

The history of tipping – from sixteenth-century England to United States in the 1910s

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Abstract

Tipping is a multi-billion-dollar phenomenon that challenges the traditional assumption of selfish economic agents who have no feelings and do not care about social norms. This article reviews the early history of tipping and offers an economic analysis of different aspects of tipping. Using the historical evidence, it then addresses two major questions about tipping: why do people tip? And does tipping improve service quality? The reasons for tipping changed over the years, but conforming to social norms and avoiding embarrassment were generally the main reasons. Tipping seems to improve service quality; the extent of the improvement varies across occupations.

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1. Introduction

Tipping is a unique economic phenomenon, as it involves voluntary payments for service that has already been provided by the time the tip is given. Why do people leave tips without a legal obligation to do so? One possible reason is that they think that tipping today affects the service they will receive in the future (if they are repeated customers). This is the only reason for tipping that is consistent with the traditional assumption of a selfish economic agent who does not care about social norms and has no feelings. Other reasons for tipping are the desire to conform to the social norm, embarrassment and a feeling of unfairness that may result from stiffing (not tipping), or empathy for the worker. Examining the history of tipping can help us identify the major reasons for tipping and observe whether they changed over time. The reasons for tipping, in turn, can shed light on economic behavior more generally. If people tip because of social norms and feelings, it suggests that norms and feelings may be the reasons for other economic behaviors as well. We should then consider incorporating feelings and conformity with social norms in the utility function, something that is rarely done today.

While the insights that tipping may provide about economic behavior in general are already a good reason to know more about tipping, tipping is also important by itself. Tips in US restaurants alone are around \$26 billion a year (Azar, 2003a). Adding tips in other establishments and in additional countries clearly results in a much higher number. Moreover, millions of workers, especially waiters but also taxi drivers and others, depend heavily on tip income.¹

¹ Full-service restaurants in the United States alone employ 3.8 million workers (U.S. Census Bureau, 2001, Table No. 1263; the numbers for 2001 are a projection). Many of these workers derive a significant portion of their income, often most of it, from tips (see also Wessels, 1997).

Tipping has become the norm in numerous situations. Lynn, Zinkhan and Harris (1993), for example, consider 33 tipped service professions.

Another interesting question (in addition to why people tip) is whether tipping induces better service. The main justification for tipping is that it provides the worker incentives to give excellent service. If tipping indeed improves service, it may suggest that many European establishments that in recent decades changed from tipping to service charges are making a mistake; also mistaken are those restaurants that add a fixed gratuity, which replaces tips, to bills of large parties (usually six or more diners), as is common in the United States. In addition, requiring employers to pay tipped workers a minimum wage on top of the tips may cause them to prefer service charges. If tipping improves service, or at least enables to eliminate the direct monitoring of workers, which is costly, then the optimal policy is not to impose minimum wages in addition to tips. It is reasonable, however, to require that tips and wages together are at least equal to the minimum wage, as the federal law in the United States does.

The next two sections discuss in more detail the potential reasons for tipping and the relationship between tips and service quality, and review the previous studies that dealt with these issues. This article, however, is the first to address these issues using historical evidence. The article's contribution, however, is not limited to these two issues. The article also provides a review of the early history of tipping – from the origins of tipping in sixteenth-century England to the United States in the 1910s, and adds to the historical review an economic analysis of different aspects of tipping. Finally, the article also offers a simple model that suggests why tipping improves service quality.

2. Potential reasons for tipping

The question why people tip is one of the fundamental questions about tipping. One of the main explanations given is that people tip because this is the social norm and disobeying social norms results in a psychological disutility. This explanation, in turn, can be divided to two different sources of disutility from disobeying the social norm of tipping: external and internal. External sources of disutility are those that come from other people and are therefore related to social pressure. If the tipper dines with other people who see how much he tips, there is obvious social pressure on the tipper to tip appropriately. But even if he dines alone, knowing that the waiter will observe how much he tipped creates social pressure, even though the waiter is a stranger. Indeed, research in psychology indicates that people do not want to risk social disapproval even from complete strangers they will never see again (Crutchfield, 1955; Tanford and Penrod, 1984). External sources of disutility are expressed by the negative feeling of embarrassment that a person usually experiences if he does not tip where the norm is to tip.

Internal sources of disutility from not tipping when this is the norm include negative feelings of guilt, being unfair and not honest and the like. To clarify the distinction between external and internal reasons for tipping, suppose that tipping was done the same way as voting: behind a curtain, in an anonymous envelope that is entered into a box and opened just by the end of the day. There will be no external sources of disutility from stiffing in this case, because no one else knows how much the customer tipped, but the internal disutility from guilt etc. will still exist.

Another potential reason for tipping is future service. Of course, this reason only applies to customers who plan to visit the establishment again. The idea is that by tipping well for good service the tipper encourages the service provider to provide good service in their next

encounter. A related reason for tipping is the fear that stiffing will result in an unpleasant experience, either this time (e.g. the waiter will run after you and yell at you) or in the next time you come to the restaurant (e.g. the waiter will put something bad in your food).²

In addition, there are several positive feelings that are associated with tipping, in addition to conforming with the social norm. For example, people like to tip because it allows them to show their gratitude for the service they received or their generosity and compassion for the low-income worker. Others may like to tip as a means to impress others (when they tip much above the norm) or because it gives them a feeling of superiority and power.

Several studies asked the question why people tip and tried to answer it either empirically or theoretically. Table 1 summarizes the findings of the main studies that analyzed the reasons for tipping and closely related questions.³ Most studies try to identify the reasons for tipping by analyzing how tips are affected by service quality, the number of diners, the quantity of effort made by the waiter etc. A few studies use theoretical models or ask people directly why they tip. This article uses another methodology, which was not yet used in the context of tipping: it examines the history of tipping hoping to gain some insights from it about the reasons for tipping.

