

Baby-Sitting the Economy

The baby-sitting co-op that went bust teaches us something that could save the world.

By [Paul Krugman](#) | Posted Friday, Aug. 14, 1998, at 3:30 AM ET



Twenty years ago I read a story that changed my life. I think about that story often; it helps me to stay calm in the face of crisis, to remain hopeful in times of depression, and to resist the pull of fatalism and pessimism. At this gloomy moment, when Asia's woes seem to threaten the world economy as a whole, the lessons of that inspirational tale are more important than ever.

The story is told in an article titled "Monetary Theory and the Great Capitol Hill Baby-Sitting Co-op Crisis." Joan and Richard Sweeney published it in the *Journal of Money, Credit, and Banking* in 1978. I've used their story in two of my books, *Peddling Prosperity* and *The Accidental Theorist*, but it bears retelling, this time with an Asian twist.

The Sweeneys tell the story of—you guessed it—a baby-sitting co-op, one to which they belonged in the early 1970s. Such co-ops are quite common: A group of people (in this case about 150 young couples with congressional connections) agrees to baby-sit for one another, obviating the need for cash payments to adolescents. It's a mutually beneficial arrangement: A couple that already has children around may find that watching another couple's kids for an evening is not that much of an additional burden, certainly compared with the benefit of receiving the same service some other evening. But there must be a system for making sure each couple does its fair share.

The Capitol Hill co-op adopted one fairly natural solution. It issued scrip—pieces of paper equivalent to one hour of baby-sitting time. Baby sitters would receive the appropriate number of coupons directly from the baby sittees. This made the system self-enforcing: Over time, each couple would automatically do as much baby-sitting as it received in return. As long as the people were reliable—and these young professionals certainly were—what could go wrong?

Well, it turned out that there was a small technical problem. Think about the coupon holdings of a typical couple. During periods when it had few occasions to go out, a couple would probably try to build up a reserve—then run that reserve down when the occasions arose. There would be an averaging out of these demands. One couple would be going out when another was staying at home. But since many couples would be holding reserves of coupons at any given time, the co-op needed to have a fairly large amount of scrip in circulation.

Now what happened in the Sweeneys' co-op was that, for complicated reasons involving the collection and use of dues (paid in scrip), the number of coupons in circulation became quite low. As a result, most couples were anxious to add to their reserves by baby-sitting, reluctant to run them down by going out. But one couple's decision to go out was another's chance to baby-sit; so it became difficult to earn coupons. Knowing this, couples

became even more reluctant to use their reserves except on special occasions, reducing baby-sitting opportunities still further.

In short, the co-op had fallen into a recession.

Since most of the co-op's members were lawyers, it was difficult to convince them the problem was monetary. They tried to legislate recovery—passing a rule requiring each couple to go out at least twice a month. But eventually the economists prevailed. More coupons were issued, couples became more willing to go out, opportunities to baby-sit multiplied, and everyone was happy. Eventually, of course, the co-op issued too *much* scrip, leading to different problems.

If you think this is a silly story, a waste of your time, shame on you. What the Capitol Hill Baby-Sitting Co-op experienced was a real recession. Its story tells you more about what economic slumps are and why they happen than you will get from reading 500 pages of William Greider and a year's worth of *Wall Street Journal* editorials. And if you are willing to really wrap your mind around the co-op's story, to play with it and draw out its implications, it will change the way you think about the world.

For example, suppose that the U.S. stock market was to crash, threatening to undermine consumer confidence. Would this inevitably mean a disastrous recession? Think of it this way: When consumer confidence declines, it is as if, for some reason, the typical member of the co-op had become less willing to go out, more anxious to accumulate coupons for a rainy day. This could indeed lead to a slump—but need not if the management were alert and responded by simply issuing more coupons. That is exactly what our head coupon issuer Alan Greenspan did in 1987—and what I believe he would do again. So as I said at the beginning, the story of the baby-sitting co-op helps me to remain calm in the face of crisis.

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