

## **Review of Monetary Policy by Finance and Expenditure Committee**

1. The hearings stage of the review of monetary policy has been completed: our delegation representing the 'Interest Linked Savings Scheme' (ILSS) submission presented to the select on Wednesday, 10 October 2007. In doing so, we believe we ensured that the ILSS submission fully met every prerequisite for support that could be reasonably expected.
2. ILSS has been carefully and professionally developed to provide the New Zealand economy with the two strategies that it currently lacks if it is to turn around the trend for relative economic and social decline that has eroded its international standing over a period of more than twenty years: a superior suite of instruments with which to more effectively combat inflation; and a powerful self-funding economic growth engine. All parliamentarians and others have been furnished with a paper titled '*New Zealand's Real Economic Scorecard*' which lists the basket of macro-economic statistics that measure this decline, the worst record by far, in the developed world. The 'borrow and binge' debt-driven economy that has created the unsustainable mirage of prosperity over the past 5-6 years is drawing to a close – because it is not based upon productivity-driven wealth creation – just as the debt-drive sharemarket crashed twenty years ago. For parliamentarians, the imperative, now, is to remain proactive on this issue.

### **ILSS Solution**

3. It is evident that the ILSS submission is the only credible solution that has been put before the select committee. Apart from a few apologists for the present failed OCR-based methodology, other submitters sought to blame the adverse outcomes of the OCR either upon poor judgements by the governor of the Reserve Bank and/or government spending policies, or both. Criticism of the governor, always with the benefit of hindsight, lacks professional rigour; as does blaming government, when in fact large fiscal surpluses are being reported. The ILSS submission explains: why the OCR has not worked and can never work for an economy having the characteristics of New Zealand's; and why the ILSS solution cannot fail.
4. It is worth re-stating a point we made to the select committee: that no-one has ever faulted the ILSS solution. It is also notable that those supporting the OCR generally have a vested interest, in one guise or another, for doing so.

### **ILSS Support**

5. In presenting to the select committee, we were able to demonstrate widespread support for ILSS from diverse and highly credible sources, including:

#### *ILSS Presenting Delegation:*

Phil Verry: successful professional career (partner in Wellington office of firm now known as PriceWaterhouse Coopers), now successful industrialist and entrepreneur, successful with other major reform projects, (refer to 'Credentials' section of ILSS submission).

Anthony Byett: prominent economist, former chief economist for ASB Bank.

Bryan Gould: company director, former Vice-chancellor, Waikato University, respected former career in UK politics.

Michael Houlahan: CEO, Tuatara Consulting (assisted by Steven Becker) (Leading NZ forex consultancy).

*Letters Supporting ILSS presented to Select Committee:*

NZ Council of Trade Unions  
Employers' and Manufacturers' Association (Northern) Inc  
Hayes International – prominent international manufacturer and exporter.

*Other Submissions made to Select Committee in Support of ILSS:*

NZ Wood Processors Association  
NZ Wood Council  
NZ Council of Trade Unions  
Other submitters, directly or indirectly.

6. It is unlikely that any reform proposal has ever had such highly qualified, diversely experienced and broad-based support. This support justifies proactivity by parliamentarians.

### **Way Forward**

7. The ILSS supporters consider that the ILSS solution is sound economic policy. That ILSS has never been credibly faulted underscores those convictions. However, being widely experienced, they also recognise there is a political dimension, too, so they are not asking the select committee for immediate adoption of ILSS. They advocate the immediate commencement of a process. The ILSS presenters recommended to the select committee that it, in turn, recommends to parliament that a taskforce of independent experts be formed, to prepare the ILSS proposal for fully-researched final consideration, as a precursor to implementation by legislation. This procedure will provide confidence and remove political risk and timidity. Given the enormous potential of ILSS, the presenters consider this is the appropriate responsible decision for the select committee to take.

This would, for example, remove reflex concerns such as: Has ILSS been tried anywhere else in the world? (No, ILSS is a well researched original solution to New Zealand's also unique economic circumstances); and, Will the finance markets maintain confidence in New Zealand's policies? (Of course. The markets will operate more freely, which market operators prefer. The distortions of present OCR interventions will be removed, as will the present mounting risks from the confluence of rapidly escalating foreign debt and declining resources relative to other economies. All the real risk resides with continuation of the OCR, none with the ILSS solution. Remember, monetary policy is not complex).

### **Recommendation to Select Committee**

8. Parliamentarians need to also consider the many advantages of ILSS. For example, as the ILSS submission analyses, the OCR is a primary cause of

New Zealand's weak stock exchange and shallow capital markets. It attacks the productive sector with: high interest and exchange rates; artificially cheap imports; and high non-tradables inflation, that the OCR causes. New Zealand companies increasingly become prey to foreign predators because present monetary policy weakens them. Whole sectors in manufacturing and exporting are being undermined by the OCR, so that many are downsizing, closing or relocating offshore. ILSS does the opposite.

9. Those who presented the ILSS solution made the following recommendation to the select committee:

That a taskforce of independent experts be formed, to:

1. Fully develop the ILSS to confirm its suitability for implementation.
2. As part of this process:
  - a. the economic outcomes assuming the introduction of the ILSS methodology be modelled and projected for all key economic indicators for a period of fifteen years;
  - b. the economic outcomes assuming the continuation of the OCR methodology and current trends be modelled and projected for all key economic indicators, for a period of fifteen years;
  - c. a final policy decision to implement the ILSS, or to not implement the ILSS, be based upon these modellings and projections.

### **Present Reserve Bank Policy**

10. The analysis in the ILSS submission identifies that the OCR is causing, not combating, inflation. Therefore, continuation of the Reserve Bank's high interest, high exchange rates policy is indefensible, especially with the enormous 'collateral damage' that is being suffered by the productive economy. There is a view that the Reserve Bank has painted itself into a psychological corner, with consequent risk of obdurate contrariness. On the other hand, some say the Reserve Bank would welcome the examination of the ILSS solution. We are optimistic that the latter is the case. Government needs to exert its hegemony over policy-making, to ensure that is the case. The appropriate immediate response by the Reserve Bank is to begin reducing the OCR, to arrest the severe collateral damage that is being done to the productive sector. As the OCR is causing inflation, it is irresponsible to ritualistically persist with it. New Zealand's economic fundamentals are already far worse than those for the USA.

### **Conclusion**

11. Developing and presenting the ILSS solution has been a major personal commitment and challenge. The support of so many people has helped sustain this effort, so has been greatly appreciated. I record my personal thanks: to each member of the delegation chosen to present the ILSS solution to the select committee; to those who gave letters of support; to the many others who have conveyed their personal support; and to my son and business colleague, Marty, for his supportive efforts.

12. I have no doubt that ILSS is the solution needed to rejuvenate the New Zealand economy with high productivity, low inflation economic growth. It deserves support by all parliamentarians, in the national interest. The ball is in their court. It is now up to them. I sincerely believe this is the most important issue any of them will encounter in the parliamentary careers.

**Phil Verry**  
**Executive Chairman**  
**EROS Capital Ltd**  
**Red Stag Timber Ltd – Waipa Mill**