



# A hybrid legislative model for the sex market: policy and fiscal insights

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Received: 20 June 2025 / Accepted: 14 November 2025 / Published online: 26 November 2025  
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## Abstract

This study investigates the Italian sex market and its current legislative framework, offering policy recommendations aimed at protecting sex workers from exploitation and preventing human trafficking. We compare alternative European regulatory models to identify their core components and adopt a trade-off framework to explicitly assess whose welfare would be affected by the proposed reform. Based on our analysis, we find that several stakeholders would benefit from the adoption of a hybrid legislative model that combines (i) regulation and licensing of sex services with (ii) a system of incentives and disincentives designed to guide both workers and clients toward the formal market. According to our budget impact analysis, if implemented in 2024, this policy reform could generate between €3.893 and €7.410 billion in income, with estimated tax revenues under a flat-rate regime would fall between €0.875 and €1.470 billion.

**Keywords** Sex workers · Prostitution · Legislative model · Policy reform

**JEL classification** K31 · J46

## 1 Introduction

The regulation of sex services within the European Union (EU) remains a controversial issue, with member states adopting markedly different legislative models (Bąkowski & Prpić, 2024). Some countries criminalize both the supply and demand of sex services (e.g., Lithuania), while others tolerate sex workers but penalize their clients (e.g., Sweden, France, and Ireland). In contrast, certain countries enforce strict

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regulation of the profession (e.g., Germany and Austria), whereas others tolerate both clients and workers without implementing formal regulatory frameworks (e.g., Italy, Spain, and Portugal). Additionally, Belgium has adopted a model based on the decriminalization of prostitution.

According to the literature (Barnett et al., 2011; Gao & Petrova, 2022), these approaches reflect the main legislative models available to policymakers: the prohibitionist model (i), the Nordic model (ii), the abolitionist model (iii), the legalization model (iv), and the decriminalization model (v). In detail, prohibitionism criminalizes all aspects of sex work, including selling, buying, and facilitating sexual services. Under this model, sex workers are treated as offenders, and enforcement focuses on suppression rather than harm reduction. This approach often leads to marginalization and increased vulnerability, with limited access to health, legal, or social services. The Nordic Model (also known as the Swedish or Equality Model) criminalizes the purchase of sex but not its sale. It aims to reduce demand by penalizing clients while offering support services to sex workers. Advocates argue that it promotes gender equality and discourages exploitation, though critics highlight unintended consequences such as increased stigma and reduced safety for workers. Abolitionism distinguishes between sex work and exploitation. While it does not criminalize the act of selling sex, it targets third parties such as brothel owners, managers, and procurers. The underlying assumption is that sex work is inherently exploitative, and the goal is to eliminate the system without penalizing the workers themselves. Legalization regulates sex work through formal legal channels, often requiring registration, licensing, and compliance with health and zoning regulations. This model treats sex work as a legitimate profession but typically imposes strict controls. Decriminalization removes criminal penalties for both selling and buying sex, treating sex work as a private economic activity. It does not impose special regulations beyond those applicable to other forms of labor. This model is often supported by human rights organizations and sex worker advocacy groups, as it prioritizes autonomy, safety, and access to legal protections.

All these models aim to strike a balance between the need to protect sex workers—by preventing exploitation and human trafficking—and the socio-cultural values that shape the societies in which these services are offered. The diversity of legislative approaches becomes even more significant when considering the specific strategies adopted by European governments to pursue this objective. On the one hand, prohibitionist and Nordic models introduce legal barriers that restrict the development of a sex market. In prohibitionist systems, both the sale and purchase of sex are criminalized, rendering sex work entirely illegal. In contrast, the Nordic model adopts one-sided criminalization, where the purchase of sex is illegal, but the sale remains legal, aiming to reduce demand while avoiding penalization of sex workers. On the other hand, legalization models permit both the sale and purchase of sex, but under a heterogeneous range of regulatory frameworks. These may include licensing requirements, labor rights provisions, and zoning laws designed to monitor and control the supply of sex services. The overarching goal is to reduce exploitation by formalizing the sector and integrating it into the broader legal and economic system. Which model is most appropriate? Which strategies are most effective in preventing exploitation and human trafficking? Unfortunately, no universally optimal

approach to regulating sex services exists, and new legislative models are needed. By examining European experiences and comparing existing frameworks, we identify key features of each and propose a new hybrid legislative model that integrates their most effective elements. Taking a specific case study to lead our investigation (i.e., the Italian sex market), we adopt a trade-off framework to support our comparative evaluation, identifying which stakeholders may benefit and which may be disadvantaged, and assessing whether a *Pareto* improvement—where all parties are made better off without making anyone worse off (Varian, 1992; Mankiw, 2006)—is attainable. By highlighting these payoffs, we aim to guide policymakers toward an informed decision regarding the proposed reform. Based on our findings, we expect to offer policy recommendations that could be adopted to protect sex workers and uphold their rights, while also preventing exploitation and human trafficking. In addition, we expect to assess the financial implications of these reforms in terms of public revenue. This constitutes the core of our contribution, with meaningful policy and practical relevance.

To the best of our knowledge, few studies have addressed the policy analysis of the sex market and its alternative legislative models. On the theoretical side, several works explore the economics of prostitution—for example, Della Giusta et al. (2009) examine how different policies influence the social stigma surrounding sex work; Immordino and Russo (2015) analyze the combined effects of enforcement, prevention, and taxation on workers' choices between legal and illegal markets; and Lee and Persson (2022) investigate optimal regulatory strategies by comparing legislative models.

On the empirical side, other studies aim to validate these theoretical insights. Gertler and Shah (2011), for instance, assess the impact of licensing enforcement on sex workers' health outcomes, while Cunningham and Kendall (2017) explore the link between education and criminal behavior by analyzing female escorts operating in illegal markets.

This work contributes to the literature by (i) offering a comparative analysis of alternative legislative models, (ii) applying a conceptual trade-off framework to support our conclusions, (iii) identifying key elements that could be transplanted into a new hybrid policy model, and (iv) conducting a public budget analysis using the Italian sex market as a case study to estimate the fiscal effects of such reform.<sup>1</sup> Note that, our proposal builds on the hybrid framework introduced by Lee and Persson (2022), which combines the licensing of sex work with the criminalization of illegal procurement—an approach that seeks to balance regulation with deterrence. We explicitly acknowledge this conceptual overlap. However, our contribution extends their model by applying it to the Italian context and grounding it in empirical data. In particular, we simulate the fiscal implications of adopting such a hybrid regime using the Budget Impact Analysis (BIA) framework, which reflects current practices of the Italian tax authorities. This empirical and institutional focus allows us to explore the feasibility

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<sup>1</sup> A public budget is generally understood as an action plan for future public interventions, based on projected revenues—primarily from taxation. In this study, the Budget Impact Analysis (BIA) focuses specifically on the additional tax revenues that could be generated through the legalization and formal regulation of sex work.

and potential revenue outcomes of hybrid regulation in a national setting, offering a concrete policy design that complements and operationalizes the theoretical model proposed by Lee and Persson (2022).

