

Editorial Manager(tm) for European Journal of Law and Economics
Manuscript Draft

Manuscript Number:

Title: Simulating the Impact of Regulation Changes on the Market for Prostitution Services

Article Type: SI (demand supply of prostitution)

Keywords: prostitution, regulation

Corresponding Author: Marina Della Giusta,

Corresponding Author's Institution: University of Reading

First Author: Marina Della Giusta

Order of Authors: Marina Della Giusta; Marina Della Giusta

Simulating the Impact of Regulation Changes on the Market for Prostitution Services

*Marina Della Giusta**

This paper introduces an economic approach to studying prostitution, critically assessing the current limitations of economists' contribution to this important policy debate and illustrating the relative merits of economic modelling for policy design. The first part of the paper reviews the principal contribution to prostitution debates that have informed the formulation of the approach adopted here, and indicates how it differs from other social scientific approaches and from existing work addressing these issues in economics. Central to the approach is the recognition of the role of social stigma in determining the configuration of the exchange of paid sex, and the way in which it is in turn understood and affected by policy (for a discussion of the link between stigma and regulation see Sanders 2007). Drawing on an economic model of the market for prostitution services analysing the interaction between demand and supply for paid sex (Della Giusta, Di Tommaso, and Stroem 2007), the second part describes ways in which different regulatory regimes are chosen by policy makers.

On the part of economists, and also to a large extent feminist economists, there has until recently been a curious reluctance to engage with prostitution as an area of socio-economic life that mobilises large numbers of people and vast amounts of financial

* I would like to thank Vanessa Munro and collaborators in the Supply/Demand Dynamic in Prostitution seminars for fruitful discussions, as well as the British Academy and the ESRC for funding the organisation of these meetings.

1
2
3
4 resources internationally. This is all the more surprising since paid sex is, depending on
5
6 its regulation, either formally or informally part of the entertainment industry, where
7
8 issues of regulation and labour conditions, particularly given the importance of
9
10 international migration to the sector, are all well known to economists. The failure to
11
12 analyse systematically a form of exchange that has many of the features that much recent
13
14 research in economics claims to want to understand is bewildering, given that the
15
16 exchange of paid sex appears to incorporate rather obviously issues connected with
17
18 information and power asymmetries in exchange,¹ the relationship between formal and
19
20 informal markets, and the role of regulation in fragmented markets. In addition, the
21
22 dynamics of international labour mobility, the allocation of resources within the
23
24 household, women's entrepreneurship, and pathways out of poverty and social exclusion
25
26 are also implicated. There is an unfortunate parallel between the lack of acknowledgment
27
28 of prostitution as a form of work in policymaking and in the economic discipline, which
29
30 by neglecting areas of human economic activity, contributes to their delegitimation.
31
32 Given the relevance of the economic profession to policy makers, there is a need for
33
34 economic research addressing this neglected area of enquiry, learning from the evidence
35
36 from the sex sector as well as the work carried out in other disciplines.
37
38
39
40
41
42
43
44
45
46
47

48 This paper forms part of a broad economic investigation which was initially
49
50 inspired by the publication of a contribution by economists to the prostitution literature
51
52 that appeared to be based on very limited knowledge of the sex industry and on several
53
54

55
56 ¹ See the seminal work of Fred Hirsch (1977) and Pagano (1999), widely used among other fields in
57
58 cooperative and non-cooperative bargaining model of the family.
59
60
61
62
63
64
65

1
2
3
4 rather unsatisfactory assumptions (alas, a common feature of our discipline) (see Edlund
5 and Korn 2002). The aim is to contribute an economic understanding of the paid sex
6 exchange that provides opportunities for discussion with other disciplines as well as with
7 policy makers. The discussion begins with an illustration of the main ideas underpinning
8 the economic model contained in Della Giusta et al. (2007), which is then enlarged to
9 illustrate the choice of policy regimes by policy makers.
10
11
12
13
14
15
16
17
18
19
20
21
22

23 **Economics and Prostitution**

24
25
26
27
28 The economic literature has traditionally approached prostitution either showing how it is
29 similar to other markets, or studying it as a form of crime and analysing the costs and
30 benefits of alternative regulatory regimes, generally agreeing that the main motivation
31 behind supply is an economic one (for a review, see Reynolds 1986). More recent
32 theoretical and empirical contributions have focussed on modelling prices and supply
33 characteristics (Cameron et al 1999; Moffatt and Peters 2001; Edlund and Korn 2002;
34 Cameron, 2002), demand determinants (Cameron and Collins 2003), health risk and the
35 effect of condom use on prostitute's earnings (Rao et al 2001; Gertler et al 2003), and,
36 more recently, the evolution of paid sex markets and the ways in which urban spaces
37 favour sexual transactions (Collins 2004). The latter collection is much broader in scope,
38 with paid sex markets being studied as part of the wider sexual market in which people
39 seek partners for reasons that include deficiencies in amount or range of sexual activities
40 in which they participate, or diversification of sexual consumption (Collins 2004, 1634).
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 Edlund and Korn (2002) have contentiously modelled prostitution as a highly paid, low
5 skill female occupation alternative to marriage, explaining high wages in terms of a loss
6 of position in the marriage market.² Cameron (2002) provides a more sophisticated
7 explanation for high wages in terms of compensation for social exclusion, risk (assault,
8 disease, arrest, punishment), front loading in wage profile (informal pension scheme or
9 insurance), boredom and physical effort, distaste (potential psychological and physical
10 costs), loss of recreational sex pleasure, anti-social and inconvenient hours, possible
11 excess demand and prices used to screen quality, taboos, and agent fees. Moffatt and
12 Peters (2001) find that prices are affected by duration of the transaction, location, and age
13 of the prostitute, but that other factors affect client satisfaction. Stigma enters these
14 models in the form of a barrier faced by prostitutes when wanting to enter other
15 professions, but it is unrelated to the nature of the transaction between prostitute and
16 client. Cameron and Collins (2003, 274) model male clients' decision to enter the market
17 for prostitution services, where he has the choice to derive utility from one relationship
18 partner and/or one paid sex partner. They distinguish between the motivations of men in
19 relationships (variety, specific acts, frequency, outlet for stress) and single men ('relative
20 search costs of finding willing sexual partners, or partners willing to engage in specific
21 sexual activities in an ad hoc or formal social context, and in a given time period.' An
22 econometric study of the characteristics of male demand for street prostitution services,
23 with the aim of assessing the significance of different types of clients' motivations is
24 contained in Della Giusta et al. (2007b). Garofalo (2002) is so far the only explicitly
25 feminist contribution, and focuses on explaining the different prices paid in the different
26 prostitution sub-markets in terms of the power asymmetries between contractual parties,

