A MESSAGE FROM RICHARD R. KELLEY TO OUR OUTRIGGER ‘OHANA

2011: A Year of Recovery and Transition

By Dr. Richard Kelley

As we approach the end of the first year in this decade, I look back with a great deal of pride at everything we have accomplished in the past 12 months. Although our company is spread across the Pacific with operations separated by thousands of miles of blue water and hours of flight time, we have worked together as a remarkable team. We have served our customers warmly and efficiently, and in most areas earned a profit as well. We have also made significant investments in the future of our company.

Our Waikīkī-based ‘ohana can be proud of the extraordinary efforts they and so many others made to deliver a spectacular meeting for all those attending November’s APEC summit. You proved without a doubt that Hawai‘i can host even the most demanding high-level meetings and conferences. This will pay off handsomely in the future, and I predict we will see bookings from groups and industries that might never before have considered Hawai‘i a place for serious business meetings and conferences.

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Yes, together we are a powerful team!

As we look forward to 2012 and beyond, it promises to be a busy, challenging time. In Hawai‘i, the renovations at the Outrigger Waikīkī will test our skills in many ways. In Australia, the conversion of the Holiday Inn* to Outrigger Surfers Paradise, which starts early in the year, will also take a lot of hard work by Grant James and his staff. Darren Edmonstone and our Asia-Pacific headquarters staff will be more than occupied by new projects in Thailand, Vietnam, Bali (Indonesia) and Hainan (China).

Economists predict that, if the world economy does not stumble badly or crash, we can expect another year of growth in the number of visitors, hotel/condo occupancy, room rates and Revenue Per Available Room (RevPAR). That will be good for all the members of our ‘ohana.

But please note my emphasis on IF, because there are many things that can go wrong in the coming months. I hate to write about them during the holiday season, but these are issues that need close attention.

What I worry most about now is the health of the international financial system. Particularly in the United States and Europe, governments at every level have been spending money and making promises for future spending far in excess of available resources. Pick up almost any newspaper to get a feel for the severity of the situation.

Unfortunately, neither the media nor most governments are telling “the truth, the whole truth, and nothing but the truth” about this issue.

Consider the huge and rapidly rising U.S. national debt. One way to evaluate a nation’s debt – a good yardstick/meter stick – is to compare it to that nation’s gross domestic product (GDP), the total value of all goods and services produced in a year.

From 1900 to 1933, the U.S. had very little national debt, typically less than 30 percent of GDP.

From 1933 to 1941, the national debt rose to about 40 percent of GDP as spending on social programs increased rapidly with the measures President Franklin D. Roosevelt undertook to end the Great Depression.

In the early 1940s, when winning World War II demanded tremendous efforts and extraordinary spending, U.S. debt rose to 120 percent of GDP. However, following the defeat of Nazi Germany and Imperial Japan, debt dropped back to pre-war levels for several decades.

In 1974, U.S. debt was only 32 percent of GDP. That was the year Outrigger finished building and opened what are now the OHANA Waikiki East and OHANA Waikiki West hotels.

By 2001, with the continuing rapid growth of government social programs, U.S. debt had risen to 56 percent of GDP.

In 2008, it stood at 70 percent of GDP.

Today, at the end of 2011, U.S. debt is about 102 percent of our GDP and rising fast!

In dollars, the current total U.S. debt on the books is estimated at $15.1 trillion. However, as recently reported in USA Today, the U.S. also has an additional $60 to $160 trillion in unfunded obligations and promises that are not yet

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recorded as “debt.” Included in this figure are promises the federal government has made for Social Security, Medicare, federal employee retirement benefits, military retirement and disability obligations. These are real future costs but they are still “off the books.”

“The (federal) debt … doesn’t take into account what’s owed to seniors, veterans and retired employees,” says accountant Sheila Weinberg, founder of the Institute for Truth in Accounting, a Chicago-based group that advocates better financial reporting. “Without accurate accounting, we can’t make good decisions.” (USA Today, June 6, 2011)

This is a widespread problem. The countries using the euro as their currency – that is, most of Europe – are currently teetering at the edge of crisis because of government debt that is in technical default. Greece, Spain, Portugal and Italy are in precarious positions, and the situation of several other European countries also looks wobbly. A crisis in any of these countries could trigger a domino effect across Europe and beyond. The free-spending debtor countries want thrifty Germany to bail them out – assume part of their debts – but that would put an intolerable burden on German taxpayers, so Germany’s government is balking.

In most cases, the root cause, as in the U.S. (where the problem is not yet as far advanced as in Europe but nonetheless continues to move in a troubling direction), is that governments have made far too many promises to their citizens – promises the countries cannot afford now and even less so in the future.

When governments are forced to suddenly address financial crises that have been gradually building for decades, they must undertake measures like raising taxes and cutting social programs and benefits that people have long counted on for their own well-being. That is why we have recently been reading about angry demonstrations in the streets and governments being voted out of office in Greece and Italy.

It’s a political example of the irresistible force meeting the immovable object! But something’s got to give, creating the potential for a financial earthquake whose shock waves are likely to be felt around the world, including in the United States. That’s why I say we might have a continuation of economic recovery IF these extremely serious issues can be resolved in the near future.

Do the political leaders of Europe, the U.S. and other countries, as well as our local leaders in Hawai’i, have the fortitude to address the issue and make the necessary, unpopular decisions? We hope so.

I urge you all to stay informed on these important international and local issues and remain active in the political process; especially in the important election year we are about to enter.

Let’s keep our politicians’ feet to the fire. Be vocal in your opinion as issues come up for a vote. Your personal future, your family’s future and the future of our company depend on it.