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# OZY'S GUEST WALK-ON: ECONOMIC SUPERSTAR PETER HENRY

BY CARLOS WATSON ([HTTP://WWW.OZY.COM/OZY-TRIBE/CARLOS-WATSON/1329](http://www.ozy.com/ozy-tribe/carlos-watson/1329)) • JUN  
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## WHY YOU SHOULD CARE

Because there's plenty of dense stuff in your econ 101 textbook. Peter Henry gave OZY two key nations and two key thinkers to teach us what we might have snoozed through during freshman year.

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It's not every day you get to stop by and talk with one of economics' young superstars — Peter Henry. The Dean of NYU's business school was once a Big Ten football recruit who skipped the big leagues for an academic scholarship — and later a Rhodes, en route to a Ph.D. The Jamaican-born father of four talked to OZY's Carlos Watson about the economy's ongoing recovery, and what the U.S. can learn from two nations: Chile and Barbados. Plus, he told us about how his mom called Condoleezza Rice — just to check on her little boy — during his early days on faculty at Stanford.

*This interview has been edited and condensed for clarity.*

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## Surprising Lessons From Chile — and Barbados

OZY:

Let's jump right in — Europe's in free-fall, the U.S. is still feeling the crunch post-2008. So who *is* getting it right?

Peter Henry:

What fiscal discipline means is no more complicated than the story of the ant and the grasshopper: it means saving when times are good so when times are bad you can have a surplus. The best third world example of this is Chile. Chile is a third world ant; the United States is virtually a grasshopper.

Take Chile in 2006: Chile's main export was copper. In 2006, you remember, the world's economy was booming, copper prices were rising, and Chile's surplus was about \$30-36 billion in reserves. People took to the streets of Santiago and burned the finance minister Andre Velasco effigy saying, effectively, "Give us the money!" And Velasco said, "No this is the money for a rainy day."

But the point is not about political parties. The point is about lack of discipline.

— Peter Henry

When Chile was hit by the global financial crisis of 2008/2009, they were able to ... cushion the poor because they had surplus.

In contrast, the United States — a virtual grasshopper in 1999 — had a record fiscal surplus. George W. Bush won the [2000] election and said, "I am going to give people their money back," instead of saving during good times.

Then we're hit by 9/11, a recession, a series of wars ... but we had already given back the surplus, so now we run the serial deficits which then land us in the long sequester debate, which is again an example of *austerity* as opposed to

discipline. Now, just to make it really clear, I am not making a partisan point here — you can make a very compelling argument that had we had a different outcome in that election in 2000, that surplus would have disappeared anyway within the board of higher spending, not lower tax cuts. But the point is not about political parties. The point is about lack of discipline.

OZY:

So who's a good model for discipline?

PH:

A very interesting example that is not known at all is actually the tiny island of Barbados. So Barbados, in 1991, was on the verge of a financial collapse. They had fixed their exchange rate with the U.S.; it had been 27 years, the U.S. was in recession ... and so the IMF went to Barbados to get them to value their currency, [saying,] “It is the only way you are going to survive.”

Usually when this happens, when the IMF makes their recommendation — whether it be in Greece or Portugal or Spain or Italy — the government says, “No, we are not going to do it,” and then several months later they have to go back to the IMF because things are falling apart. Barbados did something more different. They said, “We have got a viable alternative.” They said, “Instead of devaluing our exchange rate, we are going to negotiate a wage cut.” So the Prime Minister Erskine Sandiford gets to go to the private sector and the unions and calls the government and they sit down.

They agree that the workers go down with a 10 percent wage cut. [Some workers] were really upset and they took to the streets, OK. This is 30,000 people marching on the streets of Bridgetown — this is 12 percent of the population, like 40 million people marching in Washington — over their wages being cut.

So what happened? The private sector gets really serious because when you get a twelfth of population marching in your capital ... well, right. The private sector agrees that they are going to base future wage increases off of productivity. So,

unlike Europe, they say, “We are going to build into a contract, wage increases that are tied to productivity ... so we don’t end up like — and they didn’t say this at the time — but this is what happened with Italy, Portugal.”

I’m not arguing that exactly what Barbados did was actually how the European could do it but ... it is that kind of focus on the future and the willingness to do what was right for the country and for the future at personal expense today — *that* is what discipline means.

## The World’s Best Economics Nerds

OZY:

Let’s end with your turf, the academy. Who are the most interesting economic thinkers out there today?

PH:

Two names to watch:

1. Stanley Fischer, the Northern Rhodesian-born former chief economist at the World Bank who has been tapped to be the next vice-chair of the Federal Reserve.
2. Thomas Piketty (<http://www.ozy.com/fast-forward/the-dismal-science-gets-sexy/6615.article>), a French economist focused on the study of inequality — who earned his Ph.D. at the ripe young age of 22.

Stan was number two at the IMF. But there was a lobby for Stan to get the top job in the IMF. That kind of support is amazing. And it’s that bread and butter stuff he works on that is really, incredibly important. What he works on is what I would call discipline, taking a long-term view; it is very, very hard to do in the rough and tumble world of real politics. Stan Fischer embodies the ability to understand the theory, understand the importance of bread and butter economics and, importantly, understand how to get things done.

OZY:

And Thomas Piketty?

PH:

Thomas Piketty. I think that his work is really interesting and I think there's also a generally interesting set of rich and important connections between the income inequality discussions in the U.S. and between higher education.

OZY:

And that — sounds like a whole other topic for a whole other day.

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