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 = \( \text{Pr(Getting Caught)} \times \text{Cost of Jailtime} + \text{Cost of Service} \)
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 Johns.
- This ultimately suppressed demand and greatly reduced the amount of prostitution in Sweden
“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…
<table>
<thead>
<tr>
<th></th>
<th>Ms. XXX</th>
<th>John</th>
<th>Bareback</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Condom</td>
<td>10</td>
<td>12</td>
<td>-10</td>
</tr>
<tr>
<td>Bareback</td>
<td>5</td>
<td>12</td>
<td>15</td>
</tr>
</tbody>
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The table represents the strategic behavior of condom use between two parties, John and Ms. XXX. The numbers indicate the payoff for each strategy combination.
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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