socio-Economic development is the linchpin of the formal sex industry which is characterized by a reduction in sex trafficking. This is theoretically accomplished by enforcing a procedural regulation of the licensed prostitutes and simultaneously narrowing down the proportion of the illegality, thereby enabling the law to exercise further control over traffickers. The theory was however defeated against its microeconomic take on the nation-wide concern. It did not take into account the demand-supply behaviour to national policy.

Legalization of the profession results in a rapid increase in the demand for the service due to a reduction in the risk involved (opportunity cost) as opposed to when it was illegal. Thus, owners and traffickers are pushed to provide for the increase in demand by increasing the supply, thereby engaging in equal or higher levels of trafficking to reach higher levels of equilibrium. This upward shift in the demand curve negates the impact of the law.

As illustrated in the figure: On legalization, the demand for prostitutes increases from D to D1. To meet with the increase in demand, traffickers increase the illegal supply of prostitution from S to S1, reaching a rightward shift in equilibrium to E1, at a constant price. Further, it begins to emerge as a competitive industry which incentivises child trafficking for younger prostitutes.



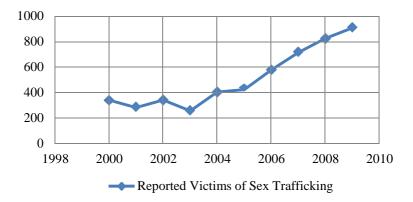
**Figure 1:** Demand Supply Model of Trafficking

Source: Schaum Series, Mircoeconomics

Although the economic behavior of supply and demand is arguably theorised to be combated by the regulatory laws which enable a better monitoring of unregulated section, this was also accompanied by corruption that drained the socio-economic development. Though the law mandated licensing of businesses, owners continued to engage in indirect trafficking through procurement (colloquially known as pimping) further securing their safety by procuring illegal

licenses (W.Huissman et al) The percentage of the sample sex workers in India who faced abuse or bribery by the police was 22% (Reed et al.) To this end, *The Encyclopaedia of Law and Economics* (2015) has theorized that if demand is relatively inelastic, criminalization of clients may to a large extent drive the activity further underground, with a corresponding increase in risk and worsened working conditions for prostitutes.

This has been verified by the increasing trend of sex trafficking over the years, both in the Netherlands as well as in Bangladesh. They provide as cheap labour.



**Figure 2:** Trend of increasing sex trafficking in Netherlands

Source: Report of the Dutch National Reporter on Trafficking in Human Beings (2010)

In the figure, the upward trend line can be taken as a proxy for a supply curve as the percentage of non-trafficked women in the industry is inclining toward a minority (25% and 10% respectively)

This trend can be predicted as showing a similar impact in Indian socio-economy, because of the current incremental demand for prostitution, which as per data by the National Crime Records Bureau (NCRB) saw an increase in sex trafficking by 25% in 2014

#### 7.3 HIV/AIDS epidemic among sex worker and its economic cost

The national debate on the legalization of prostitution placed a very high emphasis on its role in the prevention of the HIV/AIDS epidemic which peaked in India in the 1990's and early 2000's. India's National AIDS Control Organization (NACO) identified commercial sex workers as one of the most important of these high-risk groups with an increased prevalence of 2.6% The economic cost of controlling and subsequently preventing the epidemic, which supposedly has no known cure is massive which results in a call for aid from third parties. The longstanding

argument persisted that given the industry is formalised and regulated, the efficacy of Government intervention into the practice of safe sex would reduce the prevalence of HIV/AIDS.

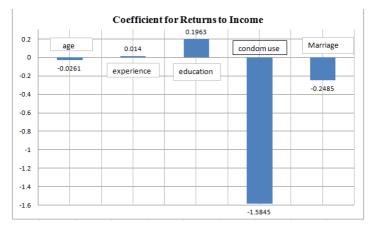
This action, however, in present-day India is questionable. The economic 'trade-off' between personal income and condom usage plays an impending role in elucidating this. The substantial increase in demand and supply (which supposedly aggravate on formalisation) as well

as the emerging percentage of voluntary entry into the industry, has made the prostitution sector highly competitive. According to the empirical report by economist Vijayendra Rao for the World Bank and in a research by Arunachalam et. Al. (2012), there is a multitude of factors potentially impacting the economic returns of a sex worker such as physical attractiveness, age, experience and so on.

By keeping the relative discrepancy in these factors constant, one can estimate the correlation between condom usage (in avoidance of an STE) and the personal income of the sex worker. This function can be explained by relating price to the set of characteristics

$$P = P(X, S) ... (1)$$

where P stands for the price per sex act charged by the sex worker, X subsumes the attributes of the sex worker, and S is a variable that denotes whether the sex worker practices safe sex, specifically whether her clients always use condoms. On tabulating the data from the reports on returns to the various attributes and forming a trend line, we get



**Figure 3:** *Returns to Income for various attributes* 

Source: data from the study By Rao, V:, Sex workers and The cost of safe sex

The graph displays a sharply and significantly negative impact of condom use on prices. The estimates indicate a loss of up to 79% from the original income

As in any implicit market, this function is determined by the demand supply factors. The greater the condom resistance of the client, lesser is the price per act given. In India, one indicator is that despite the increasing government aided 'family planning programmes' the current condom usage in the country which is at 5%, is not a popular method of contraception. Therefore, the sex workers are induced to provide a compensation for the demand for safe-sex practices which forms a strong disincentive against practicing safe sex which has an adverse impact in the contraction of HIV.