Under the abolitionist model currently adopted in Italy—established by *Legge 20 febbraio 1958*, no. 75, commonly known as the “*Merlin Law*”—sex workers and their clients are tolerated. In this context, “tolerated” refers to a state of legal ambiguity, where the sale of sex is not explicitly criminalized but exists in a grey area: neither fully legal nor formally regulated. This tolerance reflects a passive legal stance, shaped more by social attitudes and selective enforcement than by clear statutory provisions. On one hand, self-employed individuals may offer sex services, despite the profession lacking legal recognition and associated labor rights. On the other hand, the exploitation of sex workers and facilitation of such services by third parties are criminalized and subject to severe penalties. However, the abolitionist model, introduced over sixty years ago, has proven inadequate in protecting workers and preventing human trafficking (Curtol et al., 2004; Mancuso, 2013; Baye & Heumann, 2014). It also fails to address emerging challenges posed by digital sex services (Cunningham & Kendall, 2011; Cunningham et al., 2018).

This model presents a legal paradox. Although the profession is not officially recognized and labor rights are absent, there is growing debate around the tax obligations of sex workers. Jurisprudence from the Italian Supreme Court (*Corte di Cassazione*) and local tax courts (*Commissione Tributaria Provinciale*) has repeatedly affirmed the principle of taxing income derived from sex work. These rulings state that “the tax liability of those who carry out an activity aimed at providing sexual services in exchange for a consideration in cash or in kind” is valid, and that “the taxation of income from prostitution is in line with Article 53 of the Italian Constitution.”

Conversely, there is little to no discussion on the legal status of sex workers or how to safeguard their labor rights. Nor is there consensus on how to reform the current legislative framework to better prevent exploitation and trafficking. This legal paradox offers a compelling foundation for our investigation, providing valuable insights for scholars, stakeholders, and policymakers—particularly in European countries facing similar challenges, such as Spain and Portugal.

Our objective is to propose a new hybrid legislative framework that defines the limits and boundaries of the sex market, establishes structural pillars for effective intervention, and introduces a reform that encompasses not only the tax obligations associated with sex work but also the recognition and protection of workers’ rights. We aim to address these issues through the critical discussion of two research questions.

First, is a public intervention more appropriate when it focuses on reducing the demand and supply of sex services—such as in the prohibitionist or Nordic models—or when it promotes strict regulation, as seen in legalization frameworks? Furthermore, is it possible to combine these approaches? Specifically, can a hybrid legislative model be designed to reduce informal market activity (i) while regulating sex services within the formal market (ii)?

Second, what would be the budgetary impact of legalizing the sex market in Italy? In other words, if the formal market were regulated, what fiscal resources could be generated and potentially allocated to social support for sex workers?

To explore the first question, we conduct a comparative analysis of European legislative models and apply a conceptual trade-off framework to explicitly assess whose welfare would be affected by the proposed reform, and whether a *Pareto* improvement is achievable. For the second question, we perform a BIA to estimate the potential public revenues resulting from the creation of a formalized sex market.

Based on our findings, we suggest that policymakers might consider a new hybrid legislative model that combines (i) the regulation of sex services with (ii) a system of incentives and disincentives designed to guide both workers and clients toward the formal market. While this hybrid model may not achieve a *Pareto* improvement—where all stakeholders are better off without making anyone worse off—it offers a valuable framework for evaluating policy options in this complex domain. On the other hand, assuming that the income generated by sex services in 2024 ranges between €3.893 and €7.410 billion, we conduct a BIA and estimate that potential tax revenues under a flat-rate regime would fall between €0.875 and €1.470 billion.

This paper is structured as follows. Section 2 examines whether strict regulation of sex services (i), the implementation of legal barriers to suppress supply and demand (ii), or a hybrid model combining both approaches (iii) is most appropriate. Section 3 presents our empirical investigation, detailing the data and methodology used to estimate the income generated by the Italian sex industry and the corresponding tax revenues. Section 4 outlines the foundational pillars that a policy reform should consider, while Sect. 5 concludes with reflections on the ethical and social implications of our findings.

## 2 Legislative models: regulating the sex market or preventing its existence?

The EU is characterized by a range of legislative models that can be stratified according to their openness to the provision of sex services. At one end of the spectrum is the prohibitionist model, which criminalizes the supply and/or demand of sex services. At the other end is the legalization model, which treats both sides of the market as legal. Positioned between these extremes is the abolitionist model, often described as middle ground.

According to Barnett et al. (2011), while individuals may voluntarily enter sex work under the abolitionist model, the activity is considered morally objectionable. Governments adopting this approach are expected to ensure that prostitution occurs only under conditions that do not compromise public safety or order—for example, by prohibiting brothels. The prohibitionist model takes a more rigid stance, aiming to eliminate prostitution entirely by criminalizing all aspects of the trade, including both workers and clients. As noted by Bąkowski and Prpić (2024), this model is morally justified by the perceived violation of human dignity and relies on strict criminal enforcement to reduce participation in the sex trade. Lithuania exemplifies this model, where both supply and demand are illegal; Croatia also falls under this category, although only the supply of services is criminalized.

Building on similar moral premises, several EU member states have recently adopted the Nordic model (e.g., Sweden, France, and Ireland). This approach also

views sex work as a violation of human rights but differs from prohibitionism by decriminalizing sex workers while criminalizing clients and third-party facilitators. The goal is to reduce demand and prevent exploitation without penalizing those who sell sex.

In contrast, the legalization model establishes a regulated framework that defines the boundaries of the sex market. According to Barnett et al. (2011), this model treats sex work as a legal occupation, subject to government oversight through mechanisms such as work permits, licensing, and tolerance zones. Germany and the Netherlands are prominent examples, known for their “red-light districts” where sex services are concentrated and regulated.

Finally, Belgium introduced the decriminalization model in 2022, which removes all criminal penalties associated with sex work. This approach is grounded in the belief that eliminating legal sanctions fosters a safer environment for sex workers, enhances labor conditions, and strengthens their ability to exercise fundamental rights. It is important to distinguish between decriminalization—which eliminates prohibitive laws—and legalization—which creates new laws to permit and regulate sex work.


Table 1 summarizes the key characteristics of these legislative models, highlighting their openness to market activity, while Fig. 1 provides a spatial overview of their distribution across the EU.

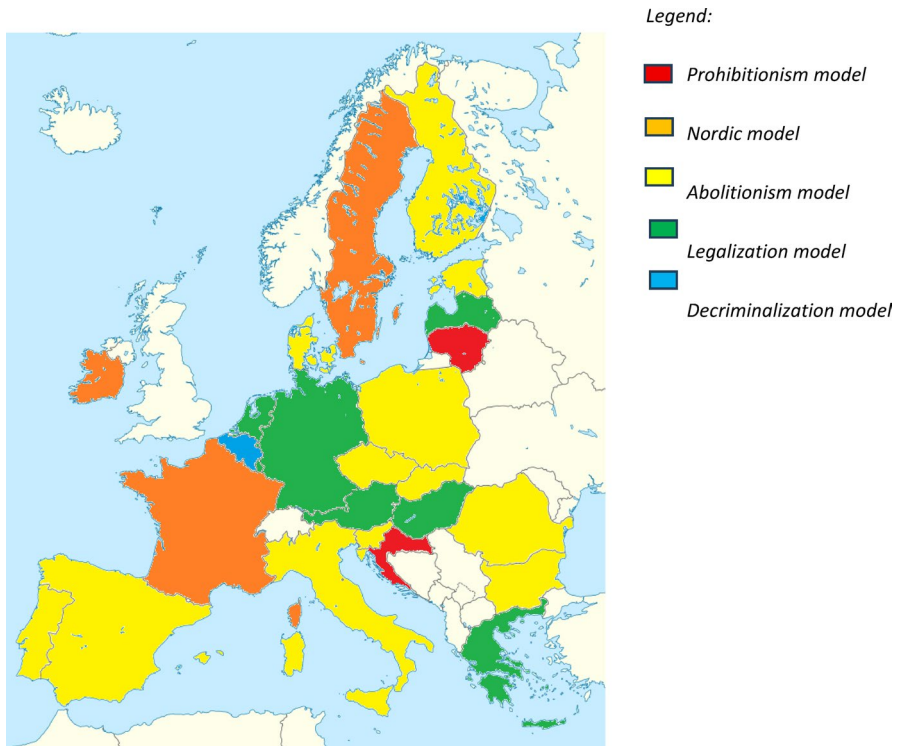
Despite their differences, the common objectives of these legislative models are (i) the protection of sex workers from exploitation and (ii) the prevention of human trafficking. No single model offers a perfect solution to these challenges, as each reflects the socio-cultural values and traditions of the country in which it is implemented.

