

Benj Eicher

Dr. Herbener

Economics Colloquium

Economic Analysis of Tipping: An Austrian Framework

Why Tipping Works

If you drive up to a stop light in any major city in America, chances are you will encounter a beggar. He may knock on your window and ask for money or he will rely on his cardboard sign, but the choice is up to you as to whether you're going to pay him or not. It's a gift that you'd be giving him but not everyone will choose to give this gift, in fact most people don't. If everyone did choose to give to the beggar, then pretty soon, he wouldn't need to beg anymore. Some people do choose to give this gift and it is their own voluntary choice. They're not gaining anything in return from giving except maybe they're receiving the feeling of knowing they did something nice for someone, or they are truly altruistic. Aside from the beggar at the stoplight, consider the beggar at your dinner table at a restaurant. Your waiter only makes \$3.50 an hour and is in need of your money as well but there are very few people who would choose not to gift him money. So why do people choose to give gifts of empathy to a beggar who already make a steady income of \$3.50 and not to the man outside their car door who makes no steady income at all?

The answer, obviously, is that the waiter is doing you a service that you are paying for. There is an implicit contract between you and the waiter that he will provide you service if you provide him with money. However, in the case of the beggar at the stoplight, there is no such implicit arrangement. But then, why don't people give gifts to everyone who does service for them, and why don't restaurants rely on the regular explicit wage contract that every other occupation relies on? Why does this implicit arrangement exist at all? Not only does this implicit arrangement exist, but it accounts for \$27 billion of our annual GDP. Most journalists would argue that there is no reason for it

to exist. David Lazarus, an award-winning columnist in a recent article of the *LA Times* claims that tipping is “undemocratic and un-American.”¹ Further, another recent article in *The Economist* magazine argues that “Americans are caught in a nasty cycle of low pay justifying tips and tips justifying low pay.”²

In addition to these criticisms, real economists have tried to answer this puzzle as well by saying that tipping is an unexplainable social phenomenon based on empathy and compassion. Ofer H. Azar, the leading economist that studies the economics of tipping, writes in one of his many papers on tipping that “Tipping is more prevalent when consumers feel empathy and compassion for workers and want to show gratitude for good service, suggesting that tipping might increase welfare if welfare includes psychological utility.”³ Psychological utility is a fancy way to say that we receive a nice feeling of knowing we did something nice for someone else. In the example of the beggar, people may choose to tip a beggar because for the rest of the day, they can feel like a good person. Dr. Azar explains that the reason why we tip waiters but not lawyers is because we can “easily evaluate their service quality, we do not tip lawyers because we lack the professional knowledge required to evaluate them.” However, if we tip just to receive a psychological utility, why don’t we also tip employers of grocery stores or department stores. They could give us directions to the specific aisle, we give them a

¹ Lazarus, David. "There's Little Economic Justification for Tipping. But We Can't Stop Doing It." *Los Angeles Times*. June 22, 2018.

² "The Case against Tipping." *The Economist*. October 26, 2015.

³ Azar, Ofer. "Who Do We Tip and Why? An Empirical Investigation" September 1, 2006

dollar. It's fairly easy to evaluate their service quality, probably more so than with servers at restaurants or taxi drivers.

The every-man's argument for why tipping exists is that we tip because we want to receive better customer service. Customers have the power to tip or not tip, and they have the power to tip 25% for excellent service or 15% for mediocre service. Therefore, it creates an incentive for servers to work harder to receive a bigger tip and a disincentive to neglect their customers. This seems like a pretty good explanation, but economic data doesn't support it. A study conducted by Cornell University to test this hypothesis states that "tipping is unlikely to provide an effective incentive/reward for good service."⁴ Basically, the data shows that the psychology behind what kind of service is rewarded with either a better or worse tip is ambiguous. The study conducted a survey that asked participants about the service they received at a restaurant. The survey included questions such as the size of the bill, the group size, the number of courses, and even whether the customers had alcohol or not. Then, they were asked to rate the service and then how much they tipped according to the quality of the service. Their results showed that regardless of the service quality that they received, there was no real difference in the size of the tip with regard to the quality of the service. As it turns out, there is no real incentive to waiters, other than maybe psychologically, that greater effort put into serving their customers better will actually result in a higher tip.