It is reasonable to assume that the first occasions of tipping were not motivated by any social norm, because at the beginning there was no social norm of tipping. At the beginning, therefore, we would expect to find that the reasons for tipping were future service consideration, expression of gratitude or compassion, desire to impress others etc. As tipping became more and

² See Ginsberg (2001) for some anecdotes along these lines.

³ More extensive reviews of the literature about tipping, including these studies that are unrelated to the current article, include Lynn and McCall (2000a) and Azar (2003b).

more common, we would expect the reasons for tipping to shift toward those reasons that are related to tipping being a social norm, such as feelings of embarrassment, guilt, and unfairness that people experience if they stiff where tipping is the norm. This hypothesis is summarized below:

Hypothesis 1: Social norms were not the reason for the emergence of tipping, but their role in motivating people to tip increased as tipping became more common.

3. Tipping and service quality

Another fundamental question about tipping that this article addresses is whether tipping increases service quality. The answer to this question is not only interesting for its own sake, but is also an important step in order to answer other questions, such as whether tipping improves social welfare, what should be the minimum wage policy towards tipped workers, should restaurants prefer tipping to service charges and so on.

How does tipping affect service quality, when tips are given after the service is provided? The answer is that if the worker expects to get a higher tip for better service, tipping motivates him to provide better service. Why should the customer tip more for better service? The answer depends on what we think the reasons for tipping are in the first place. If people tip because this is the norm, they tip more for better service if the norm dictates so.⁴ If they tip because they want to show gratitude, they tip more for better service because they are more grateful when service is

⁴ Indeed, etiquette books dictate that tips should depend on service quality. Post (1997), for example, writes, “Where service is bad and the personnel is deliberately rude, inattentive or careless, the amount should be reduced. If it is bad *enough*, no tip should be left at all... If everyone continues to tip at the same rate, regardless of the effort made to please, there is no incentive to make any extra effort at all.”

better and when the worker makes more effort. If they tip in order to get good service in the future, they should tip more for better service to give incentives to the worker to provide good service in the future (see Azar, 2003c).

Not only etiquette books dictate that tips should increase in service quality, but also empirical studies find that tips are indeed positively correlated with service quality, although the effect of service quality on tips is not big. Lynn and McCall (2000b) is the most informative study about the tipping-service relationship, as it offers a meta-analysis of 13 different studies. They find that there is a positive and statistically significant relationship between tips and service quality, but that its magnitude is small.

It is useful to have a simple formal model in order to understand why tipping improves service quality. Denote the tip by t , service quality by s , and the norm by $n(s)$, where $n'(s) > 0$ (the norm is to tip more for better service, as was discussed above). The customer has a disutility from tipping differently than what the norm dictates, which is captured by having a term of $-[n(s) - t]^2$ in his utility function. He may also have some utility from tipping because of positive feelings of generosity, empathy for the worker, the desire to show gratitude etc. This is captured by a function $f(t, s)$ in his utility function. If he does not have any such positive feelings from tipping then $f(t, s) = 0$ for all t and s . Otherwise, it makes sense to assume that f is weakly concave in t , that is, $f_{tt} \leq 0$ (otherwise it means that in the absence of a social norm people have an insatiable desire to tip, leading to infinite tips). In addition, the partial derivative f_{ts} is assumed to be non-negative, since it is negative only in the unreasonable case in which the marginal utility from tipping (absent social norms), which is equal to f_t , is higher when service is worse: the customer then enjoys tipping more when he receives bad service. It seems safe to assume that

this is not the case for the average tipper. Notice that if $f(t, s) = 0$, the assumptions $f_{tt} \leq 0$ and $f_{ts} \geq 0$ still hold.

In addition, the customer has a utility from money (and tipping reduces the amount of money he has), where for simplicity I assume a risk-neutral customer, implying a utility function that is quasi-linear in money. Indeed, given the small amounts of tips compared to the tipper's wealth, it is quite reasonable to assume risk neutrality with respect to the changes in wealth that result from tipping.⁵ Thus, the customer's utility function takes the form⁶

$$u(t, s) = -[n(s) - t]^2 + f(t, s) - t.$$

The worker's utility function is also assumed to be quasi-linear in money, and his disutility from effort, $e(s)$, is assumed to be strictly convex in service quality. This means that it is harder to increase service quality further when it is already high than when it is low, an intuitive assumption (indeed, one of the most standard assumptions in the principal-agent literature is that the effort function is strictly convex). Denote the effort-minimizing level of service by $s = 0$.⁷ The worker's utility takes the form:

$$v(s) = t(s) - e(s).$$

The game evolves in two stages: in the first stage the worker chooses the service quality to provide, and in the second stage the customer chooses the tip. To find the Nash equilibrium of

⁵ While risk-neutrality simplifies the analysis, it does not change the results qualitatively.

⁶ Notice how easy it is to retain the notion that economic agents maximize utility and yet to incorporate social norms and utility from feelings in the utility function; this makes the tendency of many economists to reject social norms and psychological reasons as motivations for economic behavior even more frustrating and unjustified.

⁷ Notice that effort is not always increasing in service quality. For example, waiters probably find it less costly to be indifferent and inattentive than to be rude and make mistakes on purpose.

the game we need to solve the game backwards, starting with the tip the customer would give conditional on service quality.

Proposition 1: The optimal tip, denoted by $t^*(s)$, is strictly increasing in service quality.

Proof. The optimal tip is given by the value of t that solves the first-order condition:

$$(1) \quad \partial u / \partial t (t^*) = 2[n(s) - t^*] + f_t(t^*, s) - 1 = 0.$$

The second-order sufficient condition for this equation to define the unique and globally optimal value of t is that the second-order derivative of u with respect to t is negative for all t and s :

$\partial^2 u / \partial t^2 = -2 + f_{tt}(t, s) < 0$. This inequality is satisfied because by assumption $f_{tt} \leq 0$. Differentiate

(1) with respect to s to get $2n'(s) - 2\partial t^* / \partial s + f_{tt}(t^*, s)\partial t^* / \partial s + f_{ts}(t^*, s) = 0$, which after rearranging

becomes $\partial t^* / \partial s = [2n'(s) + f_{ts}(t^*, s)] / [2 - f_{tt}(t^*, s)]$. Since $n'(s) > 0$, $f_{ts} \geq 0$, and $f_{tt} \leq 0$, it follows

that $\partial t^* / \partial s$ is strictly positive.