Nevertheless, by examining the structural characteristics of the sex market, the various legislative approaches, and their underlying strategies, we can identify potential improvements that may be applicable within an abolitionist framework. To guide our investigation, we adopt a trade-off framework to explore which stakeholders may benefit and which may be disadvantaged, and to assess whether a *Pareto* improvement is feasible—that is, whether it is possible to make all stakeholders better off without making anyone worse off.

In the sex market, there are individuals seeking to purchase sex services (i.e., clients) and others offering such services (i.e., sex workers). This exchange—sex services for monetary compensation—may be considered acceptable only when it results from the voluntary choice of the worker. The central risk in this market lies in the potential for coercion, slavery, and human trafficking, where individuals are forced to provide services against their will. To address this risk, policy makers typi-

**Table 1** Legislative models and access to the market

Model	Supply of services	Demand of services	Regulation (presence)	Labor rights (presence)	Market openness
Prohibitionism	Illegal	Illegal	No	No	 Low High
Nordic	Legal	Illegal	No	No	
Abolitionism	Legal	Legal	No	No	
Legalization	Legal	Legal	Yes	Yes	
Decriminalization	Legal	Legal	No	Yes	



**Fig. 1** Legislative models in EU (2024)

cally adopt one of two approaches: (i) introducing barriers to reduce the demand and/or supply of sex services, thereby inducing the market to collapse, or (ii) implementing strict regulation to control the conditions under which these services are provided.

The first approach corresponds to legislative models such as prohibitionism and the Nordic model. The key distinction between these two lies in the target of criminalization: prohibitionism penalizes both clients and sex workers, while the Nordic model criminalizes only the clients, leaving the supply side decriminalized. The second approach—strict regulation—is embodied in the legalization model. It seeks to protect sex workers by establishing clear legal boundaries and monitoring the conditions of service provision.

Under the first approach, governments aim to protect sex workers by eliminating the possibility of participating in the market altogether. This paternalistic strategy disregards the potential agency of individuals who may choose to engage in sex work, thereby denying them the opportunity to operate as self-employed professionals and exercise freedom of choice. Paradoxically, while the Nordic model acknowledges the right to enter the profession, it imposes severe restrictions on demand, effectively collapsing the market. This forces sex workers either to pursue alternative employment or to operate within illegal and unregulated environments.

In contrast, the second approach—strict regulation—seeks to protect sex workers by ensuring that the market is closely monitored. It rejects punitive measures against

clients or facilitators, and instead focuses on creating a safer labor environment as a means of preventing exploitation and trafficking. At the core of this model is the recognition of sex work as legitimate labor, which necessitates the application—or, if absent, the creation—of a comprehensive regulatory framework.

An alternative approach is the absence of direct intervention—represented by the abolitionist model. This approach may lead to the worst possible outcome, as the decision to “look the other way” can facilitate the exploitation of sex workers within the informal market and heighten the risk of human trafficking. When the activity is not formally recognized and misconceptions persist (e.g., stigma), law enforcement lacks automatic oversight mechanisms, and interventions tend to occur only after harmful events have taken place (e.g., violence).

As illustrated in Fig. 1, the abolitionist model remains one of the most prevalent legislative approaches among EU member states. However, the absence of regulation means that sex workers in these countries are excluded from social protections such as insurance and pension benefits—even though the provision of services is not explicitly illegal. In the case of Italy, this is precisely the model we aim to improve.

The effectiveness of legal barriers in reducing the demand and/or supply of sex services remains questionable (Dodillet & Östergren, 2011; Levy & Jakobsson, 2014), and evidence suggests that such measures may worsen the living conditions of individuals engaged in sex work (Cameron et al., 2021). In practice, these barriers may compel sex workers to renegotiate the terms of their services downward in order to remain active in the market—internalizing the penalties imposed on clients (i), accepting riskier sexual practices (ii), and relying on intermediaries (iii). This approach cannot be deemed effective, as it demonstrably worsens the conditions for sex workers and, more importantly, undermines their autonomy.

Alternatively, regulation can be used to define the boundaries and conditions of the sex market, recognizing sex work as a legitimate form of labor and granting workers associated rights, such as health and safety protections (i), safeguards against discrimination and exploitation (ii), and access to social security (iii). This approach appears more appropriate, as it establishes a formal market that improves the welfare of sex workers and offers a desirable framework for intervention.

There is also a conceptually established but practically unexamined path: combining these two approaches into a hybrid legislative model (Lee & Persson, 2022). On one hand, policymakers could adopt the principles of legalization to establish and monitor a formal market, clearly defining the rules and conditions of service provision—including the freedom to choose this profession. On the other hand, criminal penalties could be selectively applied to clients operating in the informal market, thereby incentivizing both workers and clients to transition into the regulated system. In this way, a hybrid model would be based on (i) the regulation of sex services and (ii) a system of incentives and disincentives designed to guide market participants toward the formal sector, which is governed by the state rather than criminal organizations.

The following Table 2 presents the trade-offs associated with the adoption of the proposed hybrid model, in order to assess whether a *Pareto* improvement is achievable. As the table clearly shows, some stakeholders may be worse off, and for this reason, we cannot claim a *Pareto* improvement. For instance, among clients, some

**Table 2** Trade-Offs in the hybrid model of the sex market

Stakeholder	Potential gains	Potential losses
Sex workers	Legal recognition and protection; Access to labor rights and health services; Greater autonomy and income stability;	–
Clients	Legal access to services; Improved safety and transparency;	Loss of anonymity compared to informal market; Higher prices due to regulation;
State (Public Institutions)	Increased tax revenue; Better data for policymaking; Reduced criminal activity;	Administrative costs of regulation and enforcement;
Criminal organizations	–	Loss of revenue from informal market; Reduced control over sex trade;
Digital platforms	Expansion of formalized services; Legal legitimacy and user trust;	Compliance costs (e.g., DAC7 reporting); Increased scrutiny;
Society	Public health benefits; Reduction in exploitation and human traffic; Safer urban environments;	Moral or cultural opposition to normalization of sex work;

may benefit from improved safety and transparency, while others may be disadvantaged by higher prices resulting from regulation. Nevertheless, it is evident that sex workers stand to improve their conditions, while criminal organizations are likely to see a deterioration in theirs. A *Pareto* improvement might be observed if we consider only the vulnerable stakeholder group, i.e., sex workers. However, when the welfare of society as a whole is taken into account, a *Pareto* improvement becomes unattainable. At this point, only policymakers can properly evaluate this framework of trade-offs and determine whether the proposed reform is acceptable.

The next subsection examines the Italian sex market and its legal paradox, offering evidence for the potential improvement of its legislative framework and the relevance of a hybrid model.