27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
² For a detailed critique see Della Giusta et al (2007)

1
2
3
4 discussing the role of female prostitution in the construction of male identity. The latter
5
6 would be at least partly based on asserting control over women through the paid sexual
7
8 transaction, thereby confirming one's gender identity through the relationship with the
9
10 opposite one. This links quite well with the evidence from female clients, which exploit
11
12 various existing 'othering' mechanisms based on class and race, to assert difference and,
13
14 through the exercise of economic power, control over the male sex workers whose
15
16 services they buy (see below). Della Giusta et al (2007b) analyse empirically the role of
17
18 control in demand for sexual services and find that the desire for control is indeed a
19
20 significant component of demand.
21
22
23
24
25
26
27

28 **Using an Economic Model of Prostitution to Investigate Policy Alternatives**

29
30
31
32

33 The usefulness of economic modelling is that, as long as it is based on valid stylised facts
34
35 (that is, recurrences encountered in empirical evidence), models can be an extremely
36
37 useful tool for testing hypotheses, and one whose validity can continuously be checked
38
39 against empirical evidence. This, of course, is as long as all simplifying assumptions
40
41 (especially those relating to *ceteris paribus*, that is the idea that no other factors affecting
42
43 the model's variables, and not included in the model, will not change simultaneously with
44
45 the policy parameters of interest) are borne in mind when discussing the policy
46
47 implications stemming from the model's results. The economic model of prostitution
48
49 developed in Della Giusta et al (2007) is in the standard rational action tradition (based
50
51 on the idea that agents make decisions based on the information available to them and
52
53 having evaluated possible alternatives), but differs in that it contains representative agents
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 who are social beings interested, in varying degrees, in the effect of their actions on their
5
6 reputations, which are socially constructed, both in the sense that they are ascribed rather
7
8 than intrinsic characteristics, and in the sense that they are affected by what other agents
9
10 do (so that the relative diffusion of behaviour makes it more acceptable). The economic
11
12 sociology literature on embeddedness and social capital (Granovetter 1985; Bordieu
13
14 1986; Coleman 1988; Putnam 1993; Mansky 2000) points to two distinct ways in which
15
16 reputations matter to economic agents: first because, as social beings, they derive utility
17
18 (or satisfaction) from a positive evaluation by others in the social groups they belong to
19
20 (Casson 1991), and secondly, because they are aware of the costs that social sanctions
21
22 may impose on their material progress (Akerlof 1980; Arnott and Stiglitz 1991).
23
24
25
26
27
28
29
30

31 Reputation has thus both intrinsic and instrumental value: it is desired *per se* and
32
33 can be used to access other earning opportunities. Stigma can thus be understood as a loss
34
35 of reputation which affects social standing for both clients and sex workers, as well as
36
37 pay and working conditions in the sex trade and access to services and other jobs for sex
38
39 workers. The model also incorporates personal differences in concern for reputation
40
41 depending on agents' personal characteristics and the specific moment at which they
42
43 exercise choice (so that people are allowed to differ and also to be inconsistent in their
44
45 choices). This is important in order to describe situations of individuals with high
46
47 reputation who disregard the effects of their actions, which would be otherwise construed
48
49 as irrational behaviour. The model considered both the case in which reputational
50
51 endowments are exogenous (that is not affected by behaviour within the sex industry) and
52
53 the situation when those endowments are considered endogenous, that is a situation in
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 which if a higher quantity of prostitution is sold or bought in the economy the stigma
5
6 effect decreases. The second key assumption of the model is that the demand for sex and
7
8 the demand for paid sex are not perfect substitutes to reflect the fact that other
9
10 motivations, such as desire for control (explored at the empirical level in Della Giusta et
11
12 al 2007b), underpin demand. Findings from empirical studies of clients suggest that
13
14 personal characteristics (personal and family background, self-perception, perceptions of
15
16 women, sexual preferences), economic factors (education, income, work), as well as
17
18 attitudes towards risk (health hazard and risk of being caught where sex work is illegal),
19
20 lack of interest in conventional relationships, desire for variety in sexual acts or sexual
21
22 partners, and viewing sex as a commodity, are all likely to affect demand. For example,
23
24 Pitts et al (2004) surveyed a sample of 1225 men and women in Australia³ and found
25
26 that 23.4% had paid for sex at least once. They reported paying for sex to satisfy sexual
27
28 needs (43.8%), because paying for sex is less trouble (36.4%), and because it is
29
30 entertaining (35.5%). Significantly, the researchers found that there were not many
31
32 significant differences between men who had paid for sex and those who had not, except
33
34 that the ones who had were on average older, less likely to have university education and
35
36 to have had a regular partner in the previous year. The motivations of sex workers' clients
37
38 in the UK (who were all males and appeared to be representatives of all sectors of
39
40
41
42
43
44
45
46
47
48
49
50
51
52