⁴ Lynn, Michael. Sturman, Michael. "Tipping and Service Quality: A Within-Subjects Analysis" 2010

So why does this implicit contract of tipping exist? Additionally, why is it so widespread and account for \$27 billion of our annual GDP? Are the *LA Times* and *The Economist* right about tipping being an inefficient and harmful social norm that should be put to an end? The answer is no. If tipping was such a significant burden on society, and (as economics teaches us) people are rational actors who use means to achieve ends, then we should expect tipping to be extinct. The answer to the puzzle of tipping is that it exists and it exists for a very unique reason. Tipping is a mutually beneficial, implicit agreement for managers, employees and customers.

Comment [EBE1]: Thesis

First, the arrangement of tipping is beneficial for employers for three reasons. One, it makes best use of the managers' capital—both human capital and physical capital. Two, it mitigates the risk of hiring employees. Three, it lessens the difficulty of assigning an accurate hourly wage.

The managers of a group of tipping-reliant workers are better off with the tipping system because it makes best use of both human and physical capital. Human capital, as in the employee, has an incentive to work hard for a tip. This is to say that they work hard to serve as many tables as they can possibly manage, not that they have an incentive to improve service “quality” per se. The difference between the two types of service quality is this best described in the example of a pizza delivery man. How often do you analyze the way a pizza delivery man hands over your pizza? Chances are, not often. As Azar argued, the reason why you tip the pizza delivery man is a method of evaluating his service. However, the difference between a 20% tip and a 15% tip does not depend on whether or not the pizza delivery man calls you “sir” or calls you “dude.” You wouldn't

stiff him even if he didn't smile at all. So, tipping doesn't monitor the pizza delivery man's quality in the sense of his behavior when he hands the pizza to you, but rather, it monitors how many houses he goes to in any given time. If the pizza guy gets \$2 every house that he goes to, then his direct incentive is to go to as many houses as he can to collect the maximum amount of \$2 tips that he can handle. If the pizza delivery man worked for an hourly wage, however, he could take his time between houses. He'd have no incentive to rush back to the pizza place to collect more pizzas to deliver, but rather he has an incentive to listen to music for a little bit in his car. If this were true then his manager might have to find a new way to monitor him. Maybe the manager could track him via GPS to ensure that he isn't slacking off or some other method. The system of tipping also ensures that human capital is used in its most efficient way, because pizza delivery men have an incentive to find the most efficient way to deliver to as many houses too. Not only does he have an incentive to rush from one house to the next, back to the pizza place, and out again, but he also has an incentive to find the best route. Applying this to a restaurant setting, the trips to and from tables is an additional time cost to the waiter, so in order to serve as many tables at once, he will ensure that there is no time wasted between tables and the kitchen and back again.

Tipping makes best use of the physical capital as well. In a restaurant, there plenty of physical capital used—the silverware on each table, the plates, and the table itself. Each table that is being used is inherently not being used by another potential customer. It is extremely frustrating to waiters when a group of people order only a small plate of food and stay much past their welcome. Let's say they order \$10 worth of food each and

stay for 3 hours. The revenue earned from lending them the physical capital (the silverware, plates, and table) for the 3 hours is extremely small. On the other hand, the cost is the opportunity cost of every other customer who could've sat at the same table at the same time and ordered something of greater value, which in this case may be fairly high. The reason why it's so frustrating, especially to servers, that this group of people use up the restaurant's resources for such a long time is that they will receive only a small tip when they could be earning 2 or 3 tips from a table of people who would order entrees instead. This, in turn, would earn a greater revenue for the restaurant as well. So, it is the servers' incentive to find the balance between treating each table of customers with kindness while also quickening the process of them eating and subsequently leaving. In an environment where the server would be earning an hourly wage rather than a tip, the incentive to make best use of this capital is no longer there. Instead, the group of people who orders a small dinner and stays for 3 hours is warmly welcomed by the server because the incentive to hurry them along is absent. It's in the servers' best interest for them to use up a table for as long as they like because they get paid whether the group of people sits idly because it just means less work for him. If this is true then it becomes the manager's problem. The manager will have to employ a new method of monitoring his employees, but it is difficult to see a better incentive. So, the restaurant, and the manager would earn smaller revenues over time and the restaurant would suffer.

