



Why Should Tips Be Business of U.S. Government?

The Trump Department of Labor is expected to reverse a rule enacted by the Obama Labor Department on the issue of tips, illustrating just how far we have drifted away from the concepts of limited government, federalism, and the free enterprise system.

According to federal law, companies are prohibited from making their employees share their tips, theoretically received for good service, with other employees if the tipped workers do not receive base pay of at least minimum wage. The Obama administration expanded on federal law in 2011 to cover all tipped workers. The Trump administration, on the other hand, has opted to reverse that policy, saying that restaurants could require their employees, such as waiters, bartenders, and delivery drivers to share tips with other employees, *and even managers.*

The U.S. Department of Labor explained the reason for the new policy, in a statement released on Monday: “The proposal would help decrease wage disparities between tipped and non-tipped workers.” The rule would be limited to firms that pay their tipped employees the federal minimum wage of \$7.25 an hour and allow compensation through a tip pool with their workers who ordinarily do not receive tips. Examples in a restaurant would include cooks and dishwashers.

As it stands now, many customers who wish to reward a waitperson for exceptional service with a substantial tip probably do not realize that their generosity is often shared with a dishwasher. Customers might not be so inclined to leave a large tip if they realized the person responsible for a dirty fork was going to receive part of the tip.

Some opponents argued that the Trump Labor rule will make it possible for some companies, such as restaurants, to simply keep the tips for themselves. Heidi Shierholz, an economist with the Economic Policy Institute, said this could happen as long as the tipped employees earn a base minimum wage. “This would be a big transfer of money from workers to employers. The restaurant industry has wanted this forever. They want to be able to capture tips.”

But the new rule has its defenders, such as the National Restaurant Association. Their spokesman, Paul DeCamp, who once worked for the Bush Labor Department, argued that pooling tips is a way to give more compensation to lower-paid workers, such as cooks and dishwashers. “You see people in the front of the house making twice what the people in the back of the house are making. It’s a real disparity.”

DeCamp did not believe restaurant management would simply keep the tips because that would make it



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more difficult to retain good employees. “If you’ve got restaurants where you’ve got tipped employees but the restaurants are keeping all the tips, you’re not going to have those tipped employees anymore.”

DeCamp’s comments lean in the direction of the right solution — let the free market work this out, not government decree. Tipping has evolved from its early years in the late Middle Ages, when coffee house waiters actually carried boxes, with the words “to insure promptness” on them. Soon known as the “TIP” box, if a customer wanted quicker service, then dropping a coin in the box would ensure that. Over time, the “tip” came after the services had been performed, to show appreciation for good service. Today, bus drivers, cab drivers, bell hops, delivery drivers, as well as waitstaff in a restaurant all count on generous tippers for a large portion of their compensation.

It is often argued that because tips are a key part of a waitperson’s income, customers should be generous with their tips. The standard tip has increased from 10 percent to 15 percent, or even more. Some customers do not like tipping at all, arguing that the restaurant should pay a decent wage.

Certainly, James Madison could not have envisioned the federal government that he and the other constitutional framers were proposing in 1787 would eventually be dictating business practices such as tipping, and even whether a person receiving the tip should have to share it. In a free market, this is something that would be worked out between customers, business owners, and employees. Employees unhappy with their compensation, including tips, could take the matter up with their employers. If they could not come to some sort of an agreement, they could seek employment elsewhere. In order to keep good employees (who are not easy to get and keep in the service industries), a restaurant owner would be motivated to compensate good workers at a higher level.

In modern America, however, it seems that practically every economic activity — prices, wages, hours, and even tips — should be supervised by the federal government.

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