53 ³ The sample was taken by distributing a survey to customers of a Sexpo exhibition hold in Melbourne
54
55 2001. This is a commercial event hosting a wide range of exhibitors of products associated with sex; of
56
57 4.905 respondents, 1225 received a version of the questionnaires with questions on sex workers. Among
58
59 1225 respondents , 612 were men and 601 were women.
60
61
62
63
64
65

1
2
3
4 society) studied in the course of a programme⁴ on the sex industry presented by Channel
5
6
7 4 appeared to convey the impression that a connection existed between the effort and
8
9 costs associated with finding a sexual partner who would readily satisfy their sexual
10
11 preferences, and the straightforward and readily accessible option of sex work. Similar
12
13 findings are reported by Coy, Horvath and Kelly (2007) on buyers of sex in East
14
15 London,⁵ as well as by Campbell (1998) and Sanders (2008). This is confirmed by
16
17 Thorbek and Pattanaik (2002), who draw a sort of “psychological” profile of male sex
18
19 tourists on the basis of their own descriptions of themselves and accounts of their
20
21 experiences. This indicates that many of them are finding relationships with others very
22
23 difficult (either because they do not have the time or the skills required to meet people)
24
25 and choose sex tourism as an “easier” alternative, which does not imply any
26
27 responsibility towards the person providing the sexual service. As for the views they held
28
29 of sex workers, it appears that both sexism and racism mix in determining a very marked
30
31 distancing, which allow sex tourists to practically ignore and show no interest in the lives
32
33 and working motivations of the sex workers whose services they buy. Wider phenomena
34
35 connected to consumerism and globalisation are also clearly related to this industry,
36
37 which reflects multiple power structures: Marttila (2003) concludes from her study of
38
39 Finnish clients that: ‘the sex business is first and foremost about gendered, economic,
40
41 social and cultural – global and local – power structures (Marttila 2003, 8). Thus,
42
43 different intersections of gender, race and class all contribute to the creation of ‘othering’
44
45 mechanisms that serve to both distance the parties to an exchange and justify the
46
47
48
49
50
51
52
53
54

55
56 ⁴ Dispatches: Sex on the Street; Channel 4 season Prostitution –The Laws Don’t Work, Channel 4,
57
58 September 2002

59
60 ⁵ http://www.cwasu.org/displayAuthorsPublications.asp?author_key=51
61
62
63
64
65

1
2
3
4 assertion of economic power within it. This phenomenon is obviously not limited to paid
5
6 sex exchanges, and has been widely documented across a range of personal services (see
7
8 e.g. Ehrenreich and Hochschild 2003).
9

10
11
12
13
14 As stated in the previous section, gender is also not the only variable at play:
15
16 women clients are also engaging in sex tourism, as documented both in Thorbek and
17
18 Pattanaik, and in Sanchez Taylor (2001). The latter, in particular, offers a more in-depth
19
20 analysis of North American and Northern European women buying sex work services of
21
22 young men in the Caribbean, in what they themselves describe as ‘romance holidays’.
23
24 Responses to her interviews suggest that, on the one hand, women clients are mostly
25
26 reluctant to define what they engage in as prostitution, and, on the other, that their ideas
27
28 about the young men whose service they buy are deeply rooted in racist ideas about black
29
30 men and black men’s sexuality. The theme of inequality appears to be at the core of the
31
32 relationship: prejudices that allow the stigmatisation of another person as fundamentally
33
34 “different” and inferior to oneself appear again and again in customers’ accounts (Ben-
35
36 Israel et al. 2005; Pitts et al 2004; Kern 2000; Blanchard 1994).
37
38
39
40
41
42
43
44

45
46 Given these assumptions, the model predicts that client will participate in the
47
48 ‘market’ for paid sex if their marginal willingness to pay for exceeds the price of paid
49
50 sex, plus the marginal costs of a worsened reputation. The higher their reputation
51
52 capacity (or ability to withstand stigma) , the lower is the marginal cost from reputation
53
54 effects of consuming prostitution, and the more likely it is that prostitution is consumed.
55
56
57 Conversely, an individual will start to sell sex if the price of paid sex exceeds its
58
59
60
61
62
63
64
65

1
2
3
4 opportunity cost, again in terms of reputation and alternative uses of one's time: the
5
6
7 higher the price of paid sex, the more likely it is that an individual will supply
8
9
10 prostitution; the lower the availability of alternative income, the more likely it is that the
11
12 individual will take part in the prostitution industry; and the lower the effect of stigma on
13
14 sex workers, the more likely it is that prostitution will be sold. The equilibrium amount
15
16 of prostitution sold and bought in the market (S^*) is a function of the exogenous
17
18 parameters: reputation capacities of sex workers (R_p) and clients (R_c) and other sources of
19
20 income for sex workers (H_p). The table below describes the changes in both quantity and
21
22 price (w) of prostitution that result from increases in reputations and alternative earnings.
23
24
25
26
27

28 Table 1. Changes in supply and wages of sex workers resulting from increases in
29
30 reputation capacities and other earning options
31
32

Change in	R_c	R_p	H_p
S^*	+	+	+
W	+	-	-

33
34
35
36
37
38
39
40
41
42
43
44
45
46 Column 2 shows that more prostitution is sold at a higher price to clients with a
47
48 high reputation capacity, that is individuals who are able to cover to a great extent their
49
50 consumption of prostitution.
51
52

53
54
55
56 Column 3 suggests that if it is difficult to have one's reputation ruined by being
57
58 found out as a prostitute, then a lot of prostitution will be sold at a low price. This is
59
60
61
62
63
64
65

1
2
3
4 consistent with the evidence of some temporary immigrant prostitutes in Europe who aim
5
6 to work in prostitution only for a limited amount of time to accumulate savings and then
7
8 return to their country (see Thorbecke and Pattanaik 2002; Corso and Trifirò 2003).
9
10

11
12
13
14 Column 4 states that the fewer the alternative earning opportunities (H_p high), the
15
16 more prostitution is sold at a lower price. This is consistent with the evidence from
17
18 Thailand and other sex tourism destinations where the lack of alternative livelihoods and
19
20 the power structures within households are important determinants of supply.
21
22
23

24
25
26 In the light of the examples above, policies that were to recognise prostitution as a
27
28 job and reduce the associated stigma would have the effect of increasing the marginal net
29
30 gain of supplying prostitution, and increase the marginal willingness to pay for
31
32 prostitution. This should, in a closed economy, have the effect of increasing the price of
33
34 prostitution and, given the same availability of alternative earning opportunities (if there
35
36 are constant intermediation margins), also increase the quantity supplied. However, in an
37
38 open economy, there always is immigration of illegal workers and out-migration of
39
40 clients (sex tourism), which would help keeping prices low. Policies that increase the
41
42 stigma of being clients, conversely, increase the costs associated with being caught for
43
44 clients. Here, the expectation is that the marginal willingness to pay for prostitution
45
46 would fall, as would the quantity of prostitution sold and the equilibrium price. However,
47
48 the evidence from countries that criminalise clients seems to suggest that the response is
49
50 often a ‘going underground’ of the sex industry, which increases the risks to which sex
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 workers are exposed and does not decrease demand (Sanders 2005), as illustrated by the
5
6 evidence from community action and displacement of prostitution (Hubbard 1998).
7
8
9

10
11 Another strategy followed by intervention programmes has been that of increasing
12 alternative earning opportunities for prostitutes. The effect of these policies will be felt
13
14 only on that part of prostitution which is supplied for lack of earning alternatives. This
15
16 implies a fall in part of the supply which will not affect demand and therefore, in an open
17
18 economy setting, might simply generate displacement of demand, rather than less
19
20 prostitution being sold at a higher price. Again, this is consistent with the immigration of
21
22 sex workers operating in the informal sex market which exists in countries that have
23
24 legalised and have permeable borders (Netherlands).
25
26
27
28
29
30
31
32

33 **Thinking About the Effect of Changing Social Norms**

34
35
36
37

38 The effect of social norms on people's behaviour has been discussed in economics in the
39
40 context of studying the ways in which social codes change depending on their degree of
41
42 acceptance. In particular Akerlof's theory of social custom (Akerlof 1980) incorporates
43
44 reputation in individual's preferences, and discusses the range of possible market
45
46 equilibria that exist depending on whether people tend to generally believe or disregard a
47
48 particular social code within the range of existing ones. This theory was used in our
49
50 model as a foundation to be able to discuss the ways in which prostitution is stigmatised
51
52 in different societies. Following the approach of Akerlof, changing social attitudes
53
54 towards prostitution can be expected to produce different market equilibria in terms of
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 the amount of prostitution exchanged, and the price of the service. The reputation
5
6 function in Akerlof depends on the individual's obedience of the social code and the
7
8 proportion of the population who believe in that code. Given an increase in demand for
9
10 sexual services (as documented for example by Day and Ward for the UK), following
11
12 Akerlof's theory, one would expect that more people would find the exchange of paid
13
14 sex acceptable, which would appear to be confirmed by data from the UK Survey of
15
16 Sexual Attitudes. Similarly, Della Giusta et al (2007) investigated the effect of market
17
18 size on stigmatisation of both customers and sex workers, and suggested different
19
20 scenarios depending on the degree of independence of mores from behaviour. The rest of
21
22 this paper is concerned with another aspect of stigmatisation, namely the degree to which
23
24 policy makers' reputations are affected by the kind of prostitution policy they adopt.
25
26
27
28
29
30

