

HAWAIIAN GAZETTE

EDUCATION O. MATHESON EDITOR
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CHARLES S. CRANE, Manager.

TUESDAY MARCH 18

LINCOLN ON THE TARIFF.

Said Abraham Lincoln: "I have not studied deeply the tariff question; but I do know this: If we import a thousand dollars' worth of steel we have the steel, but the foreign country has our money. If we buy a thousand dollars' worth of steel at Pittsburgh, why we still have the steel and we also have the thousand dollars."
If the Trust buys foreign sugar we get the sugar, but the money goes out of the country. If the Trust buys domestic sugar, we have the sugar and we also have the money.
Those who propose to remove the tariff from sugar will wipe out the beet and cane growing industries under the American flag, and will allow the Trust to buy foreign sugars.
The Trust only will be benefited. The Trust's attitude to the consumer will be unchanged.

FREE SUGAR DISASTROUS

The whole prosperity—material, religious, social and political—of this community depends on the revenues from the great sugar industry. Impair the prosperity of that industry, and the results will be disastrous and far-reaching. The educational system, health supervision, charitable institutions, police regulations, road maintenance, all will be adversely affected. Our railroad companies, steamer and other transportation companies, electric light and other public service companies, iron works and other manufactures—all will suffer. As a result the development of the Territory as an outpost of American civilization in the Mid-Pacific will experience a serious setback and these Islands will be reduced merely to a strategic fortified military post.

SUGAR AND AMERICANISM.

The United States has established immense fortifications in Hawaii as a protection to its Western Coast. To successfully maintain this Gibraltar of the Pacific, it is absolutely necessary that an American citizenship continue to reside on these Islands. This is only possible if a reasonable protection is given to its chief industries—sugar and pineapples.

THE PUBLIC UTILITIES BILLS.

One of the most important questions before the legislature, if not the most important, is that of the regulation by a government commission of the public utility corporations, and it is not going too far to state that there is hardly any question before the legislature of which the general public and the legislators themselves know less. Three distinct measures are now before the lawmakers in the senate and house, on none of which has there been any great amount of discussion or study.

The matter of the governmental regulation of public utility corporations has been studied for some years on the mainland, but even there legislation and public sentiment on the subject are in the formative stage and have by no means been fully developed. In Hawaii the question is a brand new one. The majority of the residents know nothing about it whatever; the rest, with some few exceptions, know but little. Until the arrival of Secretary Fisher the matter had never been considered as something to be taken up practically and applied in Hawaii. Even should anyone of the bills now before the legislature pass and a commission be selected—either by election or appointment—it would be extremely difficult to select commissioners from the total number of eligibles in the Territory who have either studied the matter with any degree of thoroughness or who would feel themselves competent to inaugurate the workings of such a law.

This matter, which concerns intimately almost every resident of the Territory and which will mean a great deal one way or the other to every Honolulu especially, should be gone into carefully and fully. For Wednesday evening a public meeting has been called for the consideration of the subject by the judiciary committee of the house, before which one of the three bills is now pending, and an effort is being made to have this meeting made a joint one with the senate judiciary committee, before which are the other two measures. In this way the whole matter can be gone into at once and the merits of each of the three bills threshed out in comparison with the other two.

The public utility companies are preparing to present their side of the case and have appointed a committee to study the question in its broad phases and to thoroughly canvass the three bills in the light of existing conditions, and, on Wednesday and in later public meetings of the judiciary committees, to present arguments for a fair measure. This committee is composed of Lorin A. Thurston, D. L. Wittington and Charles R. Hemenway. With them are associated also A. L. Castle and Robbins R. Anderson.

It is essential for a proper and satisfactory legislative settlement of the questions involved in the proposed public utilities commission and its powers that the public interests itself in the matter and that representatives of the public, as many as are able, be present at the public meetings. The public should study the question and prepare itself, should learn the issues and be in a position to discuss the points to be brought up.

This is to be the first serious consideration and discussion of a very important subject. It should not become a controversial matter, but be carefully and calmly studied. The session is young and, if the attention be given to it that it deserves, no reason exists why a law satisfactory all around and workable in its terms can not be evolved before adjournment. Undue haste in the matter, however, would probably mean only a law to create litigation, to the detriment of the public service and the impoverishment of the public treasury.

JACK BANANAELA.

Kalakiela tells the house investigating committee that the Democratic committee was not paying him anything to be its secretary in the matter of preparing the Banana Claims Bill, so he collected fees from those who came before him in connection with that bill. The idea that as an elected representative in the first place and as secretary of a special committee of his party preparing to carry out a party pledge in the second place he was not in a position honestly to collect these fees appears not to have occurred to him. As secretary of the special committee he was one who asked The Advertiser to publish a free advertisement in connection with the banana claims, however, and knew that Senator Wirtz, the chairman of that special committee, had explained to The Advertiser that this was a matter of public benefit, in which none was being charged and from which the committee had no revenue nor any means of paying for the notices to the public.

The Advertiser does not now nor did it at any time believe that Kalakiela deliberately planned to graft. We do not now nor did we ever credit this honorable member of the house of representatives with sufficient common sense or originality enough to work any graft plan. That he did misuse his official position for his own personal gain; that he did take advantage of the fact that he had been trusted by his party in an important matter to profit personally, that he "grafted," in every sense of the word, is admitted by him before the special house committee. If that committee now fails to take advantage of the opportunity offered to drive some conception of political and legislative honesty into the thick heads of some of the house members preaching a sermon with Banana Jack as the text, it will have failed miserably.

Its members may, of course, quibble around with the fact of Kalakiela's attorneyship, but if they do they will only be proving themselves in the Kalakiela class. They are not their own judges and appraisers.

SUGAR AND THE TARIFF.

