

Understanding tipping

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- ### Literature
- Charitable giving
 - Are tips like gifts?
 - US expert - C.T. Clotfelter "The Economics of Giving", Duke WP 1997
 - "Warm glow", etc
 - UK research – see James Banks "The State of Donation" IFS WP 2001
 - Uses charitable giving data in FES
 - Bribery
 - Are tips like bribes?
 - J. Svensson, "Who Must Pay Bribes and How Much?", CEPR DP3167 Jan 2002.
 - Tips
 - Andrew Schotter "The Economics Of Tipping and Gratuities: An Essay In Institution Micro-Economics", New York, C.V. Starr Center - Working Papers 2001
 - Ofer Azar, "Tipping as a Social Norm" Northwestern Working Paper 2003.
 - Conlin, M, M Lynn, and T O'Donoghue. (2003). "The Social Norm of Restaurant Tipping." **Journal of Economic Behavior and Organization**.

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Motivation

- Puzzle - why do people give away money "unnecessarily"?
- Why is tipping common in some places and not others?
 - US (15%+) vs Scandinavia (0%)
 - Restaurants vs supermarket checkouts
- Why is tipping just loose change in some circumstances and a large percentage in another?
- Why would one tip in a place where one would never visit again?
- Why do some restaurants include the tip in the bill and some not?

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Theoretical novelty

- Literature focusses on "social norm" idea
 - I tip because we tip
- This fails to explain why tipping varies so much across time, space and circumstances
 - If it's a "social norm" how did it develop and what sustains it?
- Alternative explanation is that tips have desirable incentive properties
 - Tips common where employee effort hard to monitor
 - Customers may have better information than employer
 - Tips might work like "efficiency wages" ?
 - What stops customers from "free riding" – a norm?
 - Do high minimum wage "crowd out" tips – does the norm change?

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Empirical ideas

- Has UK minimum wage changed tipping habits?
- Tips paid is recorded in FES
 - Look at who tips and how much
 - Is it correlated with expenditure on meals out? Proportionately?
 - Goes back before min wage
- Whether pay includes tips is recorded in LFS
 - Who gets tips
 - Goes back before min wage
 - So can look at pre and post
 - And look at sub 18 vs 18+
- New Earnings Survey has bonuses etc
 - But small firms excluded

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Next steps?

- Understand the efficiency wage idea
 - J. Stiglitz and C. Shapiro, "Equilibrium unemployment as a worker discipline device" **American Economic Review** 1984
 - See if minimum wage has been analysed in this context
- Download docs for FES, LFS and NES
 - Check out other countries and more literature on EconLit and in WOPEC, REPEC, NBER etc
 - Is it in GHS or other UK data? What about CPS in USA?
- Choose one dataset for analysis
- Learn how to use STATA
 - Merge data across years (pre and post min wage)
 - Cross-tabulate proportion getting tips by occupation and time
 - Select waiters (and hairdressers) in LFS
 - Regress probability of getting tips against (logit or probit model)
 - wage level interacted with min wage introduction dummy
 - or under 18 interacted with min wage introduction

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