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# Tips and Democracy

**Daniele Archibugi**

**T**HE MOST FREQUENTLY consulted section of every guidebook is that on tipping. Habits and customs vary from one country to another. Travelers usually try to adapt to local customs; the failure to adapt is often a cause for embarrassment. It is embarrassing enough not to leave a tip where one is expected; in the United States, European tourists are notorious for leaving extremely modest tips. But it is even more embarrassing to leave a tip where one is not expected. In Japan, for instance, taxi drivers, porters in hotels, and waiters courteously refuse to accept tips, causing some discomfort to the misinformed tourist. A guide I consulted on Stockholm tells me that “tips are always included within the bill, but if you would like to leave a tip for good service you are welcome to round the bill up.” This isn’t quite right: it’s the *service*, not the *tip*, that is included in the bill, but the guide provided me with the information I was after: work remuneration is automatically included, whereas tips are additional.

Tipping is a custom, and as often happens with customs, individuals want to conform. If we were to base our behavior exclusively on the idea of self-interest—as economic theory does, as well as most of political science nowadays—we would hypothesize that each individual attempts to “maximize” the tip when finding him/herself on the receiving side and to “minimize” it when disbursing it. Reality, however, doesn’t fit the *homo economicus* model: receiver and disburser are prepared to renounce their personal gains in order to conform to the system in force.

Tips represent a form of work remuneration that can be abandoned just as easily as

adopted. In Japan tips are nonexistent, while in Europe they are being progressively phased out, with the total cost of the service slowly being included within the bill. In the United States tipping shows no signs of ending. This can be added to the list of differences that further divide the two sides of the Atlantic. I argue for the European view: that tipping is incompatible with a cardinal principle of democracy, the equality of citizens. It is therefore necessary to eliminate tipping and replace it with alternative forms of work remuneration.

## **What Is a Tip?**

A tip is defined as the price, determined unilaterally by the customer, for a service received; it is not obligatory, and its amount is not fixed in advance, except by a social code. In theory, tips ought to correspond to the customer’s understanding of the service received. For the employee, tips are a part of the compensation for a job performed. Tips can represent anywhere from 0 percent to 100 percent of an individual’s total income.

The tips I am talking about are not bribes, because, usually, illicit payments are made prior to the service, whereas the tip is made following it. The difference can be minimal. In the old Soviet Union, for instance, it was common for the customer to pay the waiter a “tip” in advance in order to assure that he/she got a table. Even when the “tip” is paid at the end of the service, it can still be a form of extortion. I am not considering in my discussion those discretionary payments disbursed by employers to their regular and occasional staff. What an employer pays cannot be considered a tip, because it doesn’t come from the recipient of the service.

Tipping is also very different from charity, which is not disbursed as a consequence of a service received. Both can, of course, be customary: in the south of Spain and Italy, for ex-

ample, after mass Catholics give money to beggars who are lined up outside the church, but they don't tip the priest for performing the mass.

Tips are common only in certain job sectors—those involving personal services, with hairdressers, food servers, taxi drivers, hotel bellhops, and tourist guides being the most striking examples. Depending on the sector and the job, tips can represent a substantial contribution to a worker's wage. Take New York as an example: I estimate that for bellhops, tips make up just 10 percent of their total income, while for taxi drivers this can go up to 20 percent, and for food servers tips can make up 80 percent of their income. Even in the most modest of cases, the sum is never trivial.

### Arguments Against Tips

There are seven compelling reasons to oppose tipping:

- **Tipping creates disequilibrium among citizens.** Because its size is not defined in advance, nor is it subject to contractual agreement, the individual who is receiving the tip finds him/herself in a disadvantaged position in respect to the one disbursing the tip. One could argue that an analog situation is encountered whenever a buyer and a seller, or a boss and employee interact. But there is a fundamental difference in these cases. In principle, at least, the rules of the game are explicit and can be accepted or refused by both parties. A work contract between an employer and an employee can be long or short term (it can last just one day), but the rules are defined in advance. Similarly, the relationship between a seller and a customer is based on fixed prices. Even in cases where prices are subject to bargaining, this takes place *ex-ante* and not *ex-post*. Lack of agreement means that the transaction isn't completed. In the case of tips, by contrast, the rules of the game are implicit, and the recipient is unable to contest the outcome. The transaction takes place even if the two parties are not in agreement, as in the following story:

The most affectionate customer of the café was a little old lady who, every morning, at 8:45 AM sat at the best table of the café. It was a corner table in the sun from which one could poke

on to the street both up-hill and down-hill. With an amiable smile the little old lady used to order "the usual", that of course was a cappuccino and a croissant. She read the most reactionary newspaper of the city until late morning, indifferent to what was happening around her. Gradually, more customers arrived to the café and they often had to wait, standing, for a table to become available. When at noon she decided to fold her newspaper in sixteen equal portions and place it in her handbag full of lace, she left on the table the usual coins: two of a hundred and a fifty. Of a tip, naturally, there was no trace. Day after day we served her the cappuccino with increasing reluctance, but the old lady remained deaf to the croaking noise produced by the cup being thrown on the hard marble surface of the table, and appeared blind to our grins and the gestures we used to make from one side of the square to the other. We could have resorted to the classic method of spitting into the cup, but it wasn't our style. She was old, it's true, but she could have lived for another twenty years at least. We had no alternatives: to get rid of her, we would have had to poison her. (Giorgio Corleone, *Il frutto delle mani* [(Bucciocotto, 1958)], p. 71).

- **Tipping creates distorted incentives.** The main argument in favor of tipping is that workers have a direct and immediate incentive to provide good service. Waitstaff will be more polite and efficient because they expect to receive a tip, taxi drivers will try to find the quickest route, and hairdressers will make each curl more seductive. I do not deny that this system of incentives may be functional, but it is incompatible with a system of equality between citizens. If performance is directly linked to its singular incentive, and if that incentive is repeated for each particular transaction (each table served, each journey run, each head shampooed), the fundamental rights of the workers are denied, for they are like hounds running after a lure. This is worse than piecework.
- **Tipping does not protect the customer.** Another argument in defense of tipping claims that it gives customers the possibility of defending themselves against poor service. But this is very weak. Citizens need to be protected from services disbursed in a monopolistic re-

gime or in cases where there are information asymmetries between the service provider and the recipient. But tipping has never been a characteristic of any services of this sort (electricity, water, gas, the railway, until recently, the telephone). It is true that when we take a taxi from the airport to the city center, we often don't know the best routes or the usual tariffs. So taxi drivers sometimes take advantage of oblivious tourists. But tipping is no solution to this problem, because we lack the necessary information at the end of trip as well as at the beginning. The tip doesn't protect us against the inflated tariff.

Where tipping is a common practice, monopolistic power is usually minimal. Customers can always make their case through defection (*exit*) or through complaint (*voice*).<sup>1</sup> If the justification behind tipping is the protection of consumers, then it would be logical to introduce it first within those services provided by monopolistic regimes, such as electricity, water, and gas.

• **Tipping interferes in the relations between employee and employer.** Tips establish an unhealthy alliance between employers and customers, because both have an interest in getting as much as possible from the employees. The former have an interest in satisfying their customers so as to expand their economic activity. The latter have an interest in receiving the best possible service. The tip therefore is an instrument useful to both parties, placing the entire burden on the shoulders of the employee. To stimulate workers through the use of tips would be entirely unacceptable in different contexts. Could we imagine, for instance, that a tip was paid to the workers making a PC as a result of the satisfaction of its purchaser?

There is also the idea that owners of, say, cafés and restaurants share risks with their employees. Essentially, though, employers who pay their employees 20 percent of the expected average wage are offering not a job but a chance to work. If there are customers, there will be profits and tips; if not, not. If being an entrepreneur means assuming the entire burden of risk, why are such employers shifting part of that burden to employees? If employers wish to share risks with their employees,

nothing stops them from doing so by paying the employees with a proportionate share of the profits. There are already examples of co-management, which have the advantage of increasing the incentives of employees and their participation in running the business.

• **Tips are not paid for the service provided.** The reasons a tip is paid often have nothing to do with the quality of the service provided. Personal sympathy, charm, flirtation, and attitude are all factors that can contribute to the size of a tip. This is best elucidated by the outstanding example of for-men-only clubs. The tipping of a topless waitress has little to do with the drink she has brought to the table. In a more moderate fashion, the same applies to waitstaff, taxi drivers, and bellhops.

• **Tips allow tax evasion.** A further reason for arguing against tips is that they allow for tax evasion. The consumer and the service provider are, finally, accomplices: on the one hand, consumers do not pay taxes on the actual amount paid for the service rendered; on the other hand, a significant portion of the recipients' income is unreported. One can, obviously, object that a scrupulous food server or taxi driver would declare to the tax office the sum of the tips received, but everyone knows, tax officials first of all, that that doesn't often happen.

• **It isn't always the one who disburses the tip who is actually paying.** I would add, though, that I find it difficult to present to my boss an expense account with the tip included. If I go to a restaurant, and I believe the service to be excellent, according to U.S. standards, I would need to leave a tip somewhere between 20 percent and 25 percent of the bill. But how can I expect my boss to pay for a personal decision? Assuming that 15 percent is the average tip, if I want to pay 5 percent or 10 percent on top of this, should I not pay it myself? Can I be generous at someone else's expense?

• **Tips deter social relations.** Here we come to the main reason why I decided to write about this subject. The relations between service providers and customers are also human relations. Within Italian society, barbers have a social role comparable to that of a priest or a psychoanalyst. One discusses politics, jokes with them, and confides those secrets that one wishes to

spread around the neighborhood. To think that these human relations take place in the hope of receiving a more generous tip makes genuine dialogue difficult, if not impossible. I enjoy talking about food and wines with food servers and find it amusing to engage in heated debates. But when I dine in the United States I cannot avoid thinking that 80 percent of the income of my interlocutors is dependant on my tip. Is it even possible for them to contradict me when I argue that an Italian red wine is superior to a French red wine? The discussion is inevitably forced, with my interlocutors doing everything they can to please me. Their lack of freedom reduces mine.

### Tips and Inequalities

Tips are disbursed to workers who carry out subordinate duties ("services"). The problem is an old one, overloaded with social consequences. The first liberal writers, for instance, were against universal suffrage because they believed that a subordinate employee did not have the same freedom of opinion as an autonomous worker. As a result of the French Revolution, Immanuel Kant reflected on this matter and suggested the following limit on the concession of political rights:

The only qualification required by a citizen (apart, of course, from being an adult male) is that he must be his *own master*, and must have some *property* (which can include any skill, trade, fine art, or science) to support himself. In cases where he must earn his living from others, he must earn it only by *selling* that which is his, and not by allowing others to make use of him; for he must in the true sense of the word *serve* no one but the commonwealth.

Kant attempted to elucidate what he had in mind, adding in a note,

He who does a piece of work can sell it to someone else, just as if it were his own property. But guaranteeing one's labour is not the same as selling a commodity. The domestic servant, the shop assistant, the labourer, or even the barber, are merely labourers, not *artists* . . . or members of the state, and are thus unqualified to be citizens. And although the man to whom I give my firewood to chop and the tailor to whom I give material to make into

clothes both appear to have a similar relationship towards me, the former differs from the latter in the same way as the barber from the wig-maker (to whom I may in fact have given the requisite hair) or the labourer from the artist or tradesman, who does a piece of work which belongs to him until he is paid for it.<sup>2</sup>

If we bear in mind that Kant wrote this just after the American and French revolutions, we cannot fail to notice how obsolete his argument already was. David Ricardo and Karl Marx have made it easier to understand what Kant really meant: only those who do not sell their labor power should enjoy political rights. Still, the opinion of a great thinker makes us ponder even when it is outdated. The problem raised by Kant concerns inequalities in the economic and social sphere, which are inevitably reflected in the political sphere.

Universal suffrage has by no means solved the problem. Can citizens be considered equal if they possess very different degrees of economic power? Kant's reflections today serve a purpose exactly opposite to that envisaged by him. Conditions within the economic and social sphere no longer determine the political status of a citizen. On the contrary, there is wide agreement about removing economic and social obstacles to the practice of political rights.<sup>3</sup> Today, Kant's reflections lead us to ask ourselves whether subordinate employment is compatible with a fully developed democracy.

Although the number of those receiving tips is decreasing in some of the industrialized world, such citizens have a major handicap compared to those with other forms of subordinate employment: their inferiority is relative not only to their employer, but also to all those with whom they interact professionally. It is not by chance that the receivers of tips are the same individuals who carry out jobs that do not require much qualification. Other people who also offer personal services, such as lawyers, accountants, psychoanalysts, and surgeons would be offended and ashamed at the idea of having a share of their income dependent on tipping. What is the difference between these people and the food server, hairdresser, and taxi driver? It probably goes back to the level of professional qualification.

