

Why Not? Ian Ayres and Barry Nalebuff



Race, Tips and Economics

ECONOMISTS HAVE A HARD TIME EXPLAINING WHY PEOPLE leave tips. “To get good service” is not a good answer because you tip after the service is over, and you’ll probably never see the person again. Why don’t people just pay the bill and say good-bye?

When it comes to taxicabs, it turns out that many people follow the economist’s model—they don’t leave a tip. Ian (with coauthors Fredrick Vars and Nasser Zakariya) recorded tips on over a thousand taxi rides in New Haven. In a study forthcoming in the *Yale Law Journal*, they found that while the average tip is 16%, almost a quarter of passengers left no tip whatsoever. This includes a bunch of people who asked for 25 cents back from their \$5 bill when the fare was \$4.75.

The difference between tippers and nontippers makes a big difference to drivers’ take-home pay. Drivers would like to know the tipping histories of prospective passengers. But they can’t ask for your expense reports before they pick you up. Instead, drivers probably make decisions based on who looks like a good or a bad tipper.

In Ian’s data, these differences would tend to cause drivers to avoid serving African-American passengers. Forty percent of blacks left no tip, compared with 10% of whites. Overall, rational drivers (taking into account other curbside observables, such as dress) expect that their total revenue from serving African-American passengers would be 8.6% lower than from serving whites.

One way to combat the reluctance of drivers to pick up black passengers would be to provide them with better information. Cab drivers could distribute “good tipping” flags. (Think of the “Be Nice to Me, I Gave Blood Today” sticker.) Any passenger who tipped at least, say, 15% would be given a distinctive tipping flag at the end of the trip. The passenger would be able to wave the flag to hail down the next taxi. The passenger would turn in the flag at the beginning of the fare and get it back only after leaving a good tip.

Of course, we might imagine that a market for counterfeit flags, which would be hard to distinguish from a distance, would spring up. But the passenger would have some explaining to do when he or she tried to hand the

counterfeit to the driver at the beginning of the ride.

Or an even more direct social custom would be to partially prepay the tip. A passenger might simply hold up a dollar when hailing the cab that would immediately be given to the driver upon entering. The dollar would not count toward the fare and might not be the full tip, but it would immediately signal that the passenger wasn’t part of the 25% who leave nothing.

While the tipping flag might reduce cab driver discrimination against minority passengers, it doesn’t stop passengers from discriminating against minority drivers. Ian’s study found that black drivers in New Haven were tipped a third less than white drivers.

African-American drivers were 80% more likely to be stiffed by passengers than white drivers. The passenger discrimination imposes the equivalent of a 6.6% tax on the income of black drivers.

Passenger discrimination imposes the equivalent of a 6.6% tax on the income of black taxicab drivers.

To combat the twin problems of driver and passenger discrimination, we suggest a more radical change. Your city’s taxi commission might raise fares 15% and require the taxis display a “tip included” decal. This kind of *service compris* setup is standard practice in Europe. While people there routinely add on a bit more, the possibilities for stiffing and differences in what passengers tip drivers would be substantially reduced.

Of course, many will argue that a gratuity-included system undermines the incentives for service. No one would ever do something that was bothersome without an appropriate economic incentive. But then again, that is just what every passenger does now who voluntarily adds 15% or 20% to the fare.

Tipping seems like an unshakable norm that is expressly handed down from generation to generation. But in the early 20th century the act of tipping was often seen as degrading and corrupting, even un-American. The Anti-Tipping Society attracted 100,000 members, and seven states and the District of Columbia went so far as to outlaw various forms of gratuities.

The (mythical) etymology of “tip” has the word coming from the phrase “To Insure Promptness.” Today the acronym might be read instead as “To Insure Prejudice.” Giving customers discretion over how much to tip leads many people to leave nothing at all. This pattern of capricious payment is bad enough, but it becomes all the worse when it leads to predictable discrimination against minority passengers and drivers. **F**



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