

## What babysitting can teach the world

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*The parallels between the crisis and Krugman's parable are not exact but they are close enough to be instructive*

One of the most renowned parables in economics is that of the Capitol Hill babysitting co-operative. It became famous because of Paul Krugman, a winner of the Nobel memorial prize in economics and a pugnacious columnist for The New York Times.

Long, long ago (the 1970s) in a town far, far away (Washington, DC) there was a babysitting co-op with a problem. The 150 or so families in the co-op, mostly congressional staffers, shared babysitting duties and kept track of who was owed babysitting, and who was owing, with a system of "scrip" – tokens good for a half-hour's sitting.

Thanks to an administrative misstep, the co-op ended up short of tokens. Most families wanted more, as a buffer in case they had a run of social engagements, and so most families wanted to stay in and sit for others. Of course, if everyone wants to babysit, nobody goes out, and that means nobody babysits either. The co-op suffered a demand-led depression: there was no shortage of people willing to supply babysitting services, but because of a failure of monetary policy, this potential supply was not called into play. As a hint of how serious things became, the co-op introduced a rule compelling families to go out at least twice a year; I am no party animal but that seems a low hurdle.

These administrative measures failed. But then a wonderful thing happened: the co-op decided to print more scrip. The depression immediately ended. Krugman likes the story for two reasons: first, because it shows that it is possible for an economy to fall into depression because of a lack of demand, something which not everyone accepts; second, because it shows that sometimes economic problems have simple technical solutions.

Is the developed world suffering a babysitting co-op recession? The parallels are not exact – for one thing, the authorities in the US and the UK have hardly been slow to create new money – but they are close enough to be instructive. The babysitting co-op's income equalled its spending; when everyone tried to earn more but spend less, the laws of arithmetic intervened.

Since the world's total income also equals the world's total expenditure, who is going to do the spending when consumers start trying to save up? Krugman says it will have to be governments.

The case is not quite as open-and-shut as it was for the babysitting co-op, although he has a point. Business investment or housing could, in principle, take up some slack, but it is hardly a propitious time for that sort of thing.

In depression conditions, the bar over which government spending must leap to pay for itself is low. The questions that remain: are we really in depression conditions? (Almost certainly.) Can governments find halfway sensible things to spend money on? (Probably; remember they only have to be halfway sensible.)

Two-and-a-half cheers, then, for Krugman. But something has been nagging at me ever since I read the original story of the Capitol Hill babysitting co-op, published in 1977 by Joan and Richard Sweeney. Paul Krugman's most recent retelling does not mention how the original story ends: the co-op prints too much scrip, inflationary pressures spring up and are suppressed, and the co-op seizes up again because nobody wants to stay at home babysitting. Krugman is right when he says that economies sometimes suffer from problems that have technical solutions. Perhaps he is too quick to suggest that those technical solutions are simple.

But let me look for compromise. The babysitting co-op was ruined because it was run, incompetently, by a bunch of Capitol Hill lawyers. In this respect I think we can all agree that it remains an important cautionary tale.