

Monetary Theory and the Great Capitol Hill Baby-sitting Co-op Crisis: Comment

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Monetary Theory and the Great Capitol Hill Baby-sitting Co-op Crisis

A Comment by Joan Sweeney and Richard James Sweeney* Two of Washington D.C.'s most splendid institutions—the Board of Governors of the Federal Reserve System and the Capitol Hill Baby-sitting Co-operative—are currently fighting their own separate battles against the scourge of inflation. Neither seems to be winning. Whatever the lessons of the board's experience, the lessons from the co-op's are clear.

(1) The co-op has been increasing its money supply ("scrip") per capita, by running budget deficits, and this has generated inflationary forces.

(2) However, the main "commodity" this scrip money buys is baby-sitting time, and the price of baby-sitting is constitutionally pegged at one unit of scrip for every one-half hour of baby-sitting. Hence, this system of price controls means the inflationary pressure does not drive up the scrip-price of baby-sitting, inflation is suppressed, and shortages are found.

(3) The political process of rectifying the situation holds little hope. Few members see the problem as fundamentally monetary, but instead believe others are not doing their part in removing the shortages.

For the uninitiated, it may help to know that there are several forms of baby-sitting co-ops. One popular form is the bookkeeping system. In the most rudimentary version, members earn one credit for each hour of sitting, and lose one credit for every hour someone tolerates their kids. A co-op at this stage develops rules—for fairness, usefulness, for expediency—and to make the thing go at all. For example, people want to go out on Friday and Saturday more than on other days. Either there are rules — "If you go out on weekends, you must sit on weekends" —or there are rewards — "Time-and-a-half on weekends." And, of course, there must be rules to keep people from moving away when they're "down" on hours.

The major alternative to the bookkeeping system, if there are many people involved, is a "scrip" system—the scrip is pieces of heavy paper. In the Capitol Hill Baby-sitting Co-op, a splendid organization to which we belonged for two years, a unit of scrip "pays" for one-half hour of sitting time. There are good reasons for preferring scrip to bookkeeping. An arithmetic bookkeeping mistake will show members as a whole "ahead" or "down" in hours, and the problem can be hard to resolve. With scrip, the hours earned automatically cancel against the hours spent when the sitter is "paid."

The co-op has endured many vicissitudes. A few years ago the co-op had a recession. Few people felt they could go out but many wanted to babysit. Now there is great difficulty rounding up sitters for all those who want to go out. This is a classic sort of inflationary pressure—too much money (scrip) chasing too few goods (sitters). In the previously mentioned bad old days, according to long-time members, there was a shortage of scrip. There was so little scrip to go around that holders were reluctant to squander it by going out. Those who wanted to go out but didn't have scrip were desperate to get sitting jobs. The scrip-price of baby-sitting couldn't adjust, and the shortage worsened.

The co-op even passed a rule that everyone must go out at least once every six months. The thinking was that some members were shirking, not going out enough, displaying the antisocial ways and bad morals that were destroying the co-op. Hence the bylaw to correct morals. This tacky coercion naturally failed to solve the problem, but created excessive heartburn all around. In the end, despair forced resort to monetary policy—each current member was given ten more hours of scrip. New members had been given twenty hours and required to pay back twenty when leaving—now they were given thirty and required to pay back only twenty. And, behold, just as even our monetary authorities might predict, were they given to accurate predictions, the problem went away. There shortly arrived a balance between those who wanted to go out and those who wanted to sit.

A golden age, on a minor scale. Those people who previously hadn't wanted to go out must have changed their morals—or maybe it was the ten hours all around. Whatever the cause, the golden age lasted only a couple of years. (Golden ages are like that.) Maybe morals deteriorated—or perhaps the scrip was again out of whack. Now the problem was that more people wanted to go out than to sit. In fact, the ten-scrip reform has moved the co-op from a position where there was too little scrip and the amount was shrinking, to a position where there was just about the right amount of scrip but the amount was growing. After a while, it naturally followed there was too much scrip and more people wanted to go out than to sit. A little arithmetic illuminates the current tragedy.