Q.E.D.

For the worker's problem to have a well-defined solution, a sufficient condition is that $t''(s) \leq 0$. Since service quality has no natural scale, we can scale it in a way that the tip is linear or concave in service quality, so this condition holds. For simplicity, consider a scaling that makes the tip linear in service quality. Suppose that the tip given for the worst service ($s = 0$) is T_0 . Take any arbitrary higher service quality and denote it as $s = 1$ and the tip given for it as $T_0 + T$. Then define $s = 2$ to be the service quality that results in a tip of $T_0 + 2T$ and so on, resulting in $t(s)$ being a linear function, with $t'(s) > 0$ (as Proposition 1 suggests) and $t''(s) = 0$. The only limitation to the linearization of $t(s)$ is the previous assumption that effort is strictly convex in s . This former assumption and the linearization of $t(s)$, however, are consistent with each other as long as effort remains convex in service quality. This holds if it takes more effort to increase the tip by a certain amount when the tip is already high than when it is low. This seems a very reasonable assumption to make, and it also simplifies the analysis significantly. For example, to

increase the tip from zero to \$15 on a \$100 restaurant bill the waiter pretty much only has to be reasonably friendly and efficient, but to increase the tip from \$15 to \$30 is a much harder task.

The optimal service quality, s^* , is given by the first-order condition:

$$(2) \quad \partial v(s)/\partial s(s^*) = t'(s^*) - e'(s^*) = 0.$$

The second-order sufficient condition for this to be the unique optimum is $t''(s^*) - e''(s^*) < 0$, which is satisfied because $e''(s) > 0$ and $t''(s) \leq 0$ for all s . Notice that the second-order condition holds even for convex $t(s)$ as long as $t(s)$ is “less convex” than $e(s)$. If we scale service quality so that $t(s) = T_0 + Ts$, then s^* is implicitly defined by the equation $e'(s^*) = T$.

To see that tipping increases service quality, let us first consider the case where tipping does not exist. The worker then maximizes his utility by minimizing effort, which means that he chooses $s^* = 0$. When tipping exists, the service quality chosen by the worker is strictly positive according to equation (2) (assuming that $e(s)$ is continuously differentiable), since $t'(s) > 0$ for all s , $e'(0) = 0$, and $e''(s) > 0$ for all s . The service quality in equilibrium depends on the particulars of the industry. To illustrate this, assume that we scale service quality so that $t(s)$ is linear. Figure 1 illustrates the optimal choice of s^* for two different effort functions. Notice that s^* is the value that maximizes the difference between $t(s)$ and $e(s)$, and for a linear (as in the figure) or concave $t(s)$, this happens when the slopes of $t(s)$ and $e(s)$ are equal, which is exactly what equation (2) states. In the figure, $e_0(s)$ corresponds to case where it is very costly for the worker to increase service quality; the equilibrium service quality is then relatively low, s_0^* (but it is still higher than zero which is the equilibrium service quality with no tipping). $e_1(s)$ corresponds to the case where it is easier for the worker to increase service quality, and then equilibrium service quality is higher than with $e_0(s)$.

We might expect workers to find it harder to increase service quality when service is relatively homogenous. For example, porters just carry items from one place to the other, so they cannot affect service quality much and thus we might expect tipping to improve their service by only a little. Waiters, on the other hand, have more influence over service quality, so we will expect tipping to improve service quality more in their case. The analysis above is summarized in the following hypothesis:

Hypothesis 2: Tipping improves service quality, but more in industries in which the worker has more control over service quality.

4. The early history of tipping

4.1. The origin of tipping and the word “tip”

There are a few versions for the origin of tipping. Hemenway (1993, p. 79) claims that tipping was known as far back as the Roman era and is probably much older. Schein, Jablonski and Wohlfahrt (1984, p. 19) assert that tipping originated back in the days of feudal lords. When lords met groups of beggars along their way, they tossed the beggars coins in an attempt to buy a safe passage. It is arguable, however, if this kind of payment should be considered tipping. Segrave (1998, p. 1) suggests that tipping may have begun in the late Middle Ages. A master or lord of the manor might give his servant or laborer a few extra coins, from either appreciation of a good deed or compassion (for exceptional hardship arising from a large family, illness, and so on). Brenner (2001, p. 131) attributes the origin of tipping to England of the sixteenth century, where brass urns with the inscription “To Insure Promptitude” were placed first in coffee houses and later in local pubs. People tipped in advance by putting money in these urns. Frankel (1990, p. 2) suggests a similar origin, London coffee houses, where customers who wanted special

service dropped a coin in advance in a box labeled T.I.P. (To Insure Promptness). Frankel, however, dates the origin of tipping as the late 1700s.

As for the origin of the word “tip” itself, Brenner (2001, p. 131) and Schein, Jablonski and Wohlfahrt (1984, p. 19) claim that they come from the first three letters of “To Insure Promptitude,” while Hemenway (1993, p. 79) suggests that “tip” may come from stipend, a bastardized version of the Latin “stips.” Schein, Jablonski and Wohlfahrt (1984, p. 24-25) suggest a few more possible origins: first, the Dutch word “tippen,” which means to tap and refers to the tapping sound of a coin put on a table or tapped against a glass to draw the waiter’s attention. Second, a phrase in Romany, the gypsies’ language, “tipper me your money,” which means give me your money. Third, the eighteenth-century English phrase “tip me,” meaning give me. Fourth, they mention that the Oxford Dictionary of English Etymology refers to “tip” as a “rogues cant” or “medieval street talk” that means hand it over or simply give me money. Segrave (1998, p. 4-5) further shows that in several languages the word for “tip” is associated with drinking, as tipping began in drinking occasions, and therefore suggests that “tip” is a short form of the English word “tipple” – to drink.