## 2.1 The Italian sex market and its legal paradox

According to Article 2082 of the Italian Civil Code, an *imprenditore* (entrepreneur) is defined as “*chi esercita professionalmente un’attività economica organizzata al fine della produzione o dello scambio di beni o di Servizi*”—that is, anyone who professionally carries out an organized economic activity aimed at producing or exchanging goods or services (Desana, 2018). This definition emphasizes three core elements: professionalism, economic organization, and the exchange of goods or services. In

light of this framework, sex workers—particularly those operating independently—can be considered entrepreneurs when their activity meets these criteria. The recent update to Italy’s ATECO classification system, which now includes sex work under personal services (ATECO code 96.99.92), reinforces this interpretation. It enables individuals to register as self-employed, obtain a VAT number, and formally declare income, thereby aligning their work with the legal structure of entrepreneurial activity.

This legislative intervention moves toward regulating the supply of sex services, a shift that is especially relevant given the emergence of digital platforms (e.g., OnlyFans, Fansly, JustForFans), which have facilitated new forms of sex work. These platforms allow individuals to monetize content and services directly, often without intermediaries. Sex workers can engage with clients in a virtual environment, offering ad-hoc services such as subscription-based erotic content (photos, videos, livestreams), custom requests and direct messaging, virtual companionship and role-play, and live performances via camming platforms. These technologies support self-entrepreneurship, offering greater autonomy and control over branding, pricing, and audience engagement.

However, this shift also introduces complex challenges related to platform governance and financial transparency. Platforms typically control access to audiences, payment processing, and content moderation, creating asymmetrical power dynamics that can affect workers’ autonomy and income stability. Taxation remains a critical issue: while creators are responsible for declaring income, recent EU directives—such as DAC7—require platforms to report earnings to tax authorities.<sup>2</sup> This increases compliance burdens and exposes gaps in fiscal literacy and legal protection. These transformations underscore the urgency of updating regulatory frameworks to reflect the realities of digital sex work and ensure equitable treatment within the broader economy. In addition to these challenges, there are fundamental issues concerning the professional status of sex work, which remains insufficiently recognized and protected—matters that policymakers must address with careful consideration.

Italy adopted the abolitionist model in 1958 through the enactment of the so-called *Merlin Law* (*Legge 20 febbraio 1958*, no. 75), which declared the “abolition of the regulation of prostitution and the fight against its exploitation”.<sup>3</sup> While the law does not explicitly prohibit the exchange of sex for money—rendering it a tolerated activity—it criminalizes ancillary conduct both materially (e.g., promotion, facilitation, exploitation) and morally (e.g., inducement).

The legislator’s intent was not to impose a broad moralization of public customs, nor to abolish prostitution as a personal activity. Rather, the law specifically targeted the exploitation of sex work—namely, its organization by third parties who profit economically from the services of sex workers, thereby compromising their dignity.

However, this abolitionist model has proven ineffective in curbing the supply and demand of sex services, preventing exploitation, or addressing emerging challenges such as digital sex work. The restrictions introduced by the law have pushed sex

<sup>2</sup> DAC7 (Directive on Administrative Cooperation – 7th Amendment) is an EU directive that increases tax transparency by requiring digital platform operators to collect, verify, and report data on the income of sellers and service providers who use their platforms to conduct business within the EU.

<sup>3</sup> See Gatti and Poli (2023) for a discussion of the sex market before its reform with the Merlin Law.

workers into unregulated markets, exposing them to criminal networks and creating conditions conducive to human trafficking.

Similar outcomes have been observed in other European countries that adopted the abolitionist model, including increased precariousness, heightened vulnerability to violence, and a higher incidence of infectious diseases. Paradoxically, although the stated aim of the law was to protect sex workers and prevent trafficking, it has instead contributed to their exploitation and worsened their conditions.

One of the key reasons for these failures lies in the paternalistic assumption that sex workers are incapable of making autonomous choices. Consequently, policymakers have sought to steer them toward what is deemed the “correct” path—namely, exiting the market. This approach attempts to shield sex workers from perceived self-inflicted harm without acknowledging their agency or willingness to engage in the profession.

Sex workers are not formally recognized in Italy, as the provision of their services remains unregulated. Consequently, they lack legal protection and face significant risks associated with operating in the informal market. Despite this, there is broad consensus among legal institutions that income derived from sex work should be subject to taxation. The taxability of prostitution is considered *ius receptum*, a principle repeatedly affirmed by the Italian Supreme Court. In several rulings—no. 20,528 of 1 October 2010, no. 22,413 of 4 November 2016, and no. 15,596 of 27 July 2016—the Court stated that “those who dedicate themselves to the exercise of an activity aimed at the provision of sexual services, in exchange for a consideration in money or in kind, are subject to taxation”.

This position aligns with the ruling of the European Court of Justice (case C-268/99 of 20 November 2001), which established that “prostitution constitutes a paid provision of services, which falls within the definition of economic activity” and should therefore be taxed. The Italian Supreme Court further clarified that “there is no doubt that such proceeds must also be subject to taxation since, although it is a questionable activity on a moral level, it certainly cannot be considered illicit”. From this perspective, income from prostitution is neither exempt nor classified as proceeds from illegal activity—it falls within the scope of taxable income.

Accordingly, if prostitution is considered a legal source of income, tax authorities are entitled to assess the taxpayer’s ability to contribute to public expenditures, in line with the general principle of income taxability. In other words: the work is legal, the income exists, and it is therefore taxable.

Supporting this view, the National Tax Police (i.e., *Guardia di Finanza*) has stated that “the provision of sexual intercourse in exchange for payment of money constitutes a real service contract”. The Regional Tax Court of Veneto echoed this interpretation in 2016, affirming that under Article 53 of the Italian Constitution, “everyone must contribute to state expenses according to their possibilities” (ruling no. 788 of 16 June 2016). Thus, the taxation of income from prostitution not only avoids illegitimacy but also appears to comply with constitutional principles (Articles 3, 23, and 53).

This situation reveals a striking legal paradox. On one hand, sex workers are denied rights and protections for the services they provide to society; on the other hand, they are expected to contribute to public expenditures through taxation on income gener-

ated by those very services. Moreover, the current abolitionist model in Italy fails to protect sex workers from exploitation and does not effectively prevent human trafficking. These contradictions underscore the urgent need for legislative reform.

According to the discussion in the previous section, we propose a hybrid legislative framework that combines (i) the regulation of sex services and (ii) a system of incentives and disincentives designed to guide both workers and clients toward the formal market. The first legal pillar of this framework should be the legalization of prostitution, which would enable tax collection and the allocation of public resources to support, assist, and provide social security for sex workers. The second pillar should involve the creation of legal barriers that criminalize the demand for sex services within the informal market, thereby encouraging a shift toward the regulated sector.

Such reform would represent a natural evolution of the Italian market. If prostitution is recognized as a legal activity and subject to taxation, it becomes increasingly difficult to justify the denial of labor rights to those who engage in it. In other words, if sex workers are required to contribute to public expenditures through taxation, policymakers cannot ignore their entitlement to social protections, including pension benefits and welfare assistance.

These recommendations align with the proposal by Lee and Persson (2022), who advocate for an optimal hybrid policy that integrates both the legalization model—through licensing and regulation—and the Nordic model—by criminalizing those who procure sex illegally.

Before delving into the specifics of this policy framework, it is essential to examine the expected fiscal regime for sex workers and the potential public resources that could be mobilized. Accordingly, the next section presents a BIA, simulating the income generated by the sex industry in 2024 and estimating the fiscal effects of legalizing sex services.