First, consider co-op “expenses.” Each “monthly secretary” (the poor person who gets all the requests for sitters and tries to fill them) receives 1 hour per month for every member-family in his section, and there are now four sections. Using the average membership of 150 for 1973 for convenience, these monthly secretaries “cost” the co-op 1,800 hours per year. The officers of the co-op are even more underpaid—they earn 102 hours per year. So with 150 members, yearly expenses are 1,902 hours. But each member-family pays yearly dues of 14 hours, so total co-op “income” is 2,100 hours per year.

With no membership turnover, then, co-op outgo would be 1,902, and the amount of scrip outstanding would fall by 198 hours per year. So if the amount outstanding this year is just right, next year it will be 198 hours too small. Since 4,500 hours (equal to 30 hours times 150 members) are initially out-standing, in somewhat under 30 years there would be no scrip outstanding—no one could go out. (Do I hear a small voice saying all the children would be grown anyway?) This would be a “depression” (compared to the previous recession), and the co-op is saved from this (and from running out of children) by membership turnover.

Recall, each new member is given 30 hours and pays only 20 when leaving. Thus, a one-family turnover that does not change total membership increases this total volume of scrip outstanding by 10 hours. The amount of scrip will expand by 200 hours per year if the turnover is 20 families annually; the 192-hour shrinkage noted above is offset by the 20 X 10 hours, or since 20/150 is 7.5 percent, if the turnover exceeds 7.5 percent the amount of scrip will grow.

Sadly for domestic tranquillity, the turnover rate has somewhat exceeded 7.5 percent, being approximately 20 per-cent in 1973-74. Now, whoever promised that 7.5 percent would always be “it”? Indeed, given ups and downs, how many years in a row above or below 7.5 percent can the co-op take before it falls apart, even if the average is 7.5 percent?

It is not surprising that some members want to remedy the situation with rules to force sitting by those members who are shirking their duty. Indeed, a truth squad is envisaged to find out why individuals aren't sitting enough. The important thing, of course, is what to do to make things work right. The short-run answer is to make the “income” and “outgo” mesh with the turnover rate. As things now stand, there is too much scrip outstanding and it is growing - one good idea is to reduce the amount through a one-time tax. But this would have to be repeated over and over, to mop up the growth in scrip due to membership turnover. Each time, it would require a majority vote in favour of this in a referendum where a certain minimum number vote. Unhappily, the minimum number seldom votes in the co-op's referenda. Sadly, giving more discretionary power to the officers, or changing the charter generally, also requires a majority with the same minimum number of votes.

Oh, how often does voter apathy tie the hands of those who serve! If the officers had the power of the United States president, what might they not do to improve welfare and well-being? It seems unlikely the co-op would be taken over by evil people to abuse power—there are better outlets in town for that sort of thing. But it does seem that even goodhearted people can err in their policies: consider the good-hearted people, by and large Washington lawyers, who designed the co-op's economic system (the rules fill seven pages of legal paper, single-spaced). The proponents of a truth squad to make sure members sit often enough seem also to have hit on the wrong solution.

The monetary nature of the co-op crisis is clear (to you and us). The recession - inflation seesaw developed when the number of units of scrip per member got out of line. Very well. Get it back in line and see to it that turnover and growth (or shrinkage) cannot change this ratio. There are lots of ways to do this, though the tendency to look for moral failings as the cause of difficulties makes discretion in the hands of the officers more than a bit iffy.

One way to cut the knot is to fix the number of units per member at an amount that seems right on the basis of past ups and downs, and freeze the ratio there. Of course, the ratio may be a little off and the “best” ratio may change from time to time. But this may merely be the cost of avoiding a conversation grilling you about why you haven’t sat for four weeks.

Un-fortunately, the co-op members seem not to understand all this. When crisis finally stirs the majority to action, who can say monetary wisdom will prevail. There are a few practical morals to draw from this unhappy tale. One is that the co-op is an organization of persons, with social and personal relations—and it’s also an economy. It is simply foolish not to design the management of the economy right to begin with. The main lesson may be that there is an economy embedded in many social relationships, and while a well-run economy is no guarantee of love and peace and happiness, a poorly run economy may well prevent these goodies.

Now, if goodhearted people in an area that offers little scope for chicanery can so bungle economic management, can we really be surprised at the results of turning our economy over to the tender mercies of political experts? Indeed, unlike the co-op, the national economy seems virtually indestructible, not having died yet.