4.2. Tipping in private houses in England

In sixteenth-century England, visitors to private homes were expected to give sums of money (known as vails) at the end of their visit for service given by the host’s servants beyond their usual duties (Segrave, 1998, p. 1-2). Thus, at the beginning, vails were given for something the tipped person did above his duties – either additional services or extra effort.

Even though vails began as a compensation for extra services or effort, they later became expected from every guest that dined or slept in another’s house. The custom became very annoying for the tippers. By 1760, footmen, valets and gentlemen’s servants all expected vails.

In some cases people avoided visiting their friends because of the high costs associated with doing so. There is at least one case of a master who shared the vails with his servants and gave large parties to supplement his income. Vails were still given at the end of the visit, and an ungenerous tipper could find his horse injured or hear a footman mutter that on the next visit he would receive a plate of gravy on his breeches (Segrave, 1998, p. 1-2).

Naturally, once vails are expected not only for special services or effort, they no longer provide an incentive for better service; then, the givers see them as an extra cost and an annoying custom. Indeed, the vails system became so hated that groups of masters attempted to abolish it. At a meeting of the gentry and nobility in 1760 in Edinburgh, Scotland, a unanimous agreement to abolish vails was achieved. In addition, it was decided to raise the servants' wages. An attempt to abolish vails in London in 1764 resulted in a disturbance in which servants broke lamps and outside windows and several people were injured. Vails were abolished in Shropshire, Shrewsbury, a few years later.

In the beginning of the twentieth century, tipping in private houses in England was still a common practice. A guest staying at a friend's manor for a one-week hunting visit could expect to pay about \$100 to the servants. Englishmen craved for a host who would ban to tip the servants. Americans were blamed for over-tipping servants in private English homes, and thus spoiling the servants even further. As a result of the high costs of tipping, English people of modest means were unable to accept as many invitations as before; tipping below the customary amounts could result in an insult from the servants (Segrave, 1998, p. 2-3).

4.3. *Tipping in commercial enterprises*

According to Schein, Jablonski and Wohlfahrt (1984, p. 19), tipping in commercial enterprises started in England in the sixteenth century, where the local gentry gathered to

exchange ideas in coffee shops, known as penny universities. Brass-bound box was placed at the door and customers dropped a coin if they wanted “to insure promptitude.” Two centuries later, customers in London coffee houses gave waiters notes saying “To Insure Promptitude” with coins attached. Segrave (1998, p. 4-5) describes another variation of tipping in eighteenth century England, according to which a bowl with the words “To Insure Promptitude” was on the table, and patrons put a coin in the bowl occasionally throughout their stay. Segrave further mentions that Samuel Johnson once reported, “I had a cut of meat for sixpence and bread for a penny, and gave the waiter a penny; so that I was quite well served – nay, better than the rest, for they gave the waiter nothing.” If this is a representative event, then we can infer that tips were given in advance and that they were given in order to encourage the waiter to give better service, a goal that they probably achieved, since they were given in personal and in advance.

By 1795 tipping was common in hotels as well. Crouch (1936, p. 544-545) reports the remark made by one journalist:

If a man who has a horse puts up at an inn, besides his usual bill, he must give at least one shilling to the waiter, sixpence each to the chambermaid, the ostler and the jackboot, making together half a crown. If the traveler only puts up to have refreshment, besides paying for his horse’s standing, he has to give away in the day another half-crown, which makes five shillings in the day to the servants.

The custom of tipping spread quickly throughout Europe, especially in areas that had a servant class. Tips were not given in the United States until after the Civil War, however, possibly because the country did not have a servant class. Instead, the waiter and the coachman in the United States regarded themselves as employees and were not interested in tips. European travelers wrote about their amazement finding that they are not expected to tip in America.

In the late 1800s, tipping was established in the United States as well. Affluent Americans, who traveled in Europe and had to tip there, started tipping in the United States as well, to show that they had been abroad and were familiar with the customs of Europe (Schein, Jablonski and Wohlfahrt 1984, p. 20).

5. Tipping during the late 19th century and early 20th century

Towards the end of the 1890s, tipping was established in the United States, involving many workers and large amounts of money.⁸ During the early 1910s it was estimated that five million workers in the United States, more than 10% of the labor force, had tip-taking occupations. Tips were estimated to total \$200 - \$500 million each year.

5.1. Tipped employees take revenge on non-tippers

Since tipping was a new custom, social norms were not strong enough to induce everyone to tip. In addition, tips were given after the service had been provided, and encouraging good service in the future was not always relevant (when the service was on a one-time basis). Under these conditions, one might expect that the tip takers would try to increase tipping by different means. Often, these means included hurting non-tippers in various ways. Servants in hotels sometimes made small chalk marks or other small signs on a non-tipper's suitcases, warning servants in other hotels not to assist that man, or to drop his luggage "by mistake." In restaurants, the revenge on non-tippers or poor tippers was by insulting them or by giving them slow service in their next visit. Maybe the most extreme form of revenge took place in Chicago in 1918, when

⁸ Unless noted otherwise, the historical facts in this section are based on Segrave (1998). The economic analysis of these events is mine.

a hundred waiters were arrested because they used certain powder in the dishes of known opponents to the tipping system. In many establishments, however, good service was always required from the employees, and giving poor service to a non-tipper could result in the dismissal of the employee.