The same model holds true in Bangladesh, however, HIV prevalence there is as low as 0.1% This is because a high percentage of the reported sex work in Bangladesh takes place within brothels (due to legality and high marginalisation) as against 11% of independent prostitution. Thus, the brothel owners and procurers, who possess adequate sex education fix prices per sex worker which are more often than not, non-negotiable. (Ullah Asan, 2005) This brings to the fore another reason India is lagging in this ability to fix prices. While the brothel run sex workers have sufficient price ranges, a 70% of Indian prostitution sector is operated by Street-Based Workers who conduct one-on-one price negotiations. Moreover, 75.8% of these workers are reportedly uneducated. (Dandona et. Al)

This inherent preference against the use of condoms accompanied by a lack of such education among the sex workers aggravates the spread of HIV/AIDS in a formalised sector in the present context. As per past reviews of Government Expenditure, controlling the HIV epidemic required an aid of \$700 million from the World Bank along with Budget spending and a massive fall in labour force. Thus, the economic cost of legalising prostitution remains at an all-time high.

#### 7.4 The Economic Cost of Illegality of Prostitution

There is no doubt that the prostitution industry is flourishing in present-day India despite the illegality that surrounds it. The question remains whether the illegality of the sex market which deprives the prostituted woman of an acceptable employment, bears any form of economic cost. In order to understand this, we must first delve into the reason why prostitution, in the form of brothel-keeping thrives as an industry in spite of its prohibition. An important force behind it is the so-called 'expediency principle', passively prevalent in the law, which gives the Prosecutor the power to refrain from prosecuting offenses, as it is not efficient to prosecute all offenses. This discretionary power, allows public prosecutors to dismiss criminal proceedings in cases such as prostitution where strict law enforcement was not considered to serve the immediate public interest. It is considered as a form of immoral practice within the law. Thus, these officials render the law prohibiting brothel-keeping, soliciting or procuring as a 'dead letter'

As a result, the economic cost of unemployment among the present 3 million sex workers who seemingly have no other source of income is negligible in the illegal sex industry. On the contrary, legalizing the industry tampers with the trafficking levels which soar up, largely because voluntary entry into prostitution is rare in India (2-3%), owing to its stigmatization. Apart from this, it keeps the epidemic of HIV at bay. This conclusively predicts that there is a very small margin of benefit on formalising the sector, pertaining more to an increase in the growth index with HDI, remaining stagnant. The currently employed sex workers do not engage

in other forms of work, not only because of social reasons such as being marginalised, but also because the sex industry earns a high level of income (which may vary with location and experience) The average prostitute in India is paid \$120 per month, while brothels of Kamathipura and Sonagachi receive 1 million customers every month. The sex workers charge a higher premium which is acceptable to the clients because the service involves high-risk factors such as the possibility of a penalty as well as other unambiguous costs. Economist Gary Becker, a Nobel Laureate, in his thesis, stated that the prostitute, while providing sexual services to a client, is forgoing the opportunity cost of marriage which is in multiple variables, claimed as corresponding to prostitution, with a difference in social status and to some extent, physical attractiveness and returns to education. On formalisation of prostitution, this high-risk factor effectively dissolves, thereby reducing the income of the prostitutes, even more so in Street-Based Prostitution which is prevalent in India.

This draws the inference that the economic benefit to the individual prostitute takes a hit when it is regulated. This can be reflected in many cases in which the prostitutes claimed to not want legalisation to their business.

#### 7.5 Prostitution in the Criminal economy

Licensing of the prostitution sector should be considered for the improvement of the standard of living of the prostitutes and socio-economic health. The profession of prostitution behaves like any other in the commodity market where both the client and the prostitute arrive at a negotiation to exchange services. While the illegality in India is primarily governed by morality concerns, there is no doubt a need to root out the unacceptable forms of prostitution involving coercion, violence as well as trafficking. (Sarkar et. Al., 2008)

Thus, the attempt yet remains at legalising the profession to encourage voluntary entry which is a far-fetched reality in India where 'sex' is considered taboo. The need for formalisation thus comes to a deadlock, from the economic and the socio-economic point of view for it is predicted, through various models to drain out the resources of the country more than add to it.

