



Media Release – for immediate use

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Politicians Must Heed Calls for Improved Monetary Policy

“Every political party needs to clearly state where it stands on the mounting calls for improvements to the methodology used for the operation of Reserve Bank monetary policy, so voters can make an informed choice at the forthcoming general election”, says industrialist and venture capitalist, Phil Verry, the executive chairman of EROS Capital Ltd and Red Stag Timber Ltd, which operates Waipa Mill, Rotorua, New Zealand’s largest sawmill.

Verry, a former partner in Coopers & Lybrand, now PriceWaterhouseCoopers, has made a cornerstone submission to the Finance and Expenditure Committee of parliament which, for more than a year has been conducting a review of monetary policy.

The submission advocates the adoption of a new suite of instruments, the ‘Interest Linked Savings Scheme’ (ILSS), to equip the country with both more effective monetary policy and a powerful engine for economic growth. (www.redstagtimber.co.nz; or www.erosgroup.co.nz).

“We are experiencing a recession we should not be having. It is extraordinary and unprecedented that this is at a time when we have the most favourable terms of trade in decades”.

“The recession has been caused by fundamentally flawed monetary policy which: on the one hand, caused the inflationary pressures; and, on the other, has the Reserve Bank then trying combat those same pressure with only the OCR instrument, which has deteriorated from being impotent to now being a millstone around this economy”, he says.

“The ILSS solution has received tremendous and authoritative support, including from those with credentials that collectively far exceed those in Wellington”, Verry says.

“Also, eminent USA economists, Prof Steve Hanke and Prof Joseph Stiglitz have ridiculed New Zealand’s monetary policy”.

“Now, both the Manufacturers and Exporters Association and the Engineering Printing and Manufacturing Union are calling for change, as are many other respected commentators”.

Phil Verry is calling for the government to ensure the review process does not get captured by what former head of the New Zealand Institute, David Skilling, when leaving New Zealand, said was a major problem within New Zealand bureaucracies: their reflex to defend their ‘reputational capital’ invested in failed policies.

“It is time all political parties faced the fact that, relatively, average Kiwi incomes have fallen over the twenty-five years to only two-thirds the level they should be, which is an ongoing loss of \$80 billion each year”

“We are not even earning those low incomes, because they are heavily subsidised by foreign borrowing to fund our chronic external current account losses – of around \$13 billion per annum, or 8% of GDP – which is an unsustainable situation”, Verry says.

“The export sector, including our industrial sector, has been decimated by monetary policy, to the extent that export revenues are now only one-half the level New Zealand needs them to be, and which we could have if changes are made”.

“And monetary policy has needlessly piled massive foreign debt onto the economy, which is another burden that is yet another consequence of its failure”.

“The recent cut to the OCR, by 0.5%, at a time when CPI inflation is approaching 5% pa, is a further sign of monetary policy failure. The Reserve Bank is wise to have thrown in the towel”, says Phil Verry. “It should have done so earlier”.

Verry says the ILSS suite of new instruments is a technically robust solution, that has not been credibly faulted by anyone.

“Now, the electorate needs to know where each political party stands, so the voters can cull out any party that lacks the vision to make the changes that are necessary.”

“This is, by far, the most important issue facing the future of New Zealand. Get it right and we can again match the prosperity of Australia, to stem the emigration of people, skills, businesses and ownership of industries.”

“Get it wrong, by sticking with the present failed OCR monetary policy instrument, and we will soon relatively decline past a point-of-no-return, where the prospect of regaining the relative prosperity we should never have lost will be impossible”, says Phil Verry.

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