5.2. *Waiters pay for the privilege to work*

By 1895, the average tip in European restaurants was 5 percent of the bill, while in the United States it was 10 percent, even though waiters in the United States were paid well. Such average tip rates mean that waiters derived significant income from tips (the same applied to several other occupations, but for concreteness I discuss the case of waiters). When waiters have a total income from tips and wages that exceeds their reservation wage, they earn an economic rent that the owners have an incentive to extract in order to increase their own profits. One way owners can do so is by taking the tips to themselves, at least partially. Another way, if minimum wages do not exist, is to reduce the wages paid to waiters, possibly even to negative wages (that is, charging the waiters for the privilege to work and earn tips).

The history of tipping indeed provides many examples of such attempts of restaurant owners to increase their profits by reducing the waiters' income in one way or another. One of the most original ways to do so is to charge the waiters for the privilege to work (and get tips), as happened in the United States. This practice occurred especially in fancy restaurants.

The reason why this practice was more common at popular and fancy restaurants is simple: since the tips are in percentage of the bill, the more expensive the restaurant is, the higher are the tips earned. The higher tips are somewhat offset by the larger ratio of waiters to diners in upscale restaurants. In addition, service in upscale restaurants has higher standards and waiters in such restaurants have to be more skilled, so are likely to have higher reservation

wages. Yet, since upscale restaurant entrée can cost ten times (and even more) the price of an entrée in a low-level restaurant, it is more likely that waiters would have an economic rent in the upscale restaurants rather than in the cheaper ones. Moreover, diners in upscale restaurants are more likely to order additional dishes such as appetizers, desserts, and expensive wines, increasing the bill size and consequently the tip even further.

In several popular restaurants in France, garçons had to pay for their position, about 1-4 shillings a day, for the chance to make about 35 shillings a week. In a few restaurants waiters not only paid for their positions, but also had to give their employer their tip revenues above a certain amount. The attempt of employers to capture the revenues from tips for themselves led French tip *receivers* in cafes and restaurants to try to abolish the tipping custom.

5.3. *Employers take the tips from workers*

In the United States many employers extracted the economic rent of tipped workers simply by taking the tips from them (Scott, 1916, p. 23). This practice was especially common in coat and hat checkrooms, found in many hotels and restaurants. Many restaurants operated these checkrooms through contractors who were willing to pay to operate the checkroom; the contractors' revenues came from taking the tips of their employees. To prevent employees from taking some of the tips to themselves, the contractors supervised them directly, encouraged workers to spy on each other, and used a worker's uniform with no pockets at all. Taking the tips from the employees was not limited to the United States, however. In addition to several instances in which French garçons had to give their tips above a certain level (as was mentioned above), large hotels and restaurants in Berlin took a certain portion of their employees' tips.

Hotel porters also did not enjoy their tips. All the tips went to the head porter. The head porter became rich, while the porters received meals and \$25 per month for working 12 hours a

day. Customers tipped the porters thinking that they enjoy their tips; the head porters wanted to retain this belief in order to encourage tipping, and therefore the porter was not allowed to give the tip to the head porter in the presence of the customer. As a result of this abuse, porters in 1908 at most first-class hotels in New York City went on strike, demanding that all tips go to the person to whom they were given. At least in several hotels their demand was satisfied almost immediately.

5.4. *Tips reduce wages*

Less controversial than taking the employees' tips or charging them for the privilege to work is the possibility to reduce their wages. In many instances, waiters in Europe did not receive any wage, only tips. In the United States, Scott (1916, p. 23) reports that "Waiters and manicurists in the better-class places receive no pay from their employers and depend entirely upon tips for their compensation." US railroad porters were often paid low wages because they also received tips. The policy of railroad companies towards tipping varied, however. While New York Central Railroad gave its porters special uniform (to discern them from the freelancers who worked for tips) and informed its customers that they should not be tip, Pullman and other companies took advantage of tipping and paid the porters low wages that were accepted because tips complemented the porters' income. Often the customers felt obligated to tip because they knew the porters were paid low wages and counted on the tips to supplement their income. The employers abused this compassion of the customers to lower the wages they pay.

On ships, stewards were paid low wages because they were tipped; in some cases in which tips were especially low, stewards demanded, and sometimes received, a wage increase. While tipping enables the business to cut its labor costs, if it becomes too annoying for the customer, the business may lose customers. To avoid customer annoyance, the cruise companies

did not allow stewards to ask for tips (although they were allowed to receive them if offered by the customers). Asking for tips was severe and could result in the steward's dismissal. Shoeshine boys were the only employees on the ship who were allowed to ask for a tip, because shoe shining was considered a personal service not included in the ticket price.

5.5. *Firms supported the establishment of tipping*

While American travelers who came back from Europe were the first to tip, the establishment of tipping as a social norm in the United States was often attributed to the firms. *The New York Times* (1899, p. 6) claimed that the tipping practice is a wretched system that was originated and perpetuated

not by its victims, the men who give and take tips, but by those who profit by it every year to the extent of millions more than a few. The real takers of tips are the hotel and restaurant proprietors, the owners of steamships, the offices and stock-holders of railways, and a dozen other classes of employers... every tip saves the payment of wages to an equal amount... This throws a flood of light on the frequent assertions that the abolition of the tipping system is impossible.

The claim that the existence of tipping caused wages to decline is supported by the evidence presented earlier and is intuitive. But even if wages were driven down by the amount of the tips, this still does not explain why restaurants, hotels and others had an incentive to implement tipping. For a rational customer, having to add a tip should be the same as an increased price. Consequently, the owner could increase prices instead of encouraging people to tip, and get the increased revenues directly rather than by reducing the workers' wages. The reason why firms preferred to support tipping may be bounded rationality of customers. People may react differently to an increase in menu prices compared to the expectation to tip. In particular, menu prices are explicit prices, appearing black on white, so their effect on the

customer's behavior may be bigger than that of tips of the same amount. In addition, menu prices are determined by the restaurant, so increasing them may meet more resistance from customers. Another reason why firms preferred to support tipping rather than to increase prices may be that tips, by providing incentives to the workers, enables the firm to eliminate its direct monitoring of the workers and thus reduce its costs.