### 3 Budget impact analysis (BIA) of legalizing prostitution

There are no official statistics on the supply and demand of sex services in Italy, making it difficult to estimate the income generated by this market.<sup>4</sup> To address this gap, we adopt a two-step approach that combines real data (i.e., the number of workers) with hypothetical variables (i.e., service tariffs and frequency). First, we identify the number of self-employed individuals offering sex services and gather key information about them. Second, we approximate their income by simulating client volume and service pricing. This methodology aligns with previous efforts to estimate the size of the sex industry (e.g., Blades, 2011; Kazemier et al., 2013), as well as with EU recommendations for accounting illegal economic activities in national accounts and balance of payments (European Union, 2018). Afterwards, we can assess the potential tax revenues based on the estimated income of these sex workers.

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<sup>4</sup> This estimation might be even more difficult in case of illegal services organized and supplied by criminal groups, who are responsible of sex workers' exploitation and human trafficking (Estrada & Ndoma, 2014).

In detail, we collected data on self-employed individuals offering sex services in Italy between September and December 2024, using advertisements posted on digital platforms. From these platforms, we extracted basic information such as gender and geographical location, and filtered entries using unique identifiers (e.g., phone numbers) to eliminate duplicates. This process yielded a dataset of over 25,000 distinct sex workers.

To account for the high mobility of sex workers—who often move between cities to maximize earnings (Oso Casas, 2010; Davey et al., 2019; Eggens, 2024)<sup>5</sup>—we conducted repeated data extractions and calculated average worker counts per location.<sup>6</sup> This iterative approach also mitigates issues related to missing or outdated information, as platform listings are frequently updated according to renewal policies.

Before presenting the data, we must acknowledge that this information reflects only one side of the coin. Our empirical analysis is based on a sample of sex workers advertising online, which provides valuable insights into this segment of the market. However, this sample is not representative of the entire sex work population in Italy, particularly those operating offline, or in more precarious conditions. As such, our estimates of income and potential tax contributions should be interpreted with caution, acknowledging the partial visibility of the sector through digital platforms.

Figure 2 illustrates the prevalence of sex workers across Italy, measured as the number of individuals (including male, female and transgender) per 100,000 residents aged 16 to 65.<sup>7</sup> On average, we observe 67 sex workers per 100,000 inhabitants, with a standard deviation of 28.

The map reveals that the highest concentrations are found in specific provinces, such as Alessandria (125 per 100,000), Grosseto (129 per 100,000), and Terni (130 per 100,000). These regional disparities suggest localized dynamics in the supply of sex services, potentially influenced by economic, demographic, or geographic factors.

Appendix A provides additional insights into the composition of the sex market, including a breakdown of transgender representation across Italian provinces (Figure A.1). According to these supplementary statistics, approximately 23% of sex workers identified in the dataset are transgender.

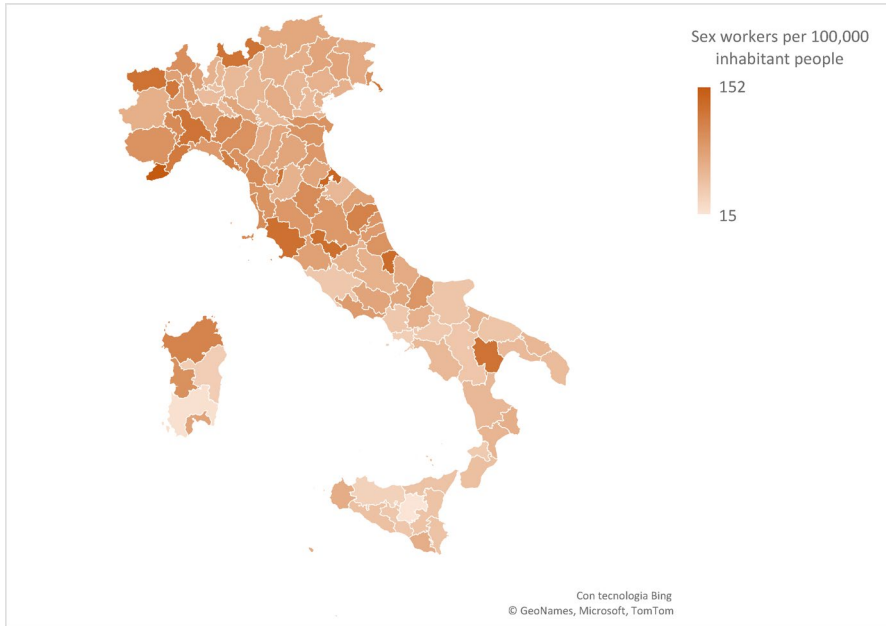
Having identified the number of self-employed sex workers and their distribution across Italian provinces—representing the current supply of sex services—we now proceed to the second step: estimating the income generated by this industry. Given the absence of official data on service frequency and pricing, this evaluation necessarily relies on simulation.

Although we lack direct information on the number of services provided and the tariffs applied, we can construct plausible scenarios based on fragments of evidence extracted from digital platforms and other documents. These simulations aim to

<sup>5</sup> According to Oso Casas (2010) and Eggens (2024), the sex workers who stay in the same region earn less money than those who move around regionally, or even internationally.

<sup>6</sup> In detail, we collected information every 15 days from the platforms, obtaining 8 extractions of data in 4 months.

<sup>7</sup> Information about resident people is extracted from the database of the Italian National Institute of Statistics (ISTAT).



**Fig. 2** Prevalence of sex workers per 100,000 resident people (September - December 2024). Number of escort and transgender per 100,000 resident people, who are aged between 16 and 65

approximate the economic scale of the market and offer insights that, while hypothetical, may closely reflect real-world conditions. In detail, to estimate service prices, we relied on two primary sources available on the digital platforms used by sex workers: (i) client reviews and comments, which often include detailed feedback on services and pricing; and (ii) publicly displayed tariffs posted by sex workers themselves. These sources offer direct and contextual insights into market pricing. While we acknowledge that prices vary across individuals and regions, we simplified the data by constructing a set of representative scenarios that reflect common pricing patterns observed in the sample. This strategy provides a grounded and realistic basis for our income and tax estimates, while remaining transparent about the limitations of the data.

To estimate the economic output of the sex industry, we construct two theoretical scenarios that reflect variations in worker quality (used as a proxy for expected tariffs) and productivity (measured by the number of services provided per day):

- sex workers with low productivity and low quality (Scenario 1);
- sex workers with high productivity and high quality (Scenario 2).

Each scenario is assigned specific parameters. For Scenario 1, we assume an average tariff of €50 and a daily service volume of 5 clients. For Scenario 2, the average tariff is set at €200, with 10 clients per working day. Assuming 201 working days per year, the estimated annual gross income ranges from €50,178.57 (Scenario 1) to €401,428.57 (Scenario 2). Considering the estimated number of clients, these

parameters align with service frequency data reported by NGOs such as, for instance, *Gruppo Abele*. As previously noted, although these figures are hypothetical, they provide a plausible approximation of the income generated by self-employed sex workers under varying market conditions.

It is nearly impossible to construct a fully realistic model of the sex market, particularly in terms of the distribution of workers across the two productivity/quality scenarios. This limitation stems from the lack of data on demand (i.e., the number of individuals seeking such services) and the inability to accurately measure service quality (i.e., applied tariffs). Nevertheless, by leveraging the previously defined scenarios, we can simulate two alternative market structures that reflect different prevalence rates of workers.

