

**Hearing Before the Subcommittee on Domestic and International
Monetary Policy, Trade, and Technology
House of Representatives
One Hundred and Ninth Congress
“Combating Trafficking in Persons: An International Perspective”**

**June 22, 2005: “The Economics of Sex Slavery: Follow the Money Trail”
Testimony of Dorchen A. Leidholdt, Esq.
Co-Executive Director, Coalition Against
Trafficking in Women (CATW)
Director, Sanctuary for Families’
Center for Battered Women’s Legal Services**

Congresswomen Pryce and Maloney, members of the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, I am grateful for this opportunity to address the subject of the economics of sex slavery. I speak as the Co-Executive Director of the Coalition Against Trafficking in Women, a non-governmental organization working since 1988 to end all forms of commercial sexual exploitation of women and girls, especially through sex trafficking, sex tourism, and prostitution. The Coalition is made up of networks in Asia, Latin America, Africa, Europe, North America, and Australia that work to prevent the sex industry’s exploitation and abuse of women and girls, to protect its victims, and to prosecute and punish all those involved in this brutal trade. The Coalition has conducted pioneering research into the trafficking of women, including the first comprehensive study of sex trafficking into the United States, funded by the National Institute of Justice. Our organization has funded and assisted trafficking prevention programs in Venezuela, the Philippines, Mexico, the Republic of Georgia and supported services for Nigerian and Albanian sex trafficking victims in Italy. The Coalition played a key role in drafting the Trafficking Protocol to the United Nations Convention Against Transnational Organized Crime. More recently, the Coalition, together with the European Women’s Lobby has spearheaded a project to address gaps in gender equality, the demand for trafficking, and the link between trafficking and prostitution in 12 European countries contending with escalating rates of trafficking: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Moldova, Poland, Russia, and Serbia and Montenegro.

I was asked to focus on the economics of the international sex trade. This is a formidable task for several reasons. First, much of the industry operates underground, run by organized crime groups that don’t undergo financial audits or file tax returns. Second, only recently have criminal justice agencies had the legal mandate and motivation to investigate traffickers and other sex trade predators. Third, myths about the agency of women in the sex industry accompanied by obliviousness to the role of men, both as patrons and profiteers, has led both governments and civil society to view the industry as inevitable and harmless and its economics as matter of little consequence or concern. All this has begun to change. The magnitude of the industry’s harm to the women and children propelled into conditions of exploitation and slavery—the millions of lives

maimed and destroyed--can no longer be ignored. At the same time the growth of the industry over the last two decades--the enormous profits made—has caused social scientists, investigative journalists, and economists to begin to pay attention and to numbers crunch. If we analyze this growing body of information while following the money trail--focusing, as the Norwegian feminist group Kvinnefronten urges us to do, on “the buyer, the bought, and the business”—a picture of the industry’s economics and its economic and human toll begins to emerge.

The “Buyer”

The economics of the global sex trade in women and children starts with the dollars (or reais, pesos, rupees, won, yen, bhat, or yuan) in the pockets of the prostitution buyers, known as “johns,” in the U. S., “kerb crawlers” in the U.K., and more often than not as ordinary husbands and fathers in their communities. Although the amount they spend on purchased sex varies from country to country and within the sex industry’s specialties, their collective demand fuels a gigantic global industry estimated by a 2004 European Parliament report to turn over more money each year than the total of all of the military budgets in the world. This does not include moneys generated by the sex industry’s internet sites, which promote and often facilitate the trade in women and children. In the U.S. alone, internet pornographers make an estimated 1 billion dollars annually, a figure that is expected to climb to 5 to 7 billion dollars by 2007 (National Research Council). Research shows that like perpetrators of domestic violence, the buyers of prostitution come from all races, classes, nationalities, and ethnicities.

While discretionary income facilitates their purchase of the body of a woman or child, buyers often spend income their families desperately need for necessities. Instead of being used to feed, clothe, and educate their children, this money is spent in ways that place their families and communities in jeopardy—at the increased risk of HIV/AIDS and the criminal activity that is part and parcel of the sex trade. The money is also spent in ways that reinforce the buyer’s perception of women as goods available for a price—a perception that is not confined to his activities with prostituted women and children but spills over into his interaction with other women—his wife, the women in his workplace, the women he encounters in the street. In other words, buyers’ transactions inside the sex industry reinforce and bolster gender stereotyping and inequality in the rest of society. The Preamble to the 1949 Convention captures this reality: “[P]rostitution and the accompanying evil of the traffic in persons . . . are incompatible with the dignity and worth of the human person and endanger the welfare of the individual, the family and the community.”

The “Bought”

The most acute and damaging manifestation of gender inequality, of course, is the buyer’s interaction with the woman or child he purchases. Even if he does not batter or rape her—a frequent reality for sex industry victims—research demonstrates that the act that he purchases is experienced by her as a violation. One victim, who went on to found the first organization of sex industry survivors, called the sex of prostitution “bought and sold rape.” A Russian trafficking victim I work with at Sanctuary for Families likens it to being strangled.