#### 8. Conclusion

#### 8.1 Inference

With reference to the analytical insights presented, the paper arrives at a conclusive inference that India is, as yet, not economically equipped to undergo formalisation of prostitution. The developing nation does not have the preconditions for ensuring the upward trajectory in the standard of living. The reason behind the downfall of the Netherlands policy model was a heavy reliance on prostitution as a source of economic income alongside excessive regulation on the illegal sector and not so much on the standard of living of the prostitutes. In his

essay, 'The Ends and Means of Development' economist Amartya Sen argues that there are five instrumental freedoms that must be achieved before a country can be considered developed. Sen's instrumental freedoms include - political freedom, economic facilities, social opportunities, transparency guarantees and protective security. Barring economic facilities for the moment, it is essential that the sex workers in the industry have equal access to social facilities and are free from coercion due to poverty, trafficking and exploitative violence. An assessment of Sen's theory and the reality of the social and economic development of India's prostitution sector intimate that the Government's poorly designed policy models would not be the only, or even, the greatest limiting factor in the sector's economic development. What further augments such an environment is the failure to separate the profession from the crime that remains pervasive to it. A collaborative study on the law regarding sex work in India by Jain and Rhoten (2015) emphasizes the need for such separation and further suggests reforms to be undertaken under the uniform guidance of the sex worker community itself rather than the State's involvement. A similar practiced commenced in the Netherlands in 2010 under the movement 'My Red Light' in order to socially and financially liberate the sex workers. It is the first model under self-ownership where the sex workers determine their own payment terms and working hours. The model further aims at setting up workshops for teaching and private tours for the public.

Similar to Sen's idea is the BHS (Basic Human Needs) approach used to prioritize investments in human-interest initiatives, with their success ensuring the country's economic progress.

Protection from sex trafficking and exploitation is an important component of Sen's instrumental freedom as is appropriate healthcare to the prostitutes to prevent STIs.(Mondal, 2017, Chai, 2017) In the late 2017, a research study by Sagade and Foster (2017) emphasized on the 'pro-work' model under the subtext of decriminalising prostitution. While a majority of these studies have the social marginalization and living standards of the sex worker as their focal point, there remains no doubt from the analyses presented in this paper that they tend to have lasting effects on the country's economic condition.

While higher Growth indices indicate position, they do not necessitate development. For example, the Government of Italy decided to incorporate the prostitution industry into the annual GDP which overnight resulted in a boost of 18% (making it the fourth richest country in the world.) This eyewashfurther provides misleading figures to the IMF and World Bank, thereby straining the provision of aid from them for Healthcare facilities and HIV/AIDS campaigns.

Operating on these concerns, the Indian Government has definitely increased steps in recent times such as the Sonagachi Project of 2004 in Calcutta which showed a positive increment in condom use up to 90%. When we step back and try to comprehend the enormity of the issue, it is not difficult to see that the prescribed guidelines of Amartya Sen's instrumental freedom have not been met.

While these are certainly steps in the right direction, one could argue that the recent history of this development renders the issue of formalisation as too little, too late.

However, having the preconditions of regulated law enforcement and adequate sex education met, if historical evidences are used as a tool of education, policy makers might use the plight of the past and institute them as guideline for the future.

#### 8.2 Research Limitations

The scope of this research is limited to secondary statistical surveys and research articles with lack of primary date collection tools. Furthermore, the existing studies conducted in India remain highly limited, especially with respect to country-wide economic and socio-economic perspectives. It is a structured qualitative study based on existing empirical facts and realities. The unavailability of adequate statistical data and an inability of primary data collections remain the two shortcomings of this study.

#### 8.3 Scope for Future Research

It is important to focus on effective policy designing, especially when it comes to the Indian law. There has been a recent uprising of freedom to practice prostitution as a form of empowerment for women various countries. However, it must be kept in mind that this empowerment stands true only when entry into the profession is voluntary and does not follow any coerced means through sex trafficking or even as a resort from poverty. On the other hand, there exist research studies on possible practices to effectively reduce the demand for prostitution which is believed to overcome the practice itself by targeting men of high solicitation age ranges (Guista, 2016; Avery, 2017). The research concluded that a practice of public shaming along with strict law enforcement techniques could work to achieve this. However, as we have analysed above, there is a high probability that such massive regulations could shake up the system to go further underground and is further criticised as an unfair imposition on the existing sex workers. Therefore, in order to separate the occupation from crime, it is necessary to design policies that align with the same while ensuring that it does not form a barrier to it as an economic profession. Research on this field should focus on speaking 'to the sex workers' and not 'of the sex workers' in order to tailor the policies and funding accordingly. Another important focus of this paper is the differences in the social attitudes toward prostitution which

differs significantly in every country. Although an accurate prediction of social change remains out of the scope of this paper, research in this field can aid in rooting out the factors necessary for socio-economic development.

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### Appendix

Data for Figure 1

GDP (current US\$)	GDP (current US\$)	
Netherlands	Bangladesh	
(in billion \$)		
NLD	BGD	
412.8	53.37	
426.54	53.99	
465.36	54.72	
571.86	60.15	
650.53	65.1	
678.53	69.44	
726.66	71.81	
839.42	79.61	
936.22	91.63	

#### Data for Figure 3

Year	Reported Victims of Sex Trafficking	
2000	341	
2001	284	
2002	343	
2003	257	
2004	405	
2005	424	

2006	579
2007	716
2008	826
2009	909

## Data for Figure4

Attributes	Coefficient for Returns to Income
	(through a structural equation)
Age	-0.0261
Experience	0.014
Education	0.1963
Condom Use	-1.5845
Marriage	-0.2485