Accordingly, we propose two hypothetical configurations:

**Hypothesis 1** *A market predominantly composed of low-productivity/low-quality workers (70% Scenario 1, 30% Scenario 2);*

**Hypothesis 2** *A market predominantly composed of high-productivity/high-quality workers (30% Scenario 1, 70% Scenario 2).*

While these structures are admittedly arbitrary, they serve as useful tools for estimating the potential boundaries of the market and its economic magnitude. Based on these assumptions, the estimated annual income generated by sex workers ranges from €3.893 billion (Hypothesis 1) to €7.410 billion (Hypothesis 2). These estimates are consistent with ISTAT's, 2024 report on the “unobserved economy”, which valued income from prostitution at approximately €4.7 billion (ISTAT, 2024). Table 3 presents a regional breakdown of the estimated size of the sex industry, based on the number of sex workers identified through digital platforms and the two hypothetical market structures.

To contextualize these figures, we refer to the Italian National Institute of Statistics (ISTAT), which reported a national Gross Domestic Product (GDP) of €2,128 billion in 2023. Using this as a benchmark, the sex industry—currently part of the shadow economy—would represent between 0.18% (Hypothesis 1) and 0.35% (Hypothesis 2) of GDP.

Following the estimation of income generated within the sex industry, we now proceed to the final step of the BIA: assessing the potential tax revenues that could be collected through the legalization of this profession. This step offers Italian policymakers a preliminary understanding of the fiscal resources that might be mobilized if such a reform were implemented. These additional funds could then be allocated to support targeted interventions and programs aimed at protecting sex workers and improving their labor conditions. Before presenting our simulations, it is important to outline how sex workers are currently taxed under the Italian system. Although sex work is not formally regulated, tax authorities—including the Guardia di Finanza and the Italian tax courts—have established precedents for assessing income derived from this activity. In line with these rulings, we apply existing tax regimes to estimate fiscal contributions. Specifically, we simulate two alternative scenarios: one based on the standard progressive income tax model (default approach), and another using the

**Table 3** Accounting for the Italian sex industry (Italy, 2024)

Regions	Number of sex workers	Hypothesis 1	Hypothesis 2
Abruzzo	728	113,204,111.61	215,452,986.61
Basilicata	252	39,257,832.59	74,716,520.09
Calabria	658	102,393,138.39	194,877,263.39
Campania	1,574	244,802,433.04	465,914,308.04
Emilia-Romagna	2,454	381,728,464.29	726,515,464.29
Friuli-Venezia Giulia	635	98,757,073.66	187,957,011.16
Lazio	1,934	300,898,939.73	572,678,627.23
Liguria	980	152,442,500.00	290,132,500.00
Lombardia	3,977	618,578,220.98	1,177,294,033.48
Marche	783	121,798,446.43	231,809,946.43
Molise	161	25,102,457.59	47,775,645.09
Piemonte	2,217	344,881,712.05	656,387,774.55
Puglia	1,303	202,705,747.77	385,794,810.27
Sardegna	723	112,523,564.73	214,157,752.23
Sicilia	1,411	219,486,089.29	417,731,589.29
Toscana	2,099	326,429,169.64	621,268,419.64
Trentino-Alto Adige	491	76,337,915.18	145,288,290.18
Umbria	528	82,151,729.91	156,353,292.41
Valle d' Aosta	99	15,380,359.38	29,272,296.88
Veneto	2,021	314,354,323.66	598,287,261.16
<b>Total</b>	<b>25,028</b>	<b>3,893,214,229.91</b>	<b>7,409,665,792.41</b>

flat-rate regime (specific approach for low-income self-employed workers). These frameworks reflect the actual practices adopted by Italian institutions and provide a realistic basis for evaluating the potential tax revenue generated by sex work.<sup>8</sup>

We begin with the ordinary regime, analyzing the various taxes and contributions that would apply under this framework. First, sex workers—operating as self-employed service providers—would be subject to Value Added Tax (VAT) at a rate of 22%. VAT is charged to clients and collected by the workers, who are then responsible for transferring it to the tax authorities. Second, these workers would be required to pay social security contributions, ensuring access to pension benefits upon retirement. Assuming a cost structure in which one-third of gross income is allocated to operating expenses, the remaining two-thirds (i.e., 67%) constitutes the net pensionable income. On this amount, a contribution rate of 26.07% is applied. Third, workers must pay personal income tax (IRPEF) on their net fiscal income, calculated as net pensionable income minus social security contributions. The applicable IRPEF rates follow the current progressive brackets: 23% for income up to €28,000; 35% for income between €28,000.01 and €50,000; 43% for income exceeding €50,000.01. In addition to IRPEF, two supplementary taxes are levied on the same fiscal income: (i) a regional tax, with rates varying by region, (ii) a municipal tax, determined by the local authority of residence. For example, in 2024, the Region of *Lombardia* applied

<sup>8</sup> Note that, in case of tax avoidance and successive assessment, tax courts and tax police adopted the default approach to estimate the due amount of taxes by sex workers.

**Table 4** Assessment of tax revenues generated by the sex industry (ordinary regime - Italy, 2024)

Regions	Number of sex workers	Local taxes		State taxes/contributions	
		Hypothesis 1	Hypothesis 2	Hypothesis 1	Hypothesis 2
Abruzzo	728	2,130,793.22	4,055,380.65	64,650,537.15	126,087,786.73
Basilicata	252	738,933.62	1,406,357.53	22,420,033.41	43,725,737.10
Calabria	658	1,927,302.83	3,668,092.49	58,476,421.95	114,046,424.76
Campania	1574	4,607,812.89	8,769,708.40	139,805,953.74	272,663,214.53
Emilia-Romagna	2454	7,185,113.79	13,674,893.99	218,004,009.83	425,172,694.80
Friuli-Venezia Giulia	635	1,858,862.72	3,537,835.50	56,399,876.02	109,996,542.22
Lazio	1934	5,663,693.76	10,779,288.13	171,842,504.69	335,144,022.62
Liguria	980	2,869,360.85	5,461,041.61	87,059,466.03	169,791,866.71
Lombardia	3977	11,643,236.81	22,159,708.77	353,268,213.36	688,978,144.86
Marche	783	2,292,560.76	4,363,260.80	69,558,736.63	135,660,236.36
Molise	161	472,492.97	899,260.81	14,335,940.13	27,959,349.48
Piemonte	2217	6,491,562.93	12,354,910.08	196,960,937.37	384,132,441.31
Puglia	1303	3,815,444.75	7,261,652.91	115,764,659.87	225,775,537.05
Sardegna	723	2,117,983.57	4,031,001.00	64,261,878.82	125,329,787.33
Sicilia	1411	4,131,294.04	7,862,785.42	125,347,863.84	244,465,636.66
Toscana	2099	6,144,238.51	11,693,873.29	186,422,744.35	363,579,828.87
Trentino-Alto Adige	491	1,436,876.36	2,734,700.17	43,596,360.16	85,025,876.11
Umbria	528	1,546,307.34	2,942,972.04	46,916,612.75	91,501,356.74
Valle d'Aosta	99	289,498.01	550,980.09	8,783,678.27	17,130,786.55
Veneto	2021	5,916,958.78	11,261,308.64	179,526,835.11	350,130,753.71
<b>Total</b>	<b>25,028</b>	<b>73,280,328.51</b>	<b>139,469,012.33</b>	<b>2,223,403,263.48</b>	<b>4,336,298,024.51</b>

rates ranging from 1.23% to 1.73%, while *Piemonte* set rates between 1.62% and 3.33%, depending on income brackets.

