

## **ILSS Aims to Regain New Zealand's Lost Prosperity**

"The failure of the present methodology used by the Reserve Bank for the operation of monetary policy is unquestionably the most pressing and important issue facing the New Zealand economy" says the executive chairman of EROS Capital Ltd and Red Stag Timber Ltd, Phil Verry, in his 116 page submission to the Finance and Expenditure Committee.

"It will determine whether or not New Zealand will ever regain the level of prosperity it used to have relative to once comparable nations, so either the Committee's success or failure will have immense implications for every New Zealander, now and in the future" he warns.

Mr Verry has delivered his submission to the Committee's secretariat. The remainder of the 1,000 printed copies are being mailed to parliamentarians, the media and to selected interest groups. Electronic versions are also being emailed.

"Our 'Interest Linked Savings Scheme' (ILSS) solution has been twelve years in its development. It will certainly work for more effectively combating inflation, but more importantly it will place the New Zealand economy on a far higher trajectory for sustainable economic growth, than would otherwise be possible" he says.

"The OCR instrument and the policy at present being used by the Reserve Bank are sleepwalking the New Zealand economy into economic quicksand, which is why: Kiwis' average incomes have fallen 30% behind the Aussies' over the past 23 years; we are not even earning our low level of average incomes, as our economy is propped up by foreigners' funding of our massive annual current account deficits, around \$14 billion or 8.5% of GDP, the developed world's worst on a per capita basis; our export revenues have relatively collapsed, to be only one-half of the level we need them to be; which is why we have to borrow from foreigners to buy our groceries, that they now manufacture, not us; and, consequently, the New Zealand is the small country economy in the world that is the least connected to the global economy. Our failure to take advantage of the globalisation of the world economy is therefore by far the worst", says Phil Verry.

"Add to that dismal record: we have the developed world's highest interest rates; the most overvalued exchange rates; and the developed world's highest debt per capita, so our economic predicament viewed realistically is dire and it can only get worst unless sensible policy changes are made" he says.

Mr Verry says the ILSS scheme will:

- provide a suite of new savings based instruments to combat inflation more effectively, which can be used easily and flexibly, and targeted more surgically at the causes of inflation;
- capture as free new Kiwi savings the New Zealand wealth that the Reserve Bank currently in effect gifts to foreign lenders when it forces Kiwi borrowers to pay the developed world's highest interest rates on its massive and growing foreign debt;
- allow the interest and exchange rate markets to operate freely, without the present massive distortions and excesses caused by Reserve Bank interventions;

- thereby allow the NZ\$ exchange rates to fall, substantially and quickly, to eventually stabilise at equilibrium values of around 55-60 US cents and 65-70-70 AU cents to the NZ\$, to allow exports to grow;
- open a second front to combat inflation, by supply-side stimulus to growth of productivity and productive capacity, using as investment funds part of the free new savings captured by the ILSS;
- massively multiply the size of the KiwiSaver fund;
- enable New Zealand to close the economic gap with Australia, to arrest the present debilitating skills flight;
- and introduce many other consequential benefits, including improved government services and lower tax rates.

"It means: we Kiwis will no longer gift our wealth to foreign lenders, by OCR surcharges over and above market interest rates, paid by Kiwi borrowers under compulsion by their own Reserve Bank; then destroy wealth creation by making our exporters and manufacturers uncompetitive by consequent overvaluation and volatility of the NZ\$; and we won't have to ask the foreign lenders to lend back to us, as debt, the funds that we have gifted to them to cover the resulting massive current account deficits, which include our gifts" he says.

"ILSS is a comprehensive solution, based upon sound technical principles that have never been credibly faulted. It allows monetary policy to operate as originally intended. Its benefits will be enormous, so it deserves to be accorded the highest priority by all parliamentarians who are serious about New Zealand regaining the relative prosperity that Kiwis should never have lost", says Phil Verry.

He says he expects the ILSS submission will be supported by submissions by others, including leading businessmen, who have tuned into the ILSS solution.