Thousands of testimonies like these, gathered by social scientists and organizations conducting research into the sex trade, have led many to conclude that not only is prostitution a severe practice of sex discrimination; it is a form of violence against women and children that leaves them physically and psychologically traumatized. This form of violence against women is rarely identified as such. Unlike other forms of gender-based violence, the violence carried out by the sex industry is immensely profitable; these profits purchase complicity and silence. In addition, devastated and stigmatized by their exploitation and abuse, few sex industry victims are able to speak out and even fewer are heard.

Often the buyer's money doesn't even make its way into the hands of the woman or girl whose body he purchases but is handed off to the individual or group that owns her. When she does take the money, its possession is usually transitory: it is rapidly handed off to her pimp, trafficker, madam, or husband; used to pay off inflated debts; or sent back to the family members who sold her into slavery. Research shows that, even for the ostensible free agent, the money made from prostitution is spent on the drugs or alcohol she needs to numb her pain and depression that so that she can endure another day in the sex trade. The romantic fantasy that "sex work" is a means to women's economic and sexual empowerment has been punctured by the work of organizations of sex industry survivors led by courageous women like Sage's Norma Hotaling, Breaking Free's Vednita Carter, and GEM'S Rachel Lloyd, who have documented prostitution's grim physical, psychological, and economic toll, hardly "a job like any other," as its adherents claim. All of the evidence points to the undeniable fact that the vast majority of women leave the sex industry even more impoverished and broken than when they entered it.

The "Business" Instead of ending up with the women and children they use, the dollars spent by buyers on prostitution fatten the bank accounts of a wide variety of sex industry profiteers, ranging from individual criminals and loosely or highly structured criminal organizations, including pimps, traffickers, brothel owners, and their agents, to legitimate businesses--travel agencies, hotels, clubs, and restaurants. The global sex trade in women and children is an industry that is growing at an astronomical rate, facilitated by market privatization and liberalization, as well as by the advance of computer technologies. As Professor Donna Hughes explains in "The Natasha Trade," these factors work together to make it easier and safer for sex industry entrepreneurs to start, expand and finance their criminal enterprises as well as to transfer and launder money gained from sex trafficking and other forms of prostitution. For example, during the late 1990's about \$10 billion was laundered through the Bank of New York by Ukrainian-born crime boss Semion Mogilevich, who ran a network trafficking in weapons, drugs, and prostitution in Central Eastern Europe and the U.S (Hughes 2001). In Israel, Eastern European crime cartels have laundered billions of dollars of sex industry profits through banks, real estate, and legitimate business (Hughes 2001).

The money that the illegal portion of this global industry turns over has been estimated in the thousands of billions of dollars; the money generated specifically by sex trafficking at 7 billion dollars annually, although Interpol has given a higher estimate--19 billion

dollars (Eriksson 2004). This year the ILO issued a report that estimates profits from forced commercial sexual exploitation at \$27.8 billion a year or \$23,000 per victim (“A Global Alliance Against Forced Labor”). (The ILO misguidedly uses the term “worker” instead of “victim.”)

Human trafficking constitutes one of the most profitable enterprises for international organized crime, second only to trafficking in drugs and weapons and less likely to result in criminal prosecution. The fact its human merchandise can be sold over and over—from agency to agency and customer to customer, often multiple times in a single evening—makes it especially lucrative for the sellers. As Professor Hughes, points out, “Trafficking in women has arguably the highest profit margin and lowest risk of almost any type of illegal activity.”

Profits generated by the sex industry are so enormous that they now constitute a significant portion of the gross domestic product of many countries. The ILO’s controversial report, “The Sex Sector,” estimated that sex industry output accounts for between two and fourteen percent of the gross domestic product (GDP) of Indonesia, Malaysia, the Philippines, and Thailand. Korea’s Institute of Criminology estimated that in the year 2002 the total profit from the sex industry and related sectors reached as much as 4.4 percent of Korea’s GDP, almost equal to the profits of the agriculture, forestry and fishing industries combined. Asia is not alone in the profits reaped by a burgeoning sex industry. The 2, 000 brothels and numerous escort agencies of the Netherlands constitute a \$1 billion dollar a year business, making up a staggering five percent of the Dutch GDP.

Governments’ Response

The huge profits the sex industry generates have led to vastly different approaches and responses from governments and politicians. One constituency views the sex industry as a valuable source of tax revenue and has worked, often with the encouragement of sex industry entrepreneurs, to legitimize and regulate prostitution as work. This group contends that the only way to bring the sex industry under control and check its worse abuses is to confine it to tolerance zones or regulate it.

While sometimes well intended, such schemes have proved to be little more than a blank check to the sex industry. Claiming to hope to contain the expansion of its sex businesses, over the last decade the government of the Netherlands has moved from a policy of tolerance to outright legalization. During this time the size of the Dutch sex industry has increased by 25%. Although tolerance and legalization were intended to curtail trafficking, one recent investigative report found that 80% of women in Dutch brothels were immigrants and sex trafficking of adults has increased. ChildRight, a respected Amsterdam-based NGO, reports that the number of children in prostitution in the Netherlands has increased from 4,000 in 1996 to 15,000 in 2001, with thousands trafficked from countries like Nigeria. In the Netherlands and elsewhere, legalization has conferred power, respectability, and influence on sex industry professional associations, lobbyists, and lawyers, who join forces with advocacy groups for prostitution buyers to elect officials who support “the business” and promote its normalization and expansion.

