The External Cost of Prostitution

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Abstract

We investigate the externalities of prostitution by quantifying the value that households pay to reside close to a Red Light District (RLD) in Amsterdam. To measure willingness to accept prostitution, we first rely on a dynamic regression discontinuity design that compares the value of houses on the RLD side of a canal to similar houses on the other side over time. Houses on the RLD can sell at a discount as high as 25%, but the discount disappears where former brothels were closed. To test whether external costs are offset by the economic gains from the sex industry, we estimate the net effect of closing the entire RLD of another Dutch city, Utrecht. House prices increased by 5% on average following this event. In both cities, the closing of brothels is also associated with a drastic reduction in crime rates. Our findings suggest that prostitution is costly due to the social nuisance that it creates.

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