5.6. *The controversy about tipping and attempts to abolish it*

Many people expressed opinions in favor of tipping, claiming that people liked to tip, that waiters liked the custom, or that the custom improves service quality significantly. The journalist Albert R. Caiman, for example, wrote, "a customer can hardly fail to notice the difference in the attitude toward himself of a tipless clerk and a tip-earning waiter." He inferred that because of tipping, the customer could get a more attentive and courteous service than he would otherwise receive, and opposed the idea of fixed service charge, as this would take away the incentive to provide good service (Caiman, 1905, p. 416-418).

Even though tipping became very common in the United States by the beginning of the twentieth century, however, many people saw it as an evil. They saw tipping as creating a servants class, making the tippers look down upon the service providers. *Gunton's Magazine* (1896, p. 16-17) called tipping offensively un-American, because it was contrary to the spirit of American life of working for wages rather than fawning for favors. It also stated that tipping did not favor the tip-receivers because their wages were reduced as a result of tipping, and it creates in them menial demeanor. The magazine further argued that tipping is also a nuisance for the tippers.

Scott (1916, p. 23-28), in an anti-tipping book, argued that employers had shifted the waiters' cost to the diners, who pay twice for the service (once since the menu price implicitly

includes the service cost, and a second time in the tip). But even Scott admits that tipping affects significantly the behavior of tipped workers, saying (p. 24): “A waiter, knowing that his compensation depends upon what he can work out of his patron, employs every art to stimulate the tipping propensity, from subtle flattery to out-right bulldozing.”

Several consumer groups, as well as some groups of workers, made attempts to abolish the tipping custom (the workers required higher wages instead). In several cases state and city governments tried to prohibit tipping. In 1909, Washington became the first state with an anti-tipping law, making tip receivers and tip givers guilty of a misdemeanor. Mississippi, Arkansas, Iowa, South Carolina, Tennessee and Georgia also passed anti-tipping laws in the next decade. These laws, however, did not survive for many years, and were repealed between 1913 and 1926 because of the persistence of tipping, which led to the common belief that attempts to abolish it are useless, together with pressure from employers, who benefited from tipping by having to pay lower wages.

6. Why do people tip?

Tipping is a unique economic phenomenon, as tips are given without any legal obligation of the giver to do so. Moreover, as opposed to gift giving, tips are given very often, and are given to strangers rather than to friends or relatives. One of the most important questions about tipping is why people tip. The answer to this question has many economic implications. If people tip because of egotistic reasons, for example to ensure good service in the future, then tipping does not contradict the common assumption that the economic agent is selfish and only cares about his material well-being. If people tip because they want to obey social norms or to avoid feeling

embarrassed or unfair, however, it suggests that feelings and social norms should be included in the utility function of individuals in order to explain certain economic behaviors.

Examining the history of tipping provides helpful hints about why people tip. Clearly, the first people who tipped did so when no social norm required tipping. The common reasons for tipping until the sixteenth century were to show gratitude for extra services or effort made by the servant; from compassion for the servant's economic hardship; or to ensure good service (when tips were given before the service was rendered, or when the tipper was a repeated customer). Thus, both egotistic and altruistic reasons motivated people to tip at the early days of the custom.

Later on, when tipping became a social norm in one industry after another, the reasons for tipping changed somewhat. Tips became a compensation given to a worker for service, even when the service was not beyond the normal service expected, and despite the fact that the price of the meal or the hotel room was assumed to already include the service costs in it. Since tips were given after the service was rendered, the egotistic reason of tipping in order to get good service in the future can justify tipping by repeated customers, but not by others. While tips in restaurants or barbershops are often given by guests who patronize the establishment regularly, one is unlikely to meet his railroad porter or ship steward again, and tipping them is not likely to stem from concern about future service. In some cases, ensuring good future service meant that stiffing could result in a future revenge, not that tipping would result in a superior service.

Although gratitude and compassion, as well as a feeling of superiority, might have been the reason for some tipping, the main reason that motivated people to tip seems to be social norms and the desire to avoid insult by the workers. Avoiding an insult might seem selfish rather than an altruistic motive, but it still suggests that feelings (of being insulted or feeling embarrassed) should be part of the utility function if one wants to explain tipping (and certain

other phenomena as well). The potential insult following stiffing can explain why many people tipped unwillingly, and how tipping persisted and in fact expanded despite a vast criticism of the custom. The conclusion is that tipping is an economic behavior that is motivated by feelings and by the desire to conform to social norms.

A related question to why people tip is how the custom became so prevalent in a short period, especially in the United States, where before the Civil War tipping did not exist, while forty years later it was common in many industries. There are a few reasons for the fast expansion of tipping. Once tipping started to become a social norm, etiquette books that described how much and in which occasions to tip, together with media items that presented the custom (movies) or discussed it (newspapers and magazines) helped to reinforce the custom (Segrave, 1998, p.43-44).

Many sources suggest that employers played an important role in supporting tipping because it enabled them to pay lower wages or no wages at all (as was mentioned before, employers who prohibited tips indeed had to pay higher wages). While in a few cases workers' organizations tried to abolish tipping and replace them with higher wages, individual workers tried to increase their tips as much as they could by providing good and servile service, and sometimes soliciting tips and insulting non-tippers, thus contributing to the expansion of the custom. The tippers themselves promoted the practice as well, by not opposing tipping and by tipping an increased number of occupations. Thus, it seems that although historically employers were often blamed for encouraging tipping, and despite the attempts by several groups of consumers and workers to abolish tipping, the blame or praise (depending on one's opinion) for establishing the custom rests on all sides: employers, workers and customers.

