Economics focus

Selling sex

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Economists let some light in on the shady market for paid sex

IT IS all too easy to become a lost soul in New Orleans. The annual meeting of the American Economic Association this month was part of a huge gathering of social scientists sprawled across the city. Each venue itself was a warren of meeting rooms. Take a wrong turning and a delegate seeking an earnest symposium on minimum wages might innocently end up in the conference session devoted to the market for paid sex.

The star attraction there was Steven Levitt, an economics professor at the University of Chicago and co-author of "Freakonomics", a best-selling book. Mr Levitt presented preliminary findings* from a study conducted with Sudhir Venkatesh, a sociologist at Columbia University. Their research on the economics of street prostitution combines official arrest records with data on 2,200 "tricks" (transactions), collected by Mr Venkatesh in co-operation with sex workers in three Chicago districts.

The results are fascinating. Almost half of the city's arrests for prostitution take place in just 0.3% of its street corners. The industry is concentrated in so few locations because prostitutes and their clients need to be able to find each other. Earnings are high compared with other jobs. Sex workers receive $25-30 per hour, roughly four times what they could expect outside prostitution. Yet this wage premium seems paltry considering the stigma and inherent risks. Sex without a condom is the norm, so the possibility of contracting a sexually transmitted infection (STI) is high. Mr Levitt reckons that sex workers can expect to be violently assaulted once a month. The risk of legal action is low. Prostitutes are more likely to have sex with a police officer than to be arrested by one.

Pricing strategies are much like any other business. Fees vary with the service provided and prostitutes maximise returns by segmenting the market. Clients are charged according to their perceived ability to pay, with white customers paying more than black ones. When negotiating prices, prostitutes will usually make an offer to black clients, but will solicit a bid from a white client. There are some anomalies. Although prices increase with the riskiness of an act, the premium charged for forgoing a condom is much smaller than found in other studies. And attractive prostitutes were unable to command higher fees.

By chance, the authors were able to study the effects of a demand shock. As people gathered for the July 4th festivities around Washington Park (one of the neighbourhoods studied), business picked up by around 60%, though prices rose by just 30%. The market was able to absorb this rise in demand partly because of flexible supply. Regular prostitutes worked more hours and those from other locations were drawn in. So were other recruits—women who were not regular prostitutes but were prepared to work for the higher wages temporarily on offer.

One controversial finding is that prostitutes do better with pimps—they work fewer hours and are less likely to be arrested by the police or preyed on by gang members. The paper's discussant at the conference, Evelyn Korn of Germany's University of Marburg, said that her favourite result from the study was that pimps pay “efficiency wages”. In other words, pimps pay above the minimum rate required by sex workers in order to attract, retain and motivate the best staff. Mr Levitt said that a few prostitutes asked the researchers to introduce them to pimps.

A separate paper on sex workers in Ecuador echoed some of these findings. As in Chicago, the paid-sex market in Ecuador is tiered, with licensed brothel workers earning more per hour than unlicensed street prostitutes. These gradations might reflect different tastes: brothel workers tend to be younger, more attractive and better educated. They are also slightly less likely to have an STI. Condom use is the norm: 61% of street prostitutes surveyed used a condom in the previous three transactions. In Chicago, condoms were used in only a quarter of tricks.

What about the johns?

These studies contribute to our understanding of the suppliers of paid sex, but tell us little about their customers. The session's organiser, Taggert Brooks of the University of Wisconsin, attempted to fill this gap in knowledge. He shed light on the sex industry's demand side in his analysis† of men who attend strip clubs. He argued that habitués of strip clubs featuring nude or semi-nude dancers are in search of “near-sex”—an experience of intimacy rather than sexual release. They are aware that paid sex is on offer elsewhere, should they desire it.

Strip-club patrons are more likely to be college-educated (cue some uneasy seat shifting from conference delegates), to have had an STI, and to have altered their sexual behaviour because of AIDS, than non-patrons are. They are typically unmarried, relatively young (against the stereotype of old married men) and are characterised as “high-sensation seekers”.

Although all speakers at the session were careful not to draw very strong conclusions from preliminary findings, a few broad themes nevertheless emerged. In many respects, the paid-sex industry is much like any other business. Pricing strategies are familiar from other settings. Despite evidence of a myopic attitude towards risk, there have been plenty of recent examples of that in the finance industry too. Illegality and lack of regulation are likely to heighten public-health risks. The Ecuador study concluded that rigorous policing of street prostitution might limit the spread of STIs by directing sex workers into the safer environs of licensed brothels. For an audience facing an evening away from home in the Big Easy, there was much to ponder.