Thoughts From the Chairman Emeritus:
Congratulations on a Great Year but Watch Out For Trouble Ahead
By Dr. Richard Kelley

This week I had an opportunity to speak to many members of our ‘ohana at our Quarterly Business Review. Here is a summary of my remarks.

Good Morning! Kung Hee Fat Choy! ALOHA!
I am so glad to be here with you today.

The temperature in Denver is around 30 degrees Fahrenheit (minus 1 degree Celsius) this morning. The chance of snow is about 50 percent.
Now you know why I am in Hawai‘i this week. It’s a lot warmer, but it’s also an exciting place to be right now! The streets are filled with visitors. They look happy and appear to be spending well in shops, restaurants and activities.

Hawai‘i hosted almost 8 million visitors in 2012, topping the previous high of 7.6 million in 2006.

As I talk to our guests in hotel lobbies, elevators and shops, many tell me how wonderful all of you are to them. You provide a unique blend of service, hospitality and ALOHA! They know it. They feel it – AND they tell their friends back home about it.

Thank you all for what you all do so well, day after day, last year and in this new Chinese Year of the Snake.

That said, I would be neglecting my duties as Chairman Emeritus if I did not take a few minutes to point out some of the concerns I have about what’s happening around the world and here at home.

• Civil wars and violence are raging in the Middle East.
• Three states outside the Nuclear Non-Proliferation Treaty – India, Pakistan and North Korea – have nuclear capabilities. India and Pakistan have fought each other repeatedly in the past six and a half decades. North Korea is widely considered an unpredictable, rogue state.
• Another rogue state, Iran, is close to joining the nuclear “club,” and it has been threatening to annihilate another country, Israel. Many of its other neighbors fear it as well.

• There is a great deal of concern about the international financial system.
• All over the world, sovereign debt – that is, “debt owed by governments” – continues to pile up. Governments are unwilling to cut spending back to less than the revenue they bring in from taxes. Here is a sampling of several countries’ sovereign debt as of 2010.

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$14.6</td>
<td>92.7%</td>
</tr>
<tr>
<td>China</td>
<td>$5.7</td>
<td>19.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>$5.4</td>
<td>225.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>$3.3</td>
<td>75.3%</td>
</tr>
<tr>
<td>France</td>
<td>$2.6</td>
<td>84.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$2.3</td>
<td>76.7%</td>
</tr>
<tr>
<td>Italy</td>
<td>$2.0</td>
<td>118.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>$2.0</td>
<td>66.8%</td>
</tr>
<tr>
<td>Canada</td>
<td>$1.6</td>
<td>81.7%</td>
</tr>
<tr>
<td>Russia</td>
<td>$1.5</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

The United States is as bad as many with debt approaching 100 percent of gross domestic product (GDP). What is GDP? It’s the total value of all the goods and services a country produces in a year. That means in the United States, our government’s debt is almost as big as the value of all the work that all our people and all our corporations produce in a year.

If we take the ratios of income, debt and expenses of the U.S. as a nation and translate them to what is experienced by a theoretical American family, the household budget would look like this.

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If a typical U.S. family handled its money like the U.S. Government
(with permission of the Heritage Foundation)

- You earn $51,000 but spend $73,000 each year.
- You pile up credit card debt, adding $22,000 in debt every year.
- The interest and principal payments due on the credit card debt will soon wipe you out.

That is what will happen in the U.S. and other countries with high-spending governments if they do not change their ways.

Hawaii’s state government also has a huge debt and much of it is unfunded. According to Hawaii Reporter, “the state owes public workers more than $20 billion, and state officials estimate that figure will climb to $37 billion in the next 12 years unless lawmakers put an aggressive plan into motion to pay down the debt.”

Some are suggesting the state increase the transient accommodations tax (TAT or hotel room tax) by 2 percentage points, to 11.25 percent.

I strongly oppose this, and I hope you will join me in this battle.

Hawaii already has very high prices compared to the U.S. mainland.

I buy a gallon of gasoline for $3.15 in Denver. Here in Honolulu, gasoline is selling for $4.19 a gallon, roughly 30 percent more.

Other costs such as electricity, health care, salaries and wages, just to name a few, are similarly high and, just to stay in business, Hawaii’s hotels have to charge some of the highest room rates in the nation, almost $205 per night on average.

Increasing the TAT by two points to 11.25 percent will mean that when you add the general excise tax of 4.712 percent, a visitor would pay close to 16 percent tax on his $205 hotel room, or $33 per night. A family of four with two kids in a second room would pay $460 in hotel taxes alone for a week’s stay!

Hawaii is getting close to pricing itself out of business. That’s what the visitors I talk to are telling me. That’s what I am reading on Internet travel sites such as TripAdvisor. That’s what Mike McLearn, a retired Canadian lawyer, is telling us too. Mike and his wife have returned to the Outrigger Reef on the Beach for decades and stayed two to three weeks. With the latest price increases, they could not afford to come back this winter and will be vacationing in Florida instead.

Price increases for Hawaii in all areas have not been keeping up with inflation. As shown by noted economist Paul Brewbaker, Hawaii’s earnings from tourism peaked nearly a quarter of a century ago (in 1989) at $17.23 billion (in 2012 dollars) but have been trending downward since then.

When adjusted for inflation, Hawaii’s earnings from tourism have been falling since 1989 (with the permission of Paul Brewbaker)

The visitor industry in indeed the goose that lays the golden eggs for Hawaii. If we are to remain competitive and viable, this industry needs our support and not higher taxes.

This cartoon on page 3 by award-winning cartoonist John S. Pritchett says it all.

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Take care of Hawai‘i’s goose that lays the “Golden Eggs”
(with the permission of John Pritchett)

It's been great to be with you.
Thanks again for everything you do.
Together, we will survive and prosper no matter what we face in 2013 and beyond! 🐍