A timely and helpful article on "Sugar and the Tariff" appears in the current number of the American Review of Reviews, from the pen of A. G. Robinson, presumably the well-known newspaper correspondent, who has traveled extensively in Porto Rico, Cuba and the Philippines and who is now an editorial writer for the New York Sun. Mr. Robinson points out the fact that sugar is cheaper in the United States than in Europe and has been coming down in price despite increased demand and consumption. Explaining what "free sugar" would mean, he writes:

"There is good reason to believe that the present tariff rate on sugar can be considerably reduced without disaster to any producer who has a right to be in the business, that is, to any whose business does not depend absolutely upon an exorbitant tariff rate. For such, being injured, the community will have little concern. That some would be injured by a reasonable reduction is quite certain. A reduction in price must mean some curtailment of profit, but that involves a loss that probably all could recover by better business methods, by more efficient system in production. Even the proponents of free sugar admit the general disaster to American interests that would follow the success of their efforts. Figures of cost of production show that under such conditions most of the cane planters of Louisiana, and nearly all of the beet industry, would be wiped out. Much of the industry in Porto Rico and in Hawaii would be destroyed and sales to those islands would be heavily reduced. The Cuban reciprocity treaty would be annulled and sales to Cuba greatly cut down. In competition on equal terms, Cuban sugars would lose a large but uncertain part of their market in this country, and the economic state of the island under such conditions would almost certainly lead to political disorders. The present revenue to the government, from the duty on sugar, is about \$50,000,000 a year. If the whole, or any part, of this is taken away, a like sum must be obtained by some other form of taxation."

"It is true that a sum representing at least a part of the duty is added to the price of the domestic product, and that sum goes to the producers of cane and beet sugar in the United States and to the planters in Hawaii, Porto Rico and the Philippines, but it goes to maintain a vast industry and serves to put the United States on an almost absolutely independent footing in respect of its supply of one of its most important foodstuffs. The price now paid for the benefit received is exceedingly small."

The Rapid Transit Head Replies No Water in Any Stock Issue

Editor Advertiser:—In the interview accorded to your representative, last Wednesday night, I stated that I would not, at that time, undertake to reply, in detail, to the lengthy statement of the Governor, which had just been published, concerning the two bills before the legislature, providing for an extension of the Rapid Transit franchise, but would do so at the legislative hearings. I did, however, wish to reply at once, his surprising assertions that we had watered our stock by several hundred thousand dollars; were awaiting an opportunity to do it again, and were disposed to assert our own interest as against that of the public whenever we thought we had a chance. If there has been anything unlawful or even improper in the issuing of our capital stock, it would seem that his trained legal mind would long since have enabled him to indicate wherein our error lay, and if there has been anything done by us in this connection, which has resulted in injury to the public interest, was it not his official duty to have pointed it out long since, and have taken such action as would have prevented any repetition of such abuse of power? Two years ago in the lengthy conference he has alluded to, over the bill passed by the legislature, since pocket-vetted by him, and now reintroduced without any change, he gave me distinctly to understand that he had no complaint to make as to our issues of stock in the past, that he was sensible of the honorable way in which we had met our financial problems, and that his concern in regard to an extension of our franchise rights was to avoid possibilities of unfair stock manipulation in the future, if perchance another class of men came into control. I will say now, as I have always said, when discussing these financial questions, that it is the disposition of the income of public utility companies which most vitally affects the public, and that the question of the fairness of the rates for service, and the apportionment of revenue is of much less moment. It might, however, be well to set forth at the present time more in detail the financial history of our company to allay possible erroneous impressions created by his statement, and to inform the legislature and the public.

History of the Company.

The company was incorporated August 30, 1898, to take over the franchise granted by the Republic of Hawaii, July 7, 1898, ratified by congress, and approved by the President of the United States, June 25, 1900. Thirty years from the date of its approval would bring the date of its expiration to June 25, 1930, approximately seventeen years hence. The capital stock was fixed at \$200,000.00, with the right to extend the same from time to time by the issue of new shares not to exceed in all the sum of \$2,000,000.

Section 27 of the franchise reads as follows: It shall not be lawful to increase the capital stock of said corporation, at any time in excess of said two hundred thousand dollars, unless the proposed increase shall, when taken with the original capital stock, represent only the actual cost of the property of the railway, and not over twenty-five per cent. of such cost in addition thereto; and such cost may include all expense of laying tracks and equipping the road for public use, and may also include all subsequent extensions, but no such increase shall be authorized for extensions until they shall be determined upon and authorized by a vote of the corporation.

Section 16 gives the company the right to borrow money at agreed rates of interest and to secure the same by mortgage of all or any portion of its property, including the franchise. Section 14 gives the company the right to purchase all or any part of the property, real and personal, rights, privileges and franchises of any other railway or of any other light and power company having objects in whole or in part similar to those by the act authorized, and when so acquired, the right to exercise all rights, powers, privileges and franchises thereof, whether derived by charter or act of the legislature.

Section 15 gives the further right, amongst others, to take shares in the stock of any other company having similar objects.

Lawful Charges.

Section 17 reads as follows: The following charges shall be lawful upon the income of said railway:

- 1st: The expense of operating, repairs, renewals, extensions, interest, and every other cost and charge properly or necessarily connected with the maintenance of said railway.
2nd: Dividends may be paid to the stockholders not to exceed eight per cent. on the par value of the stock issued.
3rd: A sinking fund may be created for the redemption of any bond which may be issued or other record debt and the capital upon the expiration of the franchise. Provided, however, that the amount placed to the credit of such sinking fund annually, shall not exceed in amount such a sum with interest computed at five per cent. per annum, compounded, as will, principal and interest combined, at maturity, equal the par value of the bonds, record and capital debