

A black silhouette of a person in a provocative pose, possibly a dancer or a prostitute, set against a purple gradient background. The figure is positioned on the right side of the frame, with its arms raised and body angled towards the left. The text is overlaid on the left and center of the image.

Ye Olde Prostitution

Market Behavior in an
Illicit Industry

What is an illicit industry?

- Any industry characterized by illegal/unlicensed or covert activity
- Illegal nature suppresses supply and thus results in a higher price than in a competitive market
- Lack of formalized, enforceable contracts allows for rent capture and coercion

PRICE DETERMINATION

- Illicit activity is characterized by risk of capture
- Risk is priced into service
- If people's willingness to pay in avoiding jail time is worth \$30K and the risk per customer is 1%, then each customer is a \$300 Risk
 - Price per customer = $\text{Pr}(\text{Getting Caught}) * \text{Cost of Jailtime} + \text{Cost of Service}$

Evidence of Rent Capture

- What is rent capture?
 - Any attempt to transfer the value of production away from the producer
 - In the case of bay area prostitution, in all interviews performed (Besbris 2008), the pimps retain all revenues and in turn give an allowance for food, rent, and provide “security.”
 - Prostitutes however face enormous difficulty as they are not competitively employed and cannot would face difficulty if they tried to switch pimps.

EFFECTS OF LEGALIZATION

- How might legalization and regulation and the imposition of
- Then let's take a tour of.....

AMSTERDAM!

PROS

- Formalizes labor relationships (ie rent capture becomes difficult)
 - End exploitation
- Public health gains as those with STD's are more likely to be identified
- TOURI\$M!

CONS

- The legalization of an activity can make it easier to hide abuse of that activity.
 - Since legalization, Amsterdam is now also destination #1 for underage prostitution in Europe (NYT)
 - “If you want to rape a 13 year old girl, you’ll have an easier time in Amsterdam than in Stockholm.”- Nicholas

Alternative Methods of Cleaning Up the Streets

- Sweden pioneered a new policy directed towards going after the the Johns.
- This ultimately suppressed demand and greatly reduced the amount of prostitution in Sweden

A black silhouette of a person in a dynamic, expressive pose, possibly dancing or performing, set against a purple gradient background. The figure is positioned on the right side of the frame, with arms raised and legs in a wide stance. The overall mood is artistic and sensual.

“Friction”

in the Market for Sex

Imperfect Information and Strategic Behavior

- Like the lemons market, much of illicit prostitution is characterized by imperfect information on whether the potential client might be carrying an STD
- *Journal of Development Economics* (forthcoming article by Rao, Gupta, Lokshin and Jana) has a study showing that men are willing to pay more for unprotected sex.
- This leads to competing incentives...

Strategic Behavior of Condom Use

Ms. XXX	John	
	Use Condom	Bareback
Use Condom	12 10	15 -10
Bareback	12 5	<u>15</u> <u>5</u>

CONCLUSIONS

- Prostitution is difficult to discourage
- Legalization doesn't come without its risks
- Men don't like condoms (but honestly, neither do girls...)
 - In all seriousness, for sex workers, putting the female in charge of the contraception and STD prevention would be a major step forward.



THE END

THANK YOU FROM:

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