31 32 33 **Prostitution Policy** 34 35

36
37
38 Introducing policy makers in the simple framework outlined above is no simple matter, as
39
40 the motivation for regulating this activity is as complex as society's attitude towards it.
41
42 Furthermore, it has to be borne in mind that most policy regimes have evolved in
43
44 piecemeal fashion over time, with legislation not explicitly addressing sex work having
45
46 an important effect. Penal codes reform, public health, social insurance and taxation
47
48 regimes all play a major part, and more recently concerns over immigration and public
49
50 order and security are exerting a major influence on policies addressing the sex trade.
51
52 Defining different 'regimes' should therefore not create the impression that there are
53
54 coherent alternative models that policy markers choose from. Nonetheless, it seems
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 useful to distinguish between the main currently existing models and illustrate how an
5 economic approach to discussing their relative merits would operate. Historically, the
6 prevailing concern informing policies addressing prostitution has been moral and legal
7 sanctioning of those involved in the trade, being directed in different mixtures at sex
8 workers, their clients, or those who organise in a variety of ways the sex trade. The ways
9 in which intermediaries have been addressed by policy is often used as an illustration of
10 the failure to understand the complexity of this activity, with pimps being used as catch-
11 all term comprising anyone from people traffickers, to parlour managers and apartment
12 owners, to pushers and sex workers' partners. Policies addressing prostitution directly or
13 indirectly have also been influenced by women's movements and feminist discourses in
14 varying degree, as illustrated by Outshoorn (2004). The welfare of workers in the sex
15 industry has sometimes featured in the discussions, although this has often been
16 accompanied by a rather one-sided understanding of their agency (a point repeatedly
17 discussed in this collection).

18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41 In order to describe the main different regimes, Outshoorn's definitions are
42 adopted (2004, 8). According to these, abolitionism describes the position whereby
43 prostitution should be banned and third parties, but not prostitutes, criminalised.
44 Prohibitionism indicates instead that all prostitution is declared illegal and parties are
45 held liable to penalties. Finland, for example, moved from being a purely abolitionist
46 regime, with no penalties for prostitutes and sanctions against pimps only to a regime of
47 strong prohibition, which has outlawed prostitutes, clients and pimps (Holli 2004). As is
48 often the case the application of the law differs markedly from the intent of the legislator,
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 and the local prostitution ban in Helsinki only resulted in criminalisation of prostitutes
5 rather than clients. Regulation means that the state intervenes in the ways in which the
6 sex industry is run: for example, Australia has seen a trend towards the legalisation of
7 prostitution, with street walking being legal in New South Wales and brothels and escort
8 agencies being legal in a further four territories or states (Sullivan 2004). Most countries
9 fall somewhere between these categories - for example, Austria's approach has been
10 defined as simultaneously regulatory and prohibitive since the legislation on social
11 insurance recognises prostitution as form of work but one which is coercive and immoral
12 (Sauer 2004). Prostitution is permitted in Vienna but not in the provinces, and regulated
13 through registration of prostitutes (although it is estimated that less than 10% of
14 prostitutes are registered and 85% are migrant women) and zoning. Meanwhile, brothels
15 are legal, but not bars and private apartments (although prostitution is legal in clients'
16 apartments).

17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38 The further category of decriminalisation should also be included in the present
39 discussion, since it has featured quite extensively in discussions in both Canada and the
40 UK, particularly in responses to the consultation launched by the Home Office (Home
41 Office 2004). This approach essentially entails minimal policing and non-intervention.
42 Canada makes it legal to be a prostitute but prohibits all forms of communication for the
43 purposes of prostitution and has dealt with it mostly as a public nuisance (Jeffery 2004).
44 This is in spite of the attempt to decriminalise following the Fraser's committee
45 recommendations in the late 1980s which went unheeded as the change to a conservative
46 government meant renewed pressure to treat it as a law and order issue.
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

Recent reforms in the UK following the consultation by the Home Office (2004 and 2006) entailed a shift from a traditionally abolitionist to an almost prohibitionist regime. There probably are several underlying motives for a move which has discounted expert opinion from a range of scholars, activists and sex workers organisations and pushed towards a stated policy of eliminating sex work by a mixture of exiting and repatriation of immigrant prostitutes, and the adoption of a punitive stance towards clients. Without entering the (de)merits of the actual policy instruments that are being proposed and/or adopted in England and Wales (which are discussed at length by other contributors to this collection), it appears that beneath this change in attitude lies the desire to meet the demands of rather conservative voters (for whom no inconsistency may occur between anti-immigration and anti- kerb crawling views and liberal sex attitudes). This is not surprising, being in line with many of the policies affecting civil liberties currently underway, and not inconsistent with the traditional description of policy makers' behaviour, once their reputation and its effect on re-election chances is considered. Policy makers are usually described in terms of the maximisation of a public welfare function (including costs and benefits to the public from different options) under constraints which describe both the relationships between the variables that are outside the policy makers' control (such as the relationship between inflation and interest rates, or the process of expectations formation) and the incentives of the policy makers (often associated with maintaining power).