With these elements in place, we can estimate the potential tax revenues that could be collected if prostitution were legalized. Based on the previously defined scenarios and market hypotheses, the total additional public resources would range from €2.297 billion (Hypothesis 1) to €4.476 billion (Hypothesis 2). Of this, approximately 97% would be allocated to the national budget (VAT, social security, and IRPEF), while the remaining 3% would benefit regional and municipal budgets through supplementary taxes.

To contextualize these figures, we compare them with public spending on a strategic national priority: innovation. According to the 2023 Budget Law (*Legge 29 dicembre 2022, n.197*), the Italian government allocated over €16 billion to support innovation and R&D programs. The estimated revenues from legalizing prostitution would represent 14% to 28% of that expenditure.

Table 4 presents a breakdown of these projected revenues by region, based on the number of sex workers identified and the two hypothetical market structures. The data is disaggregated to show contributions to both national and local budgets.

We now turn to the flat-rate regime, a preferential tax treatment designed to support small business activities—specifically, entrepreneurs with annual revenues below €85,000. Based on our earlier scenarios, only sex workers with low productiv-

ity and low quality would qualify under current thresholds. However, for the purpose of simulation, we assume an extension of this regime to all sex workers, regardless of income level, to assess its broader fiscal impact.

Under this favorable regime, workers are exempt from VAT, and a flat tax rate of 25% is applied to gross income. This rate encompasses both social security contributions and personal income tax, with no additional regional or municipal taxes. Appendix B provides a simplified accounting model for self-employed sex workers, comparing tax and contribution assessments under the ordinary and flat-rate regimes (Tables B.1 and B.2).

Using the two hypothetical market structures, we estimate that total public revenues under the flat-rate regime would range from €0.969 billion (Hypothesis 1) to €1.845 billion (Hypothesis 2). These funds would be allocated exclusively to the national budget, as local administrations would not receive supplementary tax contributions under this model.

This regime is clearly more favorable for entrepreneurs, given the lower tax burden and the absence of VAT charges for clients. However, it also results in a reduction in public revenues for both the state and local institutions. Compared to the €16 billion allocated to innovation and R&D programs in 2023, the estimated revenues under the flat-rate regime would represent only 6% to 12% of that expenditure—down from the 14% to 28% projected under the ordinary regime.

Appendix A presents the estimated taxes and contributions generated by the sex industry under the flat-rate regime, disaggregated by region and market structure (Table A.1).

This analysis directly addresses our second research question: estimating the budgetary impact of regulating the Italian sex market. It provides a fiscal assessment of the revenues that could be collected through legalization, which could then be reinvested in targeted interventions and ad hoc programs to protect vulnerable workers, prevent exploitation, and combat human trafficking.

The next section explores the characteristics of such a policy framework, including a discussion of which fiscal regime may be most appropriate for implementation.

### 3.1 Limits of the BIA

It is important to acknowledge the limitations of our analysis. First, the study focuses exclusively on one segment of the Italian sex market—namely, sex workers who advertise and offer services through digital platforms. As a result, it does not account for individuals operating through other channels, such as street-based work. Moreover, the analysis excludes the growing digital supply of erotic services, which has expanded significantly in the post-pandemic period. Platforms such as OnlyFans and similar subscription-based services represent an increasingly relevant portion of the sex economy.

Second, our dataset provides limited and inconsistent demographic information, particularly regarding legal residency status, which is a key factor in determining tax eligibility and compliance. While some advertisements include references to national origin or cultural background, these descriptors are often used for marketing purposes and do not reliably indicate legal status. As such, we are unable to distinguish

between residents and non-residents in our sample, which limits our ability to assess the fiscal implications of sex work across different legal categories.

Third, we assume perfect compliance by sex workers, meaning that all individuals in our sample operate within the formal market and fully declare their income for taxation purposes. This is, of course, a strong assumption that likely leads to an overestimation of the actual fiscal contribution. Nonetheless, it provides an upper-bound scenario that helps illustrate the potential revenue under full regularization and enforcement.

These exclusions underscore the need for further research to capture the full complexity of the sex industry and to inform more comprehensive policy interventions.

#### **4 Policy implications: a proposal to reform the market of sex services**

This section outlines the key components that a policy reform should address, based on the findings presented in the previous sections. Specifically, it considers the most appropriate elements to protect sex workers and prevent their exploitation.

The first and most essential component is the legalization of sex work, which entails formally recognizing the labor rights of sex workers. Legalization can offer substantial benefits: it enables access to a safe and healthy working environment, protection against discrimination and exploitation, and inclusion in social security systems. It also serves as a powerful incentive for workers to transition into the formal market, choosing to operate under the protections and regulations of the state rather than under the control of criminal organizations in the informal sector (Lutnick & Cohan, 2009). Obviously, this item implies the establishment of a professional register, regulated through a licensing system. This approach mirrors existing requirements adopted by policymakers for other professions. Under such a framework, sex workers would be required to obtain a license and subsequently gain access to a dedicated professional register. This registration would serve as a precondition for entering the formal market and could be subject to periodic renewal. This measure aligns with the principles of the legalization model and reinforces the legitimacy of the profession. Access to the register—and its continued validation—could be contingent upon specific criteria set by the policymaker. These may include mandatory periodic health checks, as well as psycho-aptitude assessments to ensure that individuals are not subject to undue influence or coercion in their decision to engage in sex work. However, legalization also introduces trade-offs that must be acknowledged. While it may reduce exploitation risks and improve access to rights, it can simultaneously increase visibility and social stigma for sex workers, as well as clients (Keighley & Sanders, 2024; Platt et al., 2018). Formal registration, licensing, and public recognition may expose individuals to societal judgment, discrimination, or breaches of privacy—particularly in contexts where sex work remains morally contested. Therefore, any legalization effort must be carefully designed to balance these competing outcomes, ensuring that protections are not undermined by new forms of vulnerability.

The second item concerns the nature of the professional activity—specifically, whether sex workers operate in subordinate (i) or autonomous (ii) roles—which is highly relevant to preventing exploitation by third parties. Subordinate work arrange-

ments are particularly delicate, as they present greater opportunities for abuse and trafficking. In such cases, policymakers should implement strict safeguards to protect vulnerable workers. However, the risk of exploitation is not entirely absent in self-employment. While self-employment may reduce certain risks associated with third-party control, it does not inherently guarantee autonomy or protection from coercive or unfair practices. Even independent contractors may face vulnerabilities, especially in the absence of regulatory oversight or support mechanisms. It is therefore essential that policymakers adopt tools to verify the authenticity of self-employment and assess whether individuals are genuinely exercising free choice. Under such conditions, this model may help to limit—but not eliminate—instances of exploitation and human trafficking. This item aligns with the abolitionist model, which traditionally precludes the establishment of red-light districts or brothels, based on concerns that third-party involvement may facilitate exploitation of subordinate workers. However, it is important to acknowledge that zoning mechanisms—such as designated areas for sex work—can also serve regulatory and efficiency purposes, including clustering, joint marketing, and reduced nuisance. The risk of exploitation within such zones depends not on zoning itself, but on the legal and institutional framework that governs them. If properly regulated, with strict oversight, labor protections, and mechanisms to ensure genuine autonomy, red-light districts could potentially reduce harm and improve working conditions. Therefore, the policy challenge lies not in the zoning *per se*, but in ensuring that such environments do not enable coercion or abuse.

