Human Trafficking and Economic Disparities

By Sylvia Direnzo

Research Question

How do regional economic disparities affect the supply and demand of human and labor trafficking victims in Europe?

Why is this important?

Data on human and labor trafficking is minimal, even though this is one of the fastest growing black market economies. This human rights violation continues to expand right in front of the general public's eyes. When we avoid talking and researching this topic, this market will continue to grow and hurt the lives of countless individuals.

Previous Research and Literature Review

Common Theoretical Frameworks

- Economic model of human trafficking
- Human trafficking as an outcome of economic freedom and institutions
- Globalization and macroeconomic drivers
- Legal regimes

Sources

- Berendse, L. E. (2015). Human Trafficking in Europe. Retrieved from https://gupea.ub.gu.se/items/d32f6ded-d63d-4f10-915e-ba3c18e1396f
- Cho, S.-Y., Dreher, A., & Neumayer, E. (2014). Determinants of Anti-Trafficking Policies: Evidence from a New Index. The Scandinavian Journal of Economics,116(2), 429–454. https://doi.org/10.1111/sjoe.12055
- Heller, L. R., Lawson, R. A., Murphy, R. H., & Williamson, C. R. (2018). Is Human Trafficking the Dark Side of Economic Freedom? Defence and Peace Economics, 29(4), 355–382. https://doi.org/10.1080/10242694.2016.1160604
- Malah, Y. F. K., & Asongu, S. (2022). An empirical analysis of human trafficking in an era of globalization. Journal of Economic Studies, 49(7), 1269–1283. https://doi.org/10.1108/JES-06-2021-0288
- Wheaton, E. M., Schauer, E. J., & Galli, T. V. (2010). Economics of Human Trafficking. International Migration, 48(4), 114–141. https://doi.org/10.1111/j.1468-2435.2009.00592.x

Limitations

- No universal definition recognized by the European Union until November 2000.
- Human and labor trafficking are under-reported crimes.
- Labor trafficking is such a small sample size due to other forms of trafficking being left out (sex, organ, and forced begging).

Theory – Supply and Demand in the Market of Human Trafficking

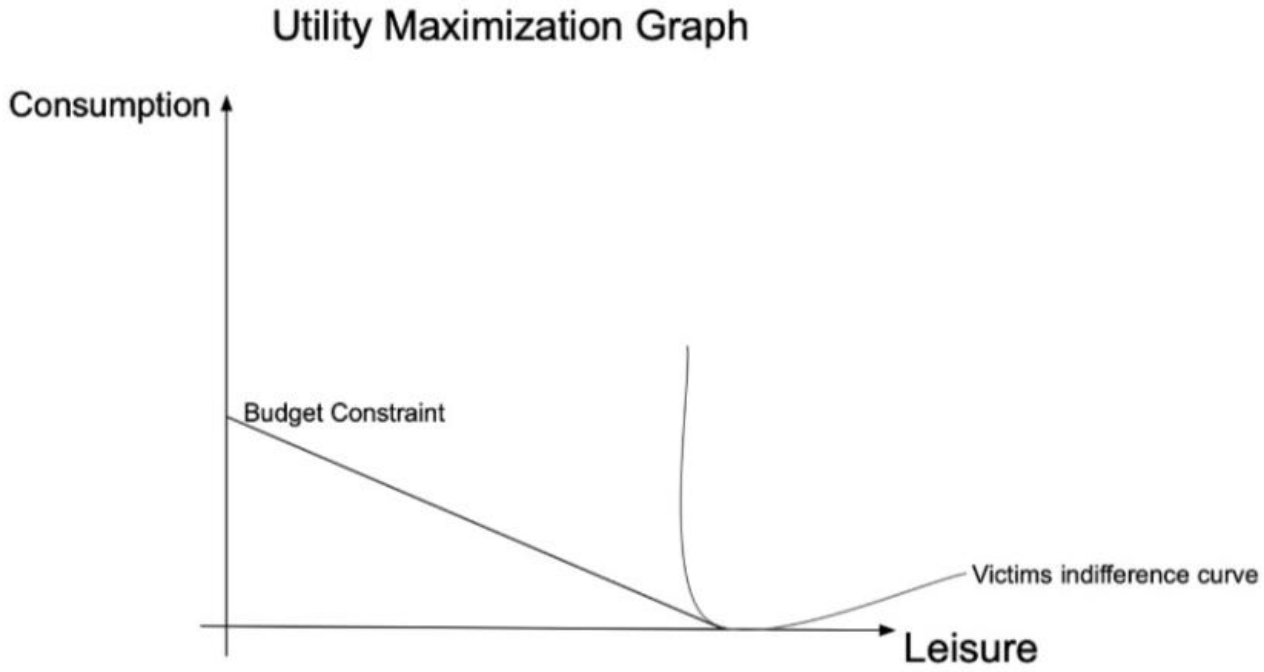
Supply

- Utility Maximization Theory
- Dual Labor Market Theory

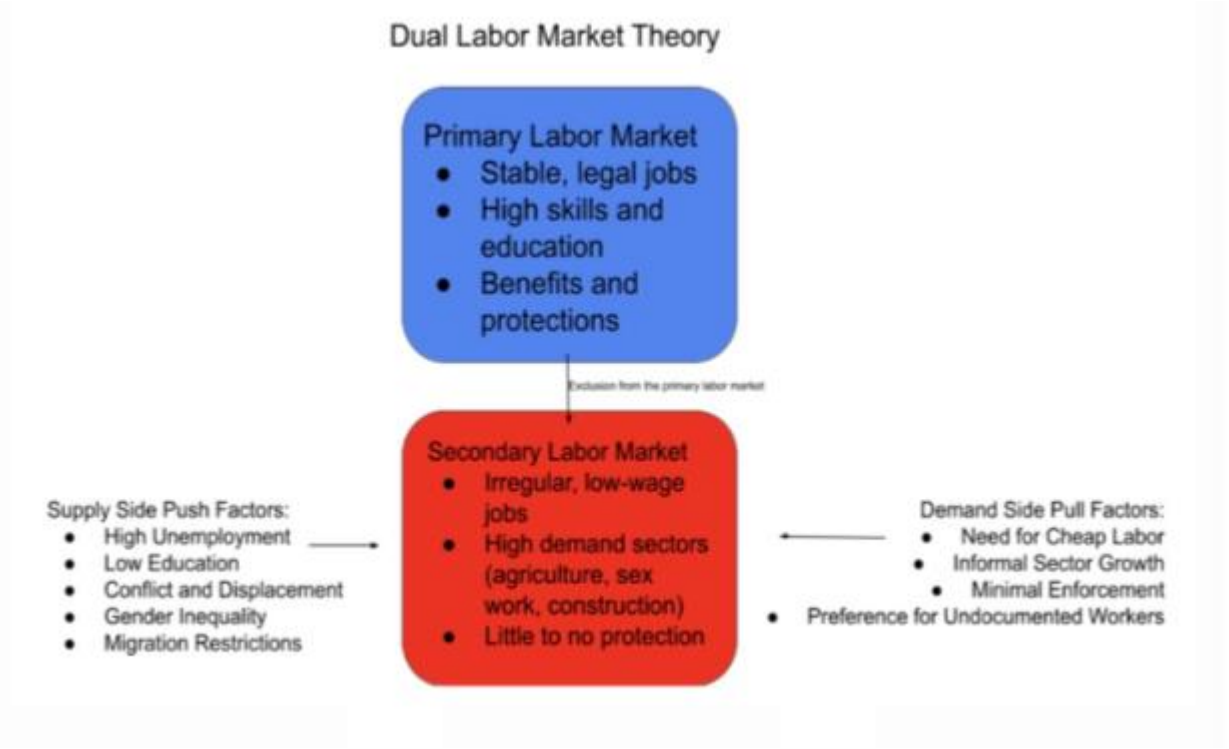
Demand

- Becker’s Model of Crime

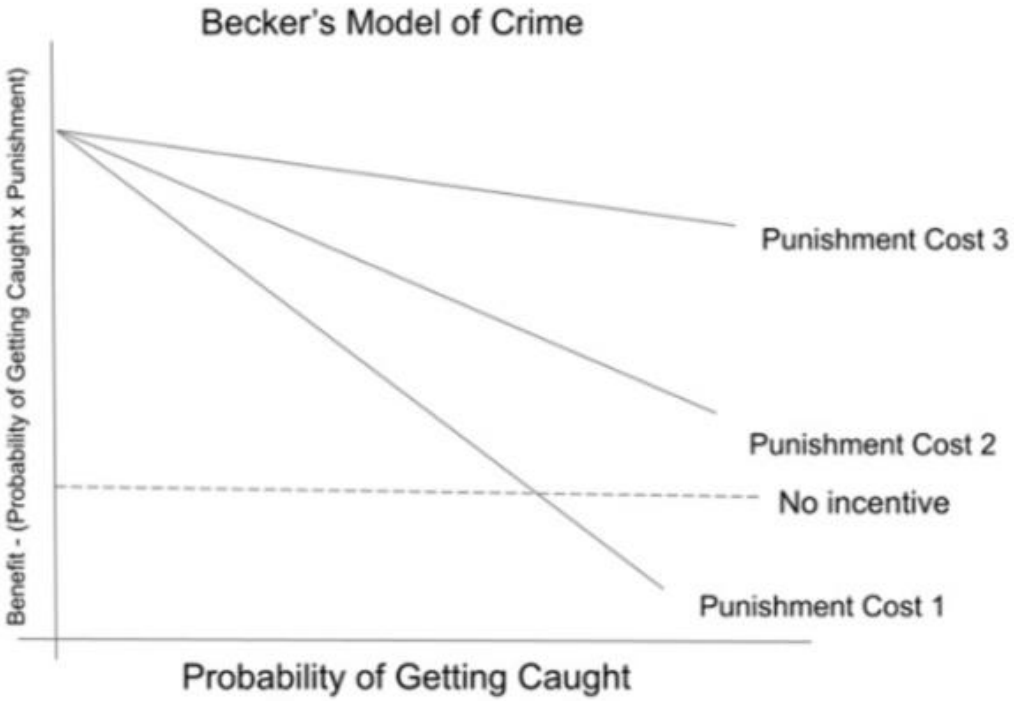
Utility Maximization Theory



Dual Labor Market Theory



Becker’s Model of Crime



Data Description

- Data collected on 34 European countries from 2014 to 2023
- Panel regression model with fixed effects
- Independent variable - Gini coefficient
- Dependent variable - Natural log of human trafficking / Natural log of labor trafficking
- Control variables - Unemployment rate, Natural log of GDP per capita
- Rule of law estimate with a sample mean from 2014. Each year, if a country has a weak rule of law they are below the sample mean given a value of 0 and stronger rule of law countries are given a value of 1.
- Sources: EuroStat and World Bank

Empirical Strategy

$$\ln(\text{Trafficking}_{it}) = \beta_1 \text{Gini}_{it} + \beta_2 \text{Unemployment}_{it} + \beta_3 \ln(\text{GDPpc}_{it}) + \alpha_i + \gamma_t + \varepsilon_{it}$$

- Country fixed effects are added to account for characteristics of a country that do not change over time.
  - Example: Geography
- Year fixed effects control for common shocks affecting all countries in a given year.
- Standard errors are clustered at the country level to account for serial correlation within a country over time.

Results

	(1) Weak Law = 0	(2) Weak Law = 1
Gini Coefficient	-0.09	-0.20
	(0.06)	(0.12)
Unemployment Rate	0.17**	-0.015
	(0.07)	(0.05)
ln GDP per Capita	-1.26	-2.27*
	(1.13)	(1.20)
Year Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	Yes
Clustered SEs	Yes	Yes
Observations	147	122
Number of Countries	17	14
Within R^2	0.25	0.23

Robust standard errors clustered at the country level in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

- A one point increase in the Gini coefficient is associated with a .09 decrease in human trafficking in weak rule of law countries (Weak Law=0), compared to a larger .20 decrease in strong rule of law countries (Weak Law=1).

Results

	(1) Weak Law = 0	(2) Weak Law = 1
Gini Coefficient	-0.05	-0.14
	(0.42)	(0.25)
Unemployment Rate	0.24	-0.25
	(0.17)	(0.17)
ln GDP per Capita	-7.40	-1.51
	(5.92)	(3.09)
Year Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	Yes
Clustered SEs	Yes	Yes
Observations	133	113
Number of Countries	17	13
Within R^2	0.14	0.12

Robust standard errors clustered at the country level in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

- A one point increase in the Gini Coefficient is associated with a .05 decrease in labor trafficking in weak rule of law countries (Weak Law=0) compared to a larger .14 decrease in stronger rule of law countries (Weak Law=1).

How to interpret these results

Both results show that an increase in economic disparities result in a decrease in the number of victims of human and labor trafficking. This could be due to the limited data. These numbers are reported victims, not the total number of victims. Labor trafficking is also difficult to detect due to the average victim being men. There is a stigma around male victims of trafficking because some legal institutions have a hard time believing men can be taken advantage of in such a violating way.

If I were to do this research again

- Look at the long run instead of the short run.
- Look at the United States compared to Europe and how their trafficking victims vary state to state.

Thank you!