

THE ECONOMIC VALUE OF PROSTITUTION

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Abstract

The study analyzes the economic advantages of the permissive regulation of this practice in Romania and abroad.

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JEL Classification: E01, E20, Y90

An analysis posted on the site "MONEY.ro" showed that *"the Romanian state would gain approximately 200 million euros a year, if prostitution were legalized and if all the 40,000 prostitutes in Romania paid taxes for their incomes"*.²

Such amount might increase by adding:

- the increase of the number of prostitutes as a result of the a permissive regulation of such occupation in favor of its practitioners; the social specific weight of the number of persons practicing paid sex might grow from 0.19% to 0.60 – 1.00%, creating a situation similar to some states such as Spain or Brazil;
- the development of some economic and commercial activities related to this practice.

The European states where prostitution is legalized and regulated collect from this activity an amount ranging between 57 million euros and 2.3 billion euros.

"Except for the situation of Denmark, where no taxes are imposed on this activity, in all the other states where this practice is accepted, the incomes deriving from the services supplied by sex workers are subject to tax".³

In the Czech Republic, the prostitution market was evaluated to approximately 760 million euros in 2008, *"being mainly dependent on the tourists coming in from the European Union"*.⁴

"In Holland, this activity yields annual incomes of over 1.8 billion euros. The Dutch state collects over 288 million euros each year from taxes on prostitution".⁵

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² [Http://www.MONEY.ro_prostitutie](http://www.MONEY.ro_prostitutie).

³ Prigoana Silviu, [“Motivation of the law draft concerning the exercise of authorized sexual activities”], 2010-2011, pag. 3.

⁴ SVU, April 5, 2002, “Prostitution in the Czech Republic”, Czech Statistical Bureau Report.

⁵ Marie-Victoire Louis, “Legalizing Pimping, Dutch Style”, Le Monde Diplomatique, 1997.

"The brothels authorize by the municipality of Amsterdam (a number of 142) yielded in 2008 incomes of over 100 million euros, to which there were added collection increases in the tourism field".⁶

At present, the taxation of prostitution in Holland is pretty high, apart from the social insurance contributions paid by the employee and by the employer, *"by applying 19% VAT and 16% income tax."*⁷

In Hungary, over 10,000 legally authorized sex workers provide the Hungarian state annual incomes exceeding 57 million euros.

This activity yields a financial mass of *"over 1 billion euros cumulated from paid sex services (350 million euros) and from the pornographic industry (700 million euros)."*⁸

In Germany, the persons conducting this activity annually provide to the state over 2.3 billion euros, including social insurance, this amount being calculated for the year 2007. The sex workers have an average number of 1.2 million of clients a day, the yearly turnover being estimated to 6-10 billion euros.

The lands North Rhine-Westphalia, Baden, Württemberg, and Berlin implemented a tax system by which the enterprises in question must pay taxes in advance, an amount established on a daily basis, that is paid to the fiscal authorities by brothel owners. *"In North Rhine-Westphalia, the tax is 25 euros per working day, while in Berlin it is 30 euros. In May 2007, the federal government proposed a uniform taxation, of 25 euros a day in all lands."*⁹

The first city in Germany that introduced a special local tax for sex services was Cologne. The tax was established in the beginning of the year 2004 by the Local Council of Cologne with a municipal majority made up by a coalition of Christian Democrats and Ecologists.

This tax is applied to the services of striptease, peep shows, porn movies, sex show, massage parlors, and prostitution. *"As far as the prostitution is concerned, the fiscal debt is of 150 euros a month for each employee, to be paid by the employer or by the independent worker. A certain zone of the city is tax free (the Geestemünder Strasse Zone). In 2006, the municipal council collected 828,000 euros from this tax."*¹⁰

In Austria, the authorities collect annually over 100 million euros from the practice of prostitution.

The Austrian prostitution yields annual incomes of *"over 630 million euros."*¹¹ There are also proposals related to the taxation of this activity made by the political environment of several states, an example in this point being Spain, with a prostitution market estimated at present to *"approximately 40 billion euros,"*¹² or Thailand, *"whose relevant market was estimated in the year 2003 at over 4.3 billion dollars."*¹³

⁶ David Charter, "Half of Amsterdam's Red-Light Windows Close", London.

⁷ Ioana Mihai, ["Prostitutes Pay Taxes and VAT in Amsterdam"], Business Magazin, January 21, 2010.

⁸ Pablo Gorondi, "Hungary Gives Permits to Prostitutes", Washington Post, 24 Septembrie, 2007.

⁹ Haustein-teßmer Oliver, "Staat will Prostituierte stärker zur Kasse bitten", Die Welt, 23 mai 2007.

¹⁰ "Sex Tax Filling Cologne's Coffers". Spiegel Online, 15 decembrie 2006.

¹¹ [Http://www.pro.con.org](http://www.pro.con.org).

¹² Sinikka Tarvainen, "Spain Divided Over Semi-Legal Prostitution," German Press Agency, May 8, 2007.

¹³ ***A.P, "Thailand Holds Debate On Legalizing Prostitution," Taipei Times, Bangkok Nov. 28, 2003 pe adresa <http://www.taipetimes.com/News/world/archives/2003/11/28/2003077555>.

Conclusions

In my opinion, the financial benefits that might be obtained by a permissive regulation of prostitution are obviously real, but the value thereof must be analyzed circumspectly. In some states that have permissively regulated this occupation (analyses made in Germany, Turkey, Mexico, Columbia, Venezuela etc.), the value of fiscal evasion in this field is appreciated to be very high. The majority of persons the practice this occupation independently avoid to comply with the legal regime applicable or comply only partially, thereby trying to avoid paying the fiscal and social contributions. In a more reserved opinion, the income that might be achieved by the Romanian state by the taxation of this activity are estimated *"to over 100 million euros"*.¹⁴

Considering that in Romania there are 40,000 persons practicing prostitution, who have an average of 2-4 clients a day, working 5 days a week and 11 months a year, at an average tariff of 100 lei/session, there results an annual taxable income of 44,000-88,000 lei/worker, and the entire field would yield between 1,760,000,000 and 3,520,000,000 lei a year, or between 410,000,000 and 820,000,000 euros a year, contributing to the budget with 65,600,000 – 131,200,000 euros a year. To this sum there are added the social contributions and the eventual other taxes applicable. The question worth asking is how many of the prostitutes will work legally, paying all contributions, how many will pay part of such contributions, and how many will continue to work illegally? The experience of other states shows that most of them will continue to work illegally, by not paying taxes, very few will pay part of such contributions, and even less will pay them entirely. This situation must be analyzed considering the high level of social contributions in our country.

Even if the amount of 60-200 million euros could be collected for the budget, it would not represent very much, considering, for example, that the deficit of our country was of 6.7 billion euros in 2011.

There is also the issue of budget expenses imposed by the law enforcement in point of record and control activities. They would be minimal as compared to the amounts collected by the state (since the activities mentioned are not permanent). The authorization of such activity would be subject to taxation in any case.

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¹⁴ <http://www.antena3.ro/romania/statul-roman-ar-castiga-100-de-milioane-de-euro-anual-daca-ar-legalizaprostitutia-117068.html>.

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