

Welcome to the New Economics of Tipping

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Why do you tip? And have your reasons for tipping changed lately? Is there less gratitude in the mix and more — shall we say — fear?

I sense that changes in tipping technology and custom have shifted the balance of power away from the customers and toward the providers of service. People seem to be more likely to tip now because they sense bad things will happen if they don't.

The [result](#) is that tipping percentages have gone up and more types of providers are getting tipped. That is good for the providers. It is also good for the companies for which they work, which can pay less knowing that the workers have more tip income.

Point-of-sale terminals at places such as [Starbucks](#) prompt customers to pay big tips. You can still choose not to leave a tip, or just a small one, but the person you're stiffing is right there in front of you. The Wall Street Journal [reported](#) this year that people are even being prompted to leave tips at self-checkout terminals.

Earlier this year, DoorDash, which delivers takeout food from restaurants, piloted a warning on its app that if customers don't add a tip at the time they order, "their order may take longer to be accepted as a result." The randomly tested warning has served its purpose because nobody wants cold food: "Since launching this test, we've seen a meaningful decrease in no-tip orders," the company [announced](#) on Nov. 1. (If a no-tip order sits too long, DoorDash will raise the base pay until a driver — known as a Dasher — finally picks it up.)

I'm glad to see workers earning more in jobs that tend to be low-paid, grueling and in some cases dangerous. That's sharing the wealth. "Our three-sided marketplace only works if it's working for Dashers, consumers and merchants alike," the company said, correctly.

I'm not as happy that some portion of the bigger tips will most likely indirectly increase corporate profits. DoorDash, for example, says that the independent contractors who drive for it get to keep all of their tips, and the company doesn't reduce their base pay if they're tipped. While that's true, money is fungible. You have to assume that if the drivers have started to consistently earn more in tips, over the long run the company will be able to offer less in base pay than it otherwise would have.

The technology-aided shift in the balance of power isn't just about tips. It's about the broader question of who's trying to please whom. For example, Uber allows drivers to rate their passengers. A passenger rated with a single star will have a hard time getting picked up by a driver, so there's a strong incentive to be on one's best behavior. (The driver rates the passenger [before seeing the tip](#), although I'm guessing a lot of customers don't realize that.)

Tipping intrigues economists because in some ways it seems irrational. Why leave a tip at a restaurant in a city that you will never visit again? Maybe you're trying to impress your dining companion with your generosity. But what if you're dining alone? Robert Frank, a Cornell economist, wrote in a 1988 book,

“Passions Within Reason: The Strategic Role of the Emotions,” that people develop altruistic habits because getting a reputation for doing the right thing (even when no one is looking) helps them succeed in the long run.

As for why businesses encourage tipping, economists have two explanations. First, monitoring. Service businesses can't always observe how well their employees — waiters, drivers, etc. — are performing on the job. Tipping can help. The companies minimize the risk that the employees will secretly shirk by making part of their compensation dependent on customer satisfaction.

Second, tipping helps businesses with pricing. Tipping allows businesses to effectively charge different prices based on what customers are willing to pay. People who are rich or generous or like great service tend to pay big tips; others who are on tight budgets or price-conscious or just cheap tend to give a small tip or none. A restaurant can keep its menu prices lower by paying its wait staff less and counting on big tippers to make up the difference in their income. The nontippers are at least filling tables.

But the current trend toward paying tips before the service is rendered seems to undermine the monitoring function of tipping, since tips are no longer as sensitive to the quality of service. In fact, DoorDash will let you increase your tip if the service is great but not reduce it if the service turns out really bad. That's to prevent “tip baiting,” where unscrupulous customers put in a big tip to get quick delivery and then rescind it after the food arrives.

Anthony Gill, a professor of political economy at the University of Washington, wrote a [three-part series](#) on the economics of tipping for the American Institute for Economic Research. He told me that customers resent being told that they will get worse service if they don't tip. He said he appreciates the “graciousness” of the tipping tradition. “Technology is chipping away at this institution that I have loved,” he said. I see his point, although traditional tipping isn't always gracious. Customers can behave very badly when all the tipping power is in their hands.

I also reached out to one of the world's leading authorities on the economics of tipping, Ofer Azar, an economics professor at Ben-Gurion University of the Negev in Beersheba, Israel. In a 2007 [article](#) for The Journal of Socio-Economics, he wrote that service providers don't in fact tend to shirk when they get their tips up front (as in the DoorDash case), even though they could get away with it. A worker who has gotten a good tip “prefers to exert effort than to feel unfair and untrustworthy,” he wrote.

Azar's article contrasted that kind of “tipping in advance,” which is intended to encourage good service, with what he called “bribery tipping,” which rewards customers with “preferred treatment without justification at the expense of others.” If a customer feels that tipping is required to get preferential treatment — say, to move up in line ahead of others — that feels like bribery tipping, Azar wrote me in an email.

The technology of tipping may be changing, but human nature is not. That's why companies in the service business need to make sure that their practices accord with what customers think is right.