During hearings on “The Consequences of the Sex Industry in the EU, held by the European Parliament in January 2004, Marianne Eriksson, Swedish Minister of Parliament, characterized this state of affairs in a report subsequently issued by the European Parliament’s Women’s Rights Committee. MEP Eriksson stated, “In recent years, several of the EU Member States have capitulated and, instead of fighting against such exploitation of human beings, have accepted the prevailing situation and, through legalization and regulation of prostitution, have helped to make what was previously a criminal activity part of the legal economic sector. The Member State then becomes part of the sex industry, yet another profiteer on the market.”

Other governments have resisted the lure of sex industry dollars, focusing instead on the industry’s negative impact on the equality of its female citizens and harm to victims. Since January 1, 1999, Sweden has developed and passed an array of groundbreaking laws that address prostitution and trafficking as practices of violence and discrimination against women and girls. These laws strengthen penalties against traffickers and other sex industry entrepreneurs; direct services to victims while eliminating penalties against them; and criminalize the purchase of sexual services, recognizing that it is the buyer not the bought who should be sanctioned and punished.

The Swedish government has not been satisfied only to pass and enforce new legislation. It has strived to establish new norms of zero tolerance for prostitution and trafficking through intensive public education campaigns within Sweden and regionally through a Nordic Baltic campaign. The campaign within the receiving countries targets potential and actual buyers, warning them that prostitution is a crime.

Has the Swedish approach been effective in curtailing sexual exploitation? Since the law went into force the incidence of street prostitution has decreased by at least 50 percent and the recruitment of new women for street prostitution has ground to a halt. The most important effect of the law, however, has been its impact on trafficking. While Sweden’s Nordic neighbors have seen a sharp escalation in sex trafficking since 1999, trafficking into Sweden has declined. Swedish law enforcement officials have received communications from Europol and national police forces in other European countries that traffickers are averse to Sweden. As one Swedish anti-trafficking expert points out, “Traffickers and pimps are businessmen who calculate profits, marketing factors, and risks of getting caught when they decide which countries to sell women into. Sweden is not longer a good place for traffickers to do business.”

Last year, the Korean government followed Sweden’s example, passing and implementing new laws against the Korean sex industry that feature strong penalties against the business and its buyers. In spite of the enormous profits at issue, the Korean government made an emphatic statement, through its new law, that the sex industry’s economic and human cost to Korean society outweighs the value of its revenue to the Korean GDP. (Financial analysts estimated that the new law would eliminate about one percent of Korea’s GDP in 2005.)

Conclusions and Recommendations

When we follow the sex industry's money trail—from the hands of the buyer, past the bought, into the coffers of the business—it is clear that addressing and stopping the demand for all forms of commercial sexual exploitation is essential if we are to curtail human trafficking and its devastating consequences to individuals and society. It is a tautology that the profits generated by the activities of the prostitution buyer constitute the foundation and *raison d'être* of the 7 billion-a-year global sex trafficking business. The Coalition applauds the Trafficking in Persons Office for its focus on demand and urges federal authorities to continue to look to Sweden for inspiration and guidance. We wholeheartedly support the End Demand for Sex Trafficking Act of 2005, especially the incentive it provides state and local law enforcement to marshal their resources against the buyer and the business. We hope that the swift passage and implementation of this legislation will lead to other, even stronger federal measures that will hold accountable law enforcement agencies that violate equal protection guarantees by penalizing and stigmatizing sex industry victims while ignoring the buyers who ensure their continued exploitation.

The sex industry and its lobby have long tried to deny the link between prostitution and trafficking, even though research consistently demonstrates that most trafficking is for purposes of prostitution and that the component parts of the global sex trade—trafficking, sex tourism, and prostitution—are inextricably linked. If we address only one of the faces of this many-headed hydra, our efforts to stop the trafficking of women and children will be in vain. The Coalition is grateful to the Trafficking in Persons Office, which, under the leadership of Ambassador John Miller, has helped expose the many and interrelated facets of the global sex trade.

The normalization and legalization of prostitution represents the triumph of sex industry profits over gender equality and human rights. It is a government's ultimate gift to traffickers and its ultimate blow to their victims, representing nothing less than state-sanctioned exploitation and abuse. Unfortunately, to date, the Tier System created by the Trafficking Victims Protection Act of 2000 has ignored this reality, placing wealthy countries that legalize and profit from prostitution in the highest tier, Tier I, alongside countries that have directed their laws and dedicated their resources to fighting the sex industry's buyers and business. This must change. The Coalition Against Trafficking in Women endorses and supports the efforts of Ambassador Miller and the Trafficking in Persons Office to educate governments and the public about the role played by legalization in increasing the incidence of sex trafficking. This effort would be strengthened significantly if the Tier System were used to deter governments from going down this misguided and dangerous path.