1
2
3
4 To keep matters simple, let us assume here three different types of costs reflecting
5
6 the discussion above: policing, administration and public health (indicated by c_p , c_a and
7
8 c_h , respectively). Policing costs include both the cost of monitoring and arresting, as well
9
10 as the costs from crimes associated with the sex industry. These are assumed to be higher
11
12 the more punitive the policy regime. Administration costs refer to those from supporting
13
14 exit strategies in abolitionism (if this is done) and to those from licensing in the case of
15
16 regulation, and they are assumed here to be the smallest source of costs and smaller than
17
18 the tax gains from regulation. Public health costs include those associated with sexually
19
20 transmitted diseases as well as those coming from the other physical and mental damages
21
22 sustained by sex workers, who feature disproportionately amongst victims of violent
23
24 crime. Evidence suggests that repressive regimes (prohibition and abolition) increase
25
26 these costs by pushing prostitution underground and making it difficult for sex workers to
27
28 protect themselves (see Sanders 2007). Let us also make no assumption regarding the
29
30 relative magnitudes of policing and health costs⁶.
31
32
33
34
35
36
37
38
39
40

41 Let us also assume that policy makers, like clients and sex workers, have
42
43 reputations (indicated by R_G) which reflect their current rating by the general public, and
44
45 can increase or decrease their rating depending on the policies they adopt, and whether
46
47

48
49 ⁶ Note that we are not assuming any ‘public nuisance’ costs here, as the evidence reviewed by the author on
50
51 regulated streetwalking areas suggests that the perceived sharp trade-off between safe neighbourhoods and
52
53 streetwalking is largely a result of mis-representation: well managed street walking zones are
54
55 overwhelmingly located away from residential areas, which tend instead to become used for soliciting in
56
57 the absence of regulation (and often in association with repressive regimes). For a discussion of
58
59 displacement see Collins and Judge, in this issue.
60
61
62
63
64
65

1
2
3
4 these shift opinion in their favour. The point of the electoral cycle of course matters too:
5
6 the relative importance of reputation will increase the closer to term, since the closer to
7
8 term it gets, the more the policy maker will be interested in swaying votes in its favour
9
10 (particularly those from swing voters). Switching between regimes will thus depend on
11
12 the actual reputation enjoyed by the policy maker and the proximity to elections. If swing
13
14 voters tend to have views that are fairly conservative, they will be less impressed by
15
16 liberal policies which may make the sex industry more acceptable and visible (such as
17
18 regulated brothels), and more in favour of policies that curb it or at least make it less
19
20 visible. This latter point is rather crucial, since some of the perceived inconsistency of
21
22 Government policy possibly reflects the attempt to achieve the latter goal, even when the
23
24 former is stated in principle. It is useful to see, given the assumptions made, what overall
25
26 incentives the policy maker has to switch away from an existing policy regime. Looking
27
28 at the separate components of the policy maker's payoff first, and taking prohibition as
29
30 the basic case, the table below suggests how these may be summarised, given the
31
32 assumptions outlined above.
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54

55 **Table 2: Changes in policy maker's payoffs when switching from prohibition to**
56
57 **different regimes**
58
59
60
61
62
63
64
65

Policy regimes	Reputation effect	Taxes on sex work T_s	Policing Costs c_p	Administration Costs c_a	Health costs c_h
Prohibition (baseline)		None		None	
Abolitionism	??	0	0	+	0
Legalisation	??	+	-	+	-
Decriminalisation	??	0	-	-	-

?? = depends on public views

Thus, if all the above assumptions hold, a Government wishing to increase public welfare whilst simultaneously preserving its chances of re-election would move towards less repressive regimes if elections are far away, as these options increase public health and reduce policing costs. However, the same Government will not move away from prohibition if it is close to elections and wishes to maximise its reputation with swing voters. Extending this line of reasoning, a switch from less liberal to more liberal regimes will only occur if the Government is either sure of re-election or far away from it. These results are based on social cost-benefit calculations, but little evidence exists that these are actually performed when deciding between policy options towards this sector, as in other ‘morally contentious’ policy areas (e.g. drugs).

Conclusions

The aim of this paper is twofold. On the one hand, it hopes to show how economists can engage in discussions with other disciplines on the complex issues surrounding prostitution. On the other, it seeks to demonstrate how an economic approach can illuminate more clearly some of the outcomes of policy decisions on participants in the

1
2
3
4 sex trade, and society more largely, and therefore help policy makers to adopt more
5 systematic approaches based on rigorous evaluation of the costs and benefits associated
6
7 with different regimes.
8
9

10
11
12
13
14 At the centre of the approach adopted here is the recognition that stigma plays in
15 prostitution, and the effect it has not just on the reputation of the parties directly involved,
16 but on that of policy makers too. On this basis, a very simple rational action model based
17 on stylised facts from sex trade would suggest liberal policies that maximise public
18 welfare by lifting stigma associated with sector. But, as has been demonstrated, the same
19 rational action model also helps to illustrate why politicians adopt what has often been
20 described as hypocritical behaviour, choosing more repressive regimes which
21 demonstrably worsen the lives of sex workers remaining in the trade, as well as those of
22 society at large.
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37

38 **Appendix**

39
40
41
42
43 Formally, if the policy maker maximises the following utility function incorporating both
44 its own reputation and public welfare:
45

$$46 \text{Max } U (R_G, - C)$$

47
48 where C is a cost function increasing in all its components C (c_p , c_a , c_h) which has an
49 identifiable minimum value, and reputation has a fixed component and a variable
50 component r_G reflecting the effect of changing prostitution policy, whose relevance
51 depends on the closeness to election tr_G > 0 with 0 < t < 1 where t=1 is election time.
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 Thus maximising the policy makers' utility will require simultaneously maximising
5 reputation and minimising costs, that is satisfying the following:
6
7

$$8 \quad \pi_G = U_c' C'$$

9
10
11 if elections are far, that is $t=0$, then the policy maker will switch to a regime that
12 minimises costs. Conversely, at election time $t=1$ and if swing voters are relatively
13 conservative, the policy maker will switch to a regime that increases costs of an amount
14 equal to the reputation increase that the policy maker requires in order to get re-elected.
15
16
17
18
19
20
21
22