Or, more brutally, to the different social classes to which the two groups belong. A professional who was offered more money than he or she asked for, would probably reply, "I do not need charity."

From a technical point of view, the tipping system could be applied to university lecturers. Instead of making students pay high fees, why not leave them free to choose how much to give to the lecturer, perhaps within some customary maximum and minimum? If tips motivate waitstaff to provide better service, why shouldn't they motivate professors to prepare better lectures? How would professors feel if a portion of their income depended on the tips left by students on their desks at the end of each lecture?

### The American System

If tipping is a feudal residue, why is it so rooted in the country with the most developed capitalist system, the United States? In developing countries, where considerable shares of the population live under the poverty line, tips are perceived as charity. In countries with primitive administrative and judicial systems, it is common practice to pay a tip for a service, but this is better understood as a bribe. In the United States, though, tips are confused neither with charity nor bribes: they are a voluntary payment. Why is this so?

On the one hand, it feels as if Americans affirm their dominance through tipping; it's not surprising that those who are tipped are often ethnic minorities or recent immigrants. On the other hand, tips are an expression of the desire of Americans to be "free to choose." Fundamental components of the European social system are financed by tax revenue; in the United States, by contrast, they are financed (insofar as they are financed) by charity. Voluntary contributors support museums, theaters, research centers, and even hospitals. For Europeans, such a system appears anomalous; they commonly don't believe that citizens have the information necessary to establish whether a hospital for war veterans takes priority over a folk museum. They prefer to let their governments decide. This matter appears to be another fundamental difference between the two sides of the Atlantic.

### Abolishing Tips

The analysis made here leads to a clear and explicit proposition: the abolition of tipping in all its forms. The cost of work must be included directly within the bill, and subjected to taxation like all other invoices. To abolish tips does not mean to reduce the income of workers who have benefited from them but to transform the benefit from something variable and voluntary to something fixed and compulsory. In certain European countries, when the system was in transition, bills included the words "service included" or "service not included." This could be a good way to make the transition, because it sustains the net income of subordinate workers within the service sector. Even in those countries where tips are tolerated as a "rounding up" of the bill, it would be desirable to raise wages in a corresponding manner and gradually introduce a system where tips are phased out and, even better, considered offensive.

From the point of view of the customer there would be a price increase, because the component that now is not currently subjected to taxation would be so in the future. But, if the status quo were to be maintained, it would be possible to decrease correspondingly the fiscal burden on the tip-associated income.

Of course, the issue of personal gratitude toward a service provider must also be dealt with. We cherish gratitude for our best teachers, for a doctor who cures us, for a masseur who frees our back from pain, and for a cook who prepares a good coffee and croissant at mid morning, or for a smiling food server. How then should we express our gratitude? Is an anonymous cash donation the only way? Our society would be much more complete if we were to find other ways. A bunch of flowers; a postcard; a book; and, for whoever is able to do so, the composition of a sonnet, can express gratitude in a manner much more subtle than money—which varies in quantity, but never in quality.

Tips are humiliating both for the worker and the customer. They sanction a social division: those who have the power to determine the income of others and those whose income is dependent on that determination. Also, they create a distorted social interaction, where one group of people, those being tipped, must nec-

essarily be obsequious toward those disbursing the tips. Moreover, tipping creates problems for people spending someone else's money as well as causing some damage to the treasury in the form of minor fiscal evasions. The costs of work must be included in the price and must not be subject to the discretionary power of customers. Dissatisfied customers have several options, the first being exit—tak-

ing their service elsewhere—the second, voice—complaining about poor service. A democratic society should abolish tips while increasing the compensation of those who have customarily received them. ●

DANIELE ARCHIBUGI teaches at the London School of Economics and Political Science and serves on the Italian National Research Council.

1. Albert Hirschmann, *Exit, Voice, and Loyalty* (Harvard University Press, 1970).

2. Immanuel Kant, "On the Common Saying: 'This May be True in Theory, but it does not Apply in Practice,'" in *Kant*,

*Political Writings*, edited by Hans Reiss (Cambridge University Press, 1991), pp. 77-78.

3. See, for example, David Beetham, *Democracy and Human Rights* (Polity Press, 1999) especially chapter 4.



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