7. Does tipping improve service?

One of the main justifications for tipping is that it promotes better service, by giving the workers an incentive to do their best to satisfy the customer's needs. Those who are against tipping can argue that the quality of service provided by waiters or taxi drivers does not exceed the quality provided by lawyers, accountants and flight attendants even though the latter group is not tipped. Tipping supporters can answer by saying that given an occupation, say waiters, the level of service is likely to be higher with tipping than without it, given a constant level of monitoring by the employer.

Whether or not tipping serves as a good incentive for excellent service and whether it can replace costly monitoring by the employer are important questions for policy makers and for employers who consider replacing tips with a fixed service charge. The history of tipping provides some evidence regarding the efficiency of tipping as an incentive for good service. The incentives provided by tipping depend on many variables that changed over the years: the frequency and the amount of tips, whether tips are given only for special effort or almost always, whether they are given before or after the service is rendered, and so on.

When tips are given before the service is rendered, as was the case in English coffee shops 500 years ago, the temptation reverses: instead of the customer facing the temptation to stiff since the service has already been provided, now the waiter faces the temptation to shirk since the tip has already been given. The waiter is likely to resist this temptation, however, if he is honest enough or if the customers are regular ones (in that case the waiter wants to provide good service in order to be tipped in the future).

English private houses (in the early years) introduced another form of tipping, where tips were given at the end of the visit, but only for special services or effort. Such mechanism (of

tipping only for “extra” services or effort) provides the tipped worker an incentive to give services that otherwise he would prefer not to provide, since presumably they require additional effort on his behalf and are not considered part of his duties.⁹

Thus, tipping in this form can be thought of as creating a market that does not exist in the absence of tipping, the market for these special services. Assume that the tip is smaller than the value of the service to the tipper and higher than the cost of the effort to the worker. This is a reasonable assumption if tips exist in equilibrium; it is even more likely to be satisfied when the worker is poor and the tipper is rich, as was probably the case in sixteenth-century England. Under this assumption, tipping enables transactions that are mutually beneficial but would not be realized in the absence of tips. Thus, tipping of this form (for extra services) is a Pareto improvement compared to no-tipping, and can be thought of as fixing a market failure (in the market for special services) by creating a new market.

Since the tip was given after the service was rendered, the tipper had a temptation not to tip even though an extra service was provided. Such behavior, however, is prevented in most cases because of two reasons: first, stiffing violates a social norm, and can have severe social implications for the stiffer, especially if he belongs to the high society. Second, the interaction with the service provider may be repeated in the future. Stiffing him today is likely to decrease his willingness to provide extra services to the stiffer in the future.

Another unique characteristic of such mechanism is that the seller (the worker), rather than the buyer, may initiate the transaction without the buyer’s consent, by offering to provide a certain service. Although in principle the buyer can refuse, it is very unlikely in some

⁹ To avoid cumbersome writing, I discuss the case where the tip is for additional services, but tipping for extra effort bears similar implications.

circumstances. Explicitly refusing to accept a service may be embarrassing just as stiffing is, since it suggests that the buyer is “cheap” and wants to avoid the need to tip for that service.

An additional feature of tipping is that the price is determined by social norms and not by bargaining between the sides. One can imagine that the worker has similar costs of effort for providing a particular service to different patrons, so if the normal tip is above his average cost, it is likely to be above his effort cost in most instances. The value of the service to different patrons can vary significantly, however, meaning that for some of them this value can be below the tip dictated by the social norms.

Two inefficiencies might result: first, if the buyer (the tipper) has the option of asking for the service, his willingness to pay for it may be above the worker’s cost but below the expected tip. In such cases the buyer avoids asking for the service, while if the price was negotiable, a mutual beneficial transaction could be agreed upon. Second, if the worker can initiate the service and the buyer finds it too costly to refuse a service, the buyer may have to leave a tip that is larger than his valuation of the service. If the buyer’s valuation is above the worker’s cost, the buyer is worse off by the tipping practice, but total welfare is improved, since the transaction has a benefit that exceeds its cost (assuming that the marginal utility from money of the tipper is not below that of the worker). If the buyer’s valuation is below the worker’s cost, however, the buyer is worse off and the transaction is inefficient, reducing total welfare (ignoring wealth distribution effects).

When tips became the norm even for regular services, as happened in the late nineteenth century and early twentieth century, the incentives provided by tipping changed. In the few cases where the entire tips went to a person different than the worker (as was the case with hotel porters and hat and coat checkrooms), there was no incentive for the worker to increase his effort

and provide good service. In checkroom concessions a minimum level of tips was sometimes expected from the worker, so he had an incentive to obtain that level, but no incentive to make further effort.

When workers earned for themselves the tips they received, their incentives depended on whether tips were affected significantly by service quality. The historical sources are not explicit about this relationship, which might also differ from one customer to another. Some evidence, however, implicitly suggests that there was a positive relationship between tips and service quality or worker's servility. For example, a common claim was that tipping makes the workers more servile. It makes sense for workers to be more servile only if this increases their tips, whether because patrons wanted servile service or because it made them more compassionate.

While none of the historical sources I obtained discussed explicitly how people changed their tips according to service quality, some mentioned how the existence of tipping in general affected service quality. Since service quality is subjective, however (for example some may consider waiter's servility as good service while others may dislike it), writings from the period often seem to view the effects of tips according to their philosophical attitude towards tipping. The opinions expressed by supporters of tipping may be somewhat more credible, since they did not have any philosophical reasons to support tipping if it did not in fact increase service quality, while people who opposed tipping could bias their view of its effect on service to fit their philosophical view that this is an immoral custom. People seem to agree, however, that tipping changed the behavior of tipped employees significantly and caused them to try and increase their tips. What they disagree about is to what extent this behavior of the worker resulted in better service from the customer's perspective. Supporters of tipping claimed that tipping improves

service significantly (e.g. Caiman, 1905, p. 416-418), while people who opposed tipping claimed that the effect is smaller (e.g. Scott, 1916).