23 **References**

24
25
26
27
28 Akerlof, G. (1980) 'A Theory of Social Custom - of which Unemployment may be One
29 Consequence,' *Quarterly Journal of Economics* 94:4, 749-775.
30
31

32
33
34
35
36 Aggleton, P. (ed.) (1998) *Men who Sell Sex* (London: UCL Press).
37
38

39
40
41 Arnott, R. & Stiglitz J. E. (1991) 'Equilibrium in Insurance Markets with Moral Hazard,'
42 Working Paper No. 3588 (Cambridge, MA: National Bureau of Economic Research).
43
44
45
46

47
48 Bordieu, P. (1986) 'The Forms of Capital,' in Richardson J.G. (ed.), *Handbook of Theory*
49 *and Research for the Sociology of Education* (Westport: Greenwood), 241-258.
50
51
52
53

54
55 Bowles, S., Franzini, M. & Pagano, U. (1999) *The Politics and the Economics of*
56 *Power* (London and New York: Routledge).
57
58
59
60
61
62
63
64
65

1
2
3
4
5
6
7 Cameron, S. (2002) *The Economics of Sin* (Cheltenham: Edward Elgar).
8
9

10
11 Cameron, S. & Collins A. (2003) 'Estimates of a Model of Male Participation in the
12 Market for Female Heterosexual Prostitution Services,' *European Journal of Law and*
13 *Economics* 16:3, 271-288.
14
15
16
17
18
19
20

21 Cameron, S., Collins, A.& Thew, N. (1999) 'Prostitution Services: An Exploratory
22 Empirical Analysis,' *Applied Economics* 31, 1523-1529.
23
24
25
26
27

28 Campbell, R. (1998) 'Invisible Men: Making Visible Male Clients of Female Prostitutes
29 in Merseyside' in J. E. Elias, V. L. Bullough, V. Elias & G. Brewer (eds.), *Prostitution:*
30 *On Whores, Hustlers and Johns* (Amsherst, NY: Prometheus), 134-154.
31
32
33
34
35
36
37

38 Casson, M. (1991) *The Economics of Business Culture* (Oxford: Clarendon Press).
39
40
41
42

43 Chapkis, W. (1997) *Live Sex Acts: Women Performing Erotic Labour* (New York:
44 Routledge).
45
46
47
48
49

50 Chen, Z. & Woolley, F. (2001) 'A Cournot-Nash Model of Family Decision Making,'
51 *The Economic Journal* 111, 722-748.
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 Coleman, J.S. (1988) 'Social Capital in the Creation of Human Capital', *American*
5
6
7 *Journal of Sociology* 94, S95-S120.
8
9

10
11 Collins, A. (ed.) (2004) 'Sex and the City,' *Urban Studies* 41:9
12
13
14

15
16 Corso, C. & Trifiro, A. (2003) 'E Siamo Partite: Migrazione, tratta e prostituzione
17
18 straniera in Italia' (Firenze: Giunti).
19
20
21

22
23 Della Giusta, M., Di Tommaso, M.L. & S. Stroem (2007) 'Sex, Power and Reputation: A
24
25 Model of the Market for Prostitution Services' *Journal of Population Economics*,
26
27 forthcoming (published on line from 6th April 2007, and available at
28
29 <http://www.springerlink.com/content/k2v47x73u2n62604>).
30
31
32

33
34
35 Della Giusta, M., Di Tommaso, M.L., Shima, I. & S. Stroem (2007b) 'What Money
36
37 Buys: The Demand for Prostitution Services' *Applied Economics*, forthcoming (published
38
39 on line from 12th December 2007, and available at
40
41 <http://www.informaworld.com/smpp/content~content=a788424853~db=all~order=author>
42
43
44

45
46 Dobbelsteen, S. & Kooreman, P. (1997) 'Financial Management, Bargaining and
47
48 Efficiency within Household: An Empirical Analysis,' *De Economist*, 145:3, 345-366.
49
50
51

52
53 Edlund, L. & Korn E. (2002) 'An Economic Theory of Prostitution,' *Journal of Political*
54
55 *Economy* 110: 1, 181-214.
56
57
58
59
60
61
62
63
64
65

1
2
3
4 Ehrenreich, B. & Russell Hochschild, A. (eds.) (2003) *Global Woman: Nannies, Maids,*
5 *and Sex Workers in the New Economy* (New York: Henry Holt and Company).
6
7
8
9

10
11 Garofalo, G. (2002) *Towards an Economic Theory of Prostitution* (Mimeo: University of
12 Siena).
13
14

15
16
17
18
19 Gertler, et al. (2003) *Risky Business: the Market for Unprotected Prostitution* (Mimeo:
20 Cornell University)
21
22

23
24
25
26 Granovetter, M. (1985) 'Economic Action and Social Structure: The Problem of
27 Embeddedness,' *American Journal of Sociology* 91, 481-510.
28
29

30
31
32
33 Hirsch, F. (1977) *Social Limits to Growth* (London: Routledge & Kegan Paul).
34
35
36

37
38 Home Office (2004) *Paying the Price: A Consultation Paper on Prostitution* (London:
39 HMSO).
40
41
42