The third key item concerns the taxation framework for legalized sex work, offering guidance to policymakers on whether to adopt an ordinary or flat-rate regime. Given the fragility and informality of the current market, we argue that a flat-rate regime would be more appropriate during the initial phase of legalization—when sex workers are transitioning from the informal sector to the formal one. In this sensitive period, it is essential to provide strong incentives that encourage self-employed sex workers to enter the regulated market. To ensure the effectiveness of such a policy, the flat-rate regime should be extended to all sex workers, regardless of income level. This inclusive approach would reduce administrative barriers and signal a welcoming stance from the state (Keen et al., 2008), supporting tax compliance (Pántya et al., 2016). Once the market has stabilized and the transition from informality is complete, policymakers could consider shifting to the ordinary regime, which offers a more progressive and comprehensive tax structure. This phased approach is consistent with economic reasoning, assuming that both clients and workers behave rationally and respond to financial incentives. In this context, lower taxation is likely to increase participation in the formal market, thereby enhancing transparency, compliance, and worker protections. Importantly, this proposal addresses a core contradiction in the current Italian abolitionist model, which fails to recognize sex work as legitimate labor yet paradoxically demands taxation on its income. In contrast, the hybrid model we propose not only collects taxes but reinvests those revenues into protections and social support measures for sex workers. This alignment between fiscal policy and labor rights is essential to ensure that taxation does not become a tool of exploitation, but rather a mechanism for empowerment and inclusion.

The fourth key item addresses the role of clients and their access to either the existing informal market or the newly established formal one. While the previous

item focused on tax incentives to encourage sex workers to transition into the formal sector, this item emphasizes the use of disincentives to deter clients from engaging with the informal market. This approach draws from the Nordic model, which seeks to reduce demand by imposing severe penalties on those who purchase sex services outside the legal framework. In the context of the informal market, such a strategy may be effective in curbing demand and signaling societal disapproval. However, this model also entails significant trade-offs: while it may reduce client activity in the informal sector, it can simultaneously worsen conditions for vulnerable sex workers who remain there—pushing them further underground, increasing their exposure to violence, and reducing access to support services (Cameron et al., 2021). Within the scope of our hybrid model, the policy objective shifts toward fostering a regulated, legal sex market while suppressing demand in the informal sector. By discouraging participation in unregulated transactions, the policy aims to shift both supply and demand toward a safer, accountable, and rights-based environment. This approach seeks to balance the deterrent effect of client-side penalties with the protective benefits of legalization, recognizing that reducing demand alone is insufficient if it leaves remaining workers more exposed and unsupported.

Accordingly, we envision a policy reform built around a series of targeted incentives and disincentives designed to guide both sex workers and clients toward the formal market. The overarching goal is to reduce the viability of a parallel informal market, where risks of exploitation and human trafficking are significantly higher. The main components of this proposed reform can be summarized as follows:

- legalization of sex work, formally recognizing it as a legitimate profession with associated labor rights;
- provision of services by self-employed individuals, operating independently and without third-party intermediaries;
- establishment of red-light districts, under strict oversight to prevent abuse and exploitation;
- implementation of a licensing system and professional register, with periodic monitoring to ensure compliance with health and psychological standards;
- adoption of a flat-rate tax regime to facilitate the transition from the informal to the formal market, followed by a shift to the ordinary regime once the market stabilizes;
- enforcement of penalties for clients engaging in the informal market, thereby redirecting demand toward the regulated sector.

These interventions represent a conceptual framework for reform—an integrated set of measures aimed at fostering the emergence of a safe, transparent, and rights-based formal market. Given the sensitive nature of this policy area and the moral values it touches upon, broad political and societal consensus will be essential for successful implementation (Schmitt et al., 2013).

Ultimately, the implementation of any hybrid legislative model must be preceded by a careful and transparent evaluation of its costs and benefits, taking into account the cultural norms, moral values, and social sensitivities of Italian society. While our proposal outlines a possible pathway toward regulation, it does not prescribe a defini-

tive solution. The responsibility to weigh these trade-offs—and to determine whether such a model aligns with the public interest—rests solely with the policymaker, the democratic representative of the Italian people. Our contribution is to offer a structured framework; the decision to adopt it must reflect broader societal consensus.

## 5 Conclusions

This study investigates the Italian sex market and its current legislative framework. It compares alternative models adopted across the European Union and develops a trade-off framework to assess whose welfare would be affected by the proposed reform. Specifically, we examine three policy options: (i) strict regulation of sex services, (ii) the adoption of legal barriers to restrict supply and demand, and (iii) a hybrid model that combines both approaches.

Our analysis suggests that, while a *Pareto* improvement for society as a whole may be unattainable, policymakers could nonetheless enhance the welfare of sex workers by adopting a hybrid legislative model. This model would involve the regulation of sex services alongside a system of incentives and disincentives designed to guide both workers and clients toward the formal market. Building on this framework, we estimate that the income generated by sex services in 2024 ranged between €3.893 and €7.410 billion. Based on this projection, our BIA indicates that potential tax revenues under a flat-rate regime would fall between €0.969 and €1.845 billion.

Considering the legal paradox surrounding the Italian sex market, the proposed hybrid legislative model offers a pathway to improve the welfare of sex workers by protecting them from exploitation. While the provision of sex services is tolerated, workers are denied labor rights and social protections. At the same time, the tax authority expects them to contribute financially through taxation on their income. This contradiction highlights the urgent need for reform.

Legalization could serve as a pivotal opportunity to create a safer, more regulated labor environment—one that grants sex workers access to rights and support systems. To reinforce this shift, the hybrid model introduces a system of incentives and disincentives aimed at guiding both workers and clients toward the formal market, while penalizing participation in the informal one. The erosion of the informal market is expected to reduce opportunities for exploitation and hinder human trafficking operations that coerce individuals into sex work.

Obviously, legalization and the establishment of legal barriers against informal market activity should be viewed as preliminary steps in a broader legislative journey—one that could ultimately culminate in the decriminalization of prostitution. This trajectory aligns with findings in the literature, which suggest that decriminalization has a positive societal impact (e.g., Cunningham & Shah, 2018; Srsic et al., 2021).

At the heart of this policy reform lies the principle of freedom of choice. Modern European governments must resist paternalistic impulses to dictate what is right or wrong for their citizens. If an individual freely chooses to participate in the sex market, that decision must be respected—and the individual must be protected from exploitation. It is imperative to prevent third parties from profiting off such choices

through coercion or abuse, and to ensure that participation is not the result of trafficking or manipulation.

Importantly, policymakers should not impose moral judgments on these decisions. Instead, they can play a constructive role by implementing educational programs that inform both workers and clients about the psychological and health risks associated with sex services (Locatelli & Strøm, 2018).

Looking ahead, our research agenda includes a deeper investigation into both the supply and demand sides of the sex market. We aim to better understand the drivers of supply across Italian provinces and municipalities, including the mobility patterns of sex workers—potentially through survey-based research. On the demand side, we plan to conduct behavioral analyses of clients, exploring whether punitive measures could effectively shift their engagement from the informal to the formal market, using controlled experimental settings.

**Supplementary Information** The online version contains supplementary material available at <https://doi.org/10.1007/s10657-025-09863-x>.

**Acknowledgements** Authors would like to thank the reviewers and the editor for the very useful comments and suggestions, which have helped us to improve the quality of our manuscript.

**Author contributions** F.S. and R.I. contributed equally to the conceptualization, theoretical development, and writing of the manuscript. R.I. was primarily responsible for conducting the empirical analysis.

**Funding** Open access funding provided by Università degli Studi del Piemonte Orientale Amedeo Avogadro within the CRUI-CARE Agreement. The authors did not receive support from any organization for the submitted work.

**Data availability** No datasets were generated or analysed during the current study.

## Declarations

**Competing interests** The authors declare no competing interests.

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