Second, it mitigates the risk of hiring new employees. Managers incur a certain amount of risk any time they hire a new employee. There are very few ways to ensure that the employee you're hiring is going to do his job efficiently and to the best of his

ability. That's why applications exist. Managers attempt to mitigate the risk by having the future employee tell the manager a little about himself. This will tell enough about a person as to how hard working he may be, about how much experience he has in the specific field, and about whether or not he is the kind of employee that has the ability to serve customers efficiently. When you hire an employee and after working there for a while, you discover that he is absolutely unable to handle more than 2 tables at a time or else he'll have a panic attack, you have a problem on your hands. In a regular hourly wage agreement, you can't afford to hire an employee and pay him \$10 an hour if he is physically unable to serve only 2 tables at a time because his work is just not worth that kind of money. Now, since you have to fire him, you've lost a lot of time and energy. Not only do you have to take the time to find and hire a new employee, but you have to spend a week or two just training him to get to the point that he is able to work to par with the rest of the employees. In an hourly wage, the cost of hiring on an inefficient server is significantly mitigated. Since you don't have to pay him \$10 an hour you can hire him on for \$3 an hour and still have enough money to hire another server for the same amount. The server who can only take two tables at a time will be earning a lower wage than the server who can manage much more tables at the same time but you don't have to pay him more than his labor is actually worth. Therefore, the risk of taking on a server who ends up being inefficient is mitigated.

Thirdly, the tipping system lessens the difficulty of assigning an hourly wage. A struggle for managers is assigning the right number of laborers for a certain amount of time. If the store is busy, then he'd need to assign more than if the store wasn't busy at

all. There's a risk in making a schedule for the business because at any given time, he may have too few workers which would cost the company sales or too many workers which would cost the company an excess in labor costs. The manager needs to find an equilibrium for each hour that the store is open which is a risky task. However, tipping mitigates this problem. In an environment where it is difficult to assign an hourly wage and schedule employees, the tipping system ensures, to some extent, that every worker will be paid just as much as he is efficient. And back to an earlier point, it creates a situation where every employee working is as hard as he can to maximize his productivity. When the store is empty, the employee receives only a small amount of pay. In fact, the minimum amount the government legally allows them to receive. When the store is busy, then not only are workers making a higher wage, but there is an increased incentive to work these kinds of shifts because of the higher wage. In this environment of tipping, when the work is harder, the pay is higher and when the work is easier, the pay is lower. Without the tipping system, there is no feasible system to increase or decrease pay according to efficiency. On Black Friday, managers offer their employees an increased wage. For example, if the employee is making minimum wage of \$7 per hour and on Black Friday since stores are extremely busy, the manager offers the employee double pay, or for "time and a half". This kind of system is effective only because the manager can make a very accurate prediction about how busy the store will be. In other circumstances, the prediction is much harder to make, a manager might take huge losses if he were to offer an employee double pay on a day that turns out to be a slow day. However, with the tipping system, there is no such risk involved. If a manager schedules

a suboptimal number of employees—whether it is too many or too little employees—the manager will take only a small loss compared to that in a regular wage arrangement.

Again, this also encourages employees to work during times that are busiest and would prefer to work with the fewest number of coworkers as possible in order to maximize their income. If not for the tipping system, employees would prefer to have as many employees to share the work with them as possible because that way they get paid the same amount per hour with less work to do.

Tipping is also beneficial for employees as well. As we know from economics, the economy is a self-driven system. It is driven by the entrepreneur is the owner of his own body and his labor. If tipping is not beneficial for employees, then we could expect that no one, or at least very few people, would choose a job that relied on tips alone for income. However, people do have jobs that are reliant on tips. Tipping is beneficial for employees for two simple reasons. Employees act as freelance workers free from strict managerial control and tipping jobs pay well for a job where there is a low barrier to entry.

First, employees act as freelance workers free from strict managerial control. In earlier points about the benefit to managers, it was pointed out that since the tipping system works as a method of monitoring efficiency, managerial control is much less strict and overbearing. Consider if the pizza delivery man had a manager tracking his car drive from house to house and would punish him every time he took a wrong turn or took too long going from one house to the next. That sort of monitoring system would be extremely overbearing but it is necessary in order to ensure that the employee is being

efficient in his time. Further, employees are not rewarded with extra effort put into their job in an hourly wage arrangement because they are paid the same for every hour no matter how efficient they were. Instead, they are only punished for inefficient behavior. It then becomes an equilibrium between how little of work can the employee put in with how likely it is for them to get yelled at for slacking off. In the tipping system, there is a positive reward system rather than a negative reward system. For as efficient as they are, the more income they earn. So too, the more employees slack off, the less they get paid. This is a beneficial arrangement for employees because they can work for a positive reward and work efficiently without the constraints of strict managerial control.