Thus, the historic evidence suggests that tipping improved service quality; the magnitude of the improvement is obviously hard to assess, and probably also differed across occupations. In occupations in which service quality is relatively homogeneous, for example porters, service probably did not change as much as in occupations in which the worker has greater control over service quality (waiters, for example).

8. Conclusion

The article reviews the history of tipping from its early origins to the 1910s, with an emphasis on the United States in the late nineteenth century and early twentieth century. Tipping did not exist in the United States before the Civil War, but by the end of the nineteenth century it was prevalent throughout the nation and in many occupations. Yet, despite its prevalence, many regarded tipping as an evil and an un-American and undemocratic custom that should be eliminated. Those who disliked the tipping custom claimed that it is degrading to the tip-takers who have to “ask for favors” instead of earning a fair wage, and that tipping makes the tip-takers servile and creates different classes – the tip givers being superior to tip takers. Several customer and worker groups tried to abolish the practice, and in several states anti-tipping laws were passed around the 1910s. These efforts did not succeed in abolishing tipping, however.

The historical evidence helps to understand why people tip. Originally, in England of the sixteenth century, tips were given mainly because of gratitude or compassion, and sometimes to encourage better service. Soon, however, tipping became a social norm, people began to feel obligated to tip even if they had no gratitude or compassion for the worker, and tips were given

mainly in order to conform with the social norm and to avoid an insult and embarrassment. As far as the 1910s, social norms and negative feelings such as embarrassment from disobeying the norm were still the main reasons why people tipped.

The history of tipping also provides insights about the efficiency of tips in promoting better service. As tipping practices changed over the years, this efficiency changed. The form of tipping that became the norm in the United States more than a hundred years ago and is still the norm today is to tip after the service is provided. This form of tipping may fail to induce good service if customers are opportunistic and do not tip, exploiting the fact that the service has already been rendered by the time the tip is given. Tipping being a social norm and the desire of people to obey such norms, however, induce people to tip, and therefore this potential problem is avoided. It is then enough that tips vary positively with service quality to induce workers to provide better service than in the absence of tipping, other things being equal. The size of the improvement in service differs across occupations, however, depending on how much control the worker has over service quality.

Tipping provides many opportunities for future research. First, almost all the empirical research so far dealt with tipping in restaurants. While tipping in restaurants is the most common form of tipping, tips are often given in taxis, hotels, barbershops, valet parking and dozens of other occasions. Sometimes the tip takes place once a year, such as tipping the newspaper boy in the holidays. In other cases, we do not give a monetary tip, but rather give gifts, which can be thought of as another form of tipping. Examining holiday tipping, non-monetary tipping and tipping in establishments other than restaurants are interesting and can add to our understanding of tipping and of economic behavior more generally.

Some policy questions arise as well. Should tips be taxed, or are they like a gift from a customer to a worker and should not be taxed? Should tipped workers be paid minimum wage in addition to their tips? Should their total income (from tips and wages) be at least equal to the minimum wage, or should tipped workers be treated as independent workers who might earn less than minimum wage?

Testing empirically the efficiency of tipping as a mechanism to induce good service is another interesting topic. For example, is service in countries where tips are common better than in countries that do not have tips (controlling for other variables that may affect service)? Do waiters give worse service when they do not expect tips? (For instance, in tables of six or more diners a fixed-percentage gratuity often replaces tips in the United States). Additional promising lines of research deal with the evolution of the social norm of tipping. How is a norm created to tip workers who were not tipped before? Why tipping 10 percent was appropriate at the beginning of the 20th century, but today 15 percent (or even 20 percent in upscale restaurants) is expected? Tipping is a fascinating topic that was hardly explored by economists, and as such, it offers many interesting directions for additional research.

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Table 1: Findings of previous studies about reasons for tipping and related questions

The study	The findings
Economic Development Committee for the Hotel and Catering Industry (1970)	The reasons given by people for tipping were mainly “It is a good way of showing gratitude for good service or cooking” (53%); “It is the accepted practice” (50%); “It can be embarrassing not to” (30%); and “Staff need the extra income from tips” (19%).
Ben Zion and Karni (1977)	A theoretical model suggests that if we ignore social norms, we can explain tipping by repeated customers as resulting from future service considerations, but we cannot explain tipping by one-time customers.
Lynn and Grassman (1990)	Data obtained about tipping behavior of restaurant customers was consistent with customers tipping in order to buy social approval and equitable relationships with the waiter but was inconsistent with tipping because of future service considerations.
Bodvarsson and Gibson (1994)	The quantity of service affects tips significantly, beyond the effect of bill size on tips, suggesting that customers want to compensate waiters according to the effort they make, maybe because doing so satisfies the customers’ desire for fairness.
Lynn and Graves (1996)	Tipping is related to consumers’ evaluations of service and the dining experience, but these relationships are weak. This suggests that tipping is, in part, a reward for good service, but that it may not suffice as an incentive for good service.

<p>Bodvarsson and Gibson (1997)</p>	<p>Tipping is both a social norm and a means of rewarding good service, but also depends on expected future service. Lone diners tip higher percentages than parties (this may suggest that social pressure by other diners is not a reason for tipping).</p>
<p>Lynn and McCall (2000b)</p>	<p>Meta-analysis of research on the service-tipping relationship suggests that tippers are concerned about equitable economic relationships with servers but that equity effects may be too weak for tips to serve as a measure of performance or to induce good service.</p>
<p>Azar (2003c)</p>	<p>A theoretical model suggests that if future service is a reason (even partial) for tipping, tips of frequent customers should be more sensitive to service quality than those of one-time customers. Empirical evidence suggests that this is not the case.</p>
<p>Azar (2003d)</p>	<p>A theoretical model about the evolution of social norms suggests that since tip percentages increased over the years, people tip not only because it is the social norms but also because they derive other positive feelings from tipping.</p>

Figure 1: The choice of service quality by the worker