43
44
45 Home Office (2006) *A Coordinated Prostitution Strategy and a Summary of Responses to*
46 *Paying the Price* (London: HMSO).
47
48
49

50
51
52
53 Hubbard, P. (1998) 'Community Action and the Displacement of Street Prostitution:
54 Evidence from British Cities' *Geoforum* 29: 3, 269-286.
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 Kempadoo, K. & Doezema, J. (eds.) (1998) *Global Sex Workers: Rights, Resistance and*
5
6 *Redefinition* (London: Routledge).
7
8
9

10
11 Kern, R.M. (2000) 'Prostitute Client Profiles: Indicators of Motivations for Prostitution
12
13 Use,' *Archives of Sexual Behaviour* 29:2, 165-177.
14
15
16
17

18
19 International Information Centre and Archives for the Women's Movement: www.iiav.nl.
20
21
22

23
24 Lim, L. L. (ed.) (1998) *The Sex Sector: The Economic and Social Bases of Prostitution in*
25
26 *Southeast Asia* (Geneva: International Labour Office).
27
28
29

30
31 Lundberg, S. & Pollak, R.A. (1994) 'Non Cooperative Bargaining Models of Marriage,'
32
33 *The American Economic Review* 84: 2, 132-137.
34
35

36
37 Lundberg, S. & Pollak, R.A. (2003) 'Efficiency in Marriage,' *Review of Economics of the*
38
39 *Household* 1:3, 153-167
40
41
42

43
44 Manser, M. & Brown, M. (1980) 'Marriage and Household Decision Making: a
45
46 Bargaining Analysis,' *International Economic Review* 21:1, 31-44.
47
48
49

50
51 Mansky, C. (2000) 'Economic Analysis of Social Interactions,' *Journal of Economic*
52
53 *Perspectives* 14, 114-136
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4 McElroy, M. & Horney, M.J. (1981) 'Nash-Bargained Household Decisions: Toward a
5
6 Generalization of the Theory of Demand,' *International Economic Review* 22:2, 333-349.
7
8

9
10
11 McKeganey, N.& Barnard, M. (1996) *Sex work On The Streets: Prostitutes and Their*
12
13 *Clients* (Buckingham: Open University Press).
14
15

16
17
18
19 Moffatt P.G. & Peters, S.A. (2001) 'The Pricing of Personal Services,' (Mimeo: Royal
20
21 Economic Society in Durham, Apr. 2001).
22
23

24
25
26 Nussbaum, M. (1999) *Sex and Social Justice* (New York: Oxford University Press)
27
28

29
30
31 O'Connell Davidson, J. (1998) *Prostitution Power and Freedom* (Cambridge: Polity
32
33 Press).
34
35

36
37
38 O'Kane, M. (2002) 'Prostitution: The Laws Don't Work,' Channel 4 Documentary, UK.
39
40

41
42
43 Pateman, C. (1988) *The Sexual Contract* (Stanford, CA: Stanford University Press).
44
45

46
47
48 Rao, V., Gupta, I., Lokshin, M. & Jana, J. (2001) 'Sex Workers and the Cost of Safe
49
50 Sex: The compensating Differential for Condom Use in Calcutta' (Mimeo: World Bank).
51
52

53
54
55 Reynolds, H. (1986) *The Economics of Prostitution* (Illinois: CC Thomas).
56
57
58
59
60
61
62
63
64
65

1
2
3
4 Sanders, T. (2008) *Paying for Pleasure: Men who Buys Sex* (Cullompton: Willan).
5
6
7

8
9 Ryley, S. (1936) 'A History of Prostitution form Antiquity to Present' (Delhi: Shubhi
10 Publications), distributed by APH Publishing Corp, 1999. Reprint of the 1936 ed.
11 published by T. W. Laurie, London.
12
13
14

15
16
17
18 Sanchez Taylor, J. (2001) 'Dollars are a Girl's Best Friend? Female Tourists' Sexual
19 Behaviour in the Caribbean,' *Sociology: Identity Politics in the Workplace* 35:3, 749-764.
20
21
22

23
24
25
26 Sanders, T. (2005) *Sex Work: A Risky Business* (Cullompton: Willan).
27
28
29

30
31 Sanders, T. (2007) 'Evidence to Local Government Committee on Prostitution (Public
32 Places) Scotland Bill' from Dr Teela Sanders, University of Leeds
33 [http://www.scottish.parliament.uk/business/committees/lg/inquiries/ppp/lg-ppp-
35 Sanders.pdf](http://www.scottish.parliament.uk/business/committees/lg/inquiries/ppp/lg-ppp-
34 Sanders.pdf)
36
37
38
39

40
41
42
43 Sharpe, K. (1998) *Red Light, Blue Light: Prostitutes, Punters and the Police* (Aldershot:
44 Ashgate).
45
46
47

48
49
50 Schultz, T.P. (1990) 'Testing the Neoclassical Model of Family Labor Supply and
51 Fertility,' *The Journal of Human Resources* 25:4, 599-634.
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

Thorbeck, S. & Pattanaik, B. (eds.) (2002) *Transnational Prostitution: Changing Global Patterns* (London: Zed Books).

Tiggey, M., Harocopos, A. Y Hough, M. (2000) 'For Love or Money: Pimps and the Management of Sex Work,' Policing and Reducing Crime Unit (London: Home Office)