Second, there is a very low barrier to entry but employees can still earn a high income. Usually in jobs where a high income is offered, the risk of taking an employee onto this job is also very high. As an earlier argument pointed out, the risk of taking on tipped employees is significantly low simply because the minimum required wage for the job is so low. So, if they end up being an inefficient worker, the only cost it is to the manager is that small \$3.50 per hour that they originally offered. Since the risk of the manager to take on an employee is so low, the barrier to entry is also low. A typical server at a nice restaurant in America can make as much as \$38,460 annually. This places servers right in the 50th percentile of annual American incomes.⁵ In addition, this is working not even 40 hour weeks with flexible work hours depending on whether the employee would prefer to work during the day or work in the nights. Most entry level,

⁵ "Figure 2f From: Irimia R, Gottschling M (2016) Taxonomic Revision of *Rochefortia* Sw. (Ehretiaceae, Boraginales). Biodiversity Data Journal 4: E7720.

specialized jobs require some form of college degree in the field they're applying for. This is four years of opportunity cost, and the actual cost of paying for the educational degree. In comparison, tipping jobs, since they have such a low risk to managers to hire them there isn't any need to economic signaling to hire them. For jobs where you'd hire on an employee for \$12 or \$15 an hour, the economic signaling would come through either an educational signal (college degree) or a signal of past employment. But since it is not the manager that is paying the high wage but rather the customers, and as an earlier point brought up, the wage will differ depending on overall efficiency, the manager can hire an employee of very little background in the industry or without a college degree and the employee will earn \$30,000 a year depending on his efficiency.

It is clear to see that tipping is beneficial for the managers and the employees for very similar reasons. However, many objections to the tipping system do not have to do with whether it is efficient for the manager or the employee, but rather for the customer. Brian Palmer for Slate Magazine wrote that "tipping is a repugnant custom. It's bad for consumers and terrible for workers. It perpetuates racism." Palmer continues his article by arguing that tipping is bad for consumers because it doesn't actually incentivize hard work and that the factors that correlate most strongly to tip size have nothing to do with the quality of service. In some sense, Palmer is right, but, in general, he is completely wrong. He is right that the incentive for "hard work" in the sense that he means it is not necessarily correlated with tip size. As the study cited before showed, the difference between a 20% tip and a 15% or 25% tip can basically be chalked up to chance. Sometimes servers put in extra work for a table and get a below average tip, and then

other times a server might pay much less attention to a table and get tipped the same. That much is true. However, the definition of “hard work” is worth disambiguating. Further, tipping does not perpetuate racism, but rather, it makes racist behavior becomes costly to participate in. There are several reasons why tipping does incentivize “hard work” but in a different sense than what Brian Palmer, and many other critics, mean by it. Tipping incentivizes hard work in a communal sense, but not necessarily an individual sense. In other words, tipping ensures that servers tend to as many tables as they can and as efficiently as they can while also quickening along the eating process to serve other customers who are waiting at to be seated.

The way that tipping incentivizes hard work in a communal sense is fairly similar to the way that has been discussed earlier in this paper. It is in the servers’ best interest to serve as many tables as possible. The more tables that a server can serve, the higher his income. This means that servers find the most efficient way to serve as many people as possible while still being physically able to deliver their food on time, fill up their water, and deliver the check. Under an hourly wage, there’s no difference in pay to the server whether he takes one customer at a time or ten, so naturally he would choose the minimum number of tables that he wouldn’t get yelled at by his manager for. This is beneficial to the customers as a whole and not necessarily individually. It’s not as if each individual table gets better service than in a tipping system than an hourly wage system, but rather *more* tables are given service. Additionally, customers are given the power to opt out of the implicit contract with their server if they feel they have gotten no service at all, or even service that was so bad, they would’ve rather not have ever been served at all.

In a wage situation, there is no such power other than complaining to the manager which would exist whether there was tipping or not. So, more tables are given service and servers are incentivized to “work hard” by taking as many tables as possible during their shift, but also servers have an incentive to ride the balance between one, giving satisfactory service, and two, creating a structure that encourages customers who are sitting to eat, and subsequently leave. As this paper has pointed out already, it is in the best interest of a server to “hurry along” a customer. This is also a communal benefit to customers because it benefits those who are standing at the door waiting to be seated. In other words, the tipping system looks after all customers whether they are sitting or standing. Consider if it was in the best interest of the server to keep customers sitting as long as they can coax them to do so. If you are waiting to be sat, the time waiting at the door will be dramatically longer. This would be the kind of situation that would arise with an hourly wage. Since there is no increase in income if a customer remains sitting or leaves, but it is significantly more work to serve new customers rather than check on old customers, it is in the servers’ best interest to keep them sitting.

Also, tipping does not perpetuate racism but rather makes racist behavior costly. The general argument for why tipping perpetuates racism is that customers typically tip white people more than they tip black people. A study done by Michael Sturman and Michael Lynn of Cornell University in 2008 shows a differential between average tips paid to black servers and to white servers.⁶ It revealed that, in fact, black people do get

⁶ Lynn, Michael. Sturman, Michael. “Consumer Racial Discrimination in Tipping: A Replication and Extension” March 19, 2008

tipped on average less than white people. There are a few problems with the data, one is that the study was conducted on only one restaurant in the South rather than a wide range of restaurants around the United States, so that may have some impact on the data collected. In addition, the gap between average tipping income for black servers and white servers is considerably small. The average difference between tips was 2-3%. However, let's say that this 2-3% differential is convincing enough to regard tipping as a practice which perpetuates racism.

Consider an example of a racist, white server. He works in a nice restaurant in a predominantly white area but every once in a while, a black customer will make his way into the restaurant. The racist server has two fundamental options. He can choose to either serve the customer or not. If the average tip he earns of a check is around \$15 or \$20, that becomes the price of his racism. If he is racist enough to either give no service at all or just terrible service, he will lose however much money he could've earned by serving the table. In a system where the server earns an hourly wage, however, there is no such disincentive. There is no financial penalty if he chooses not to serve the table or if he chooses to be extremely rude. The server is able to pick and choose which customers he'd like to serve and which he would rather not serve. Tipping solves this problem by making it in the servers' best interest to serve every customer with equal treatment because that is how he maximizes his monetary income.

Contrary to many economists and journalists, tipping is not a useless, unexplainable social phenomenon. It is not merely a social norm that is fundamentally based on peoples' capacity for compassion and empathy, and it does not perpetuate

racism. Tipping is an implicit contract between customers and employees that is mutually beneficial for all parties involved. It is beneficial for the manager because it makes best use of both forms of capital—human and physical capital. Tipping mitigates the risk of hiring employees for managers, and it lessens the difficulty of assigning an accurate hourly wage and scheduling. Tipping is also beneficial for employees. One, employees act as freelance workers free from strict managerial control and two, tipping jobs pay well for a job where there is a low barrier to entry. Lastly, tipping is beneficial for customers. Tipping ensures that servers tend to as many tables as they can and as efficiently as they can while also quickening along the eating process to serve other customers who are waiting at to be seated. Therefore, tipping improves the eating experience for as many customers as possible and makes racist behavior costly to participate in.

[The Future of Tipping](#)

Although it is clear that tipping is an extremely effective system, there are many countries in the world that do not participate in tipping. This seems counterintuitive if the system is as beneficial as this paper makes it out to be. Further, just like every other social norm, it could be expected that tipping will become obsolete due to new technology. The future of tipping is one that is rarely examined but turns out to be quite interesting.

The first question has to do with why some countries have adopted the social norm of tipping and why others haven't. Countries like Belgium, Switzerland, and many

other European countries have not adopted tipping as a social norm. If tipping is a far better alternative to an hourly wage arrangement in cases such as taxi-drivers, pizza delivery men, and restaurant servers, why are some countries not accessing this alternative?

For the behavioralist economists discussed earlier in this paper, the answer would be easy. They just don't. If the reason why we tip in America is because it is merely a social norm based on empathy and compassion, then countries like Belgium, Switzerland, and others are either not as empathetic or they just never adopted the system because that's not how it worked out for them. I don't think that anyone is making the argument that the reason why Belgian people don't tip but American people do tip is because American people are just more empathetic than Belgians.

For some journalist and other critics might suggest is that the reason is that Belgian people are more politically progressive than American people. Maybe it is wrong to force servers and other tipped jobs to rely merely on tips, and presumptuous to force customers to feel a moral burden to give a monetary gift to a worker who could, like everyone else, make a regular wage. In the eyes of a critic, the "undemocratic and un-American" social norm of tipping *should* be outlawed just like the other European countries. A writer for Forbes magazine in 2017 suggests that tipping is simply an ingrained habit, and that the "only realistic way I can see it changing is to outlaw tipping all together, but that would take more political will than we're likely to see at the moment."

The answer to this puzzle, however, is much less interesting. There is no fundamental difference between people in Belgium compared to America, but instead, there is provisions made in our legal code that allows tipping jobs to prosper, and there are no legislative provisions in countries where there is no tipping. In America, there are two minimum wages. There is the normal minimum wage for each state, and then there is the tipping minimum wage in each state. The federal minimum wage is \$7.25 per hour while the federal tipping minimum wage is \$2.13. There are additional rules such as if a server doesn't make enough in tips to support at least a minimum of their states particular minimum wage, the company is legally required to pay them minimum wage for that pay period. Basically, there are particular provisions in our legal code that make the practice of hiring someone for \$2.13 possible. If companies did hire servers at \$7.25 and hour but then they also received tips as well which would account for roughly \$10-13 an hour, their income could average to something like \$20 an hour. If this were true, we'd expect an influx of people applying to be servers. As economics teaches us, the greater the supply of labor, the equilibrium price for that labor is bid down. In the case of a massive influx, which you might expect if an entry level job is now offering \$20 and hour (including tips). In the case where there is no legal provision for jobs that earn a tip and the minimum wage is the same across all occupations, there would either be an excess supply of labor (unemployment) in tipping jobs or the practice of tipping would be eliminated altogether in attempt to bid down the price of labor—bidding down the price from \$20 or so to the equilibrium price for the labor.

This is exactly what has happened in the countries that have no tipping. There is no legal provision that allows the tipping minimum wage to be lower than the regular minimum wage. So, there is just no room for tipping to exist where that is true. In order to avoid an excess supply of labor in those occupations (unemployment), the social norm of tipping would be much too costly to adopt. Such political action could also take place in America, which would raise the minimum wage for tipping jobs, or just get rid of the legal provision for tipping minimum wage altogether. Since there is a tradeoff between a state enforced increase in the price for labor and the excess of labor supplied, any policy at all to raise the minimum wage will have a marginal effect on the excess of labor supplied. In the free market, people will try to bid down the price in any way they can by either replacing the labor with technological advancements or find other natural ways to bid down the price. For example, this is why the job of an attendant that would guide you to your seat in a movie theater is now obsolete. Since the minimum wage is so high, movie theaters cannot afford to pay a laborer as high as \$7.25 per hour when the job doesn't actually bring an hourly revenue of above \$7.25. So, the job of a movie attendant taking you to your seat is now replaced by lights on the stairs that lead you to your seat rather than a teenage kid with a flashlight. Similarly, since the job of server is not worth \$20 an hour, and the federal minimum wage is \$7.25 an hour, the price of the labor will be bid down more and more by the increased supply of labor until it reaches an equilibrium between supply and demand for the labor for that specific job. It's impossible to know for sure what the equilibrium would be, but

regardless, if there is an effective state enforced minimum wage then, it will be at that level and there would be no room for tipping. Since this paper has made it clear that tipping is an extremely effective system, getting rid of the tipping minimum wage would result in a net loss for social welfare.

Conclusion

Tipping is a social norm that has existed for an extremely long time and has never become obsolete even in our modern society. The reason for the lasting effect is not that it is some unexplainable, unnecessary social phenomenon, but rather that it is an extremely effective social arrangement. The implicit contract between a customer and an employee provides many positive features that are mutually beneficial for the manager, the employee, and the customers. . It is beneficial for the manager because it makes best use of both forms of capital—human and physical capital. Tipping mitigates the risk of hiring employees for managers, and it lessens the difficulty of assigning an accurate hourly wage and scheduling. Tipping is also beneficial for employees. One, employees act as freelance workers free from strict managerial control and two, tipping jobs pay well for a job where there is a low barrier to entry. Lastly, tipping is beneficial for customers. Tipping ensures that servers tend to as many tables as they can and as efficiently as they can while also quickening along the eating process to serve other customers who are waiting at to be seated. Therefore, tipping improves the eating experience for as many customers as possible and makes racist behavior costly to participate in. Further, any political action taken against tipping such as eliminating the

legal provision for tipping or raising the minimum wage for tipping jobs will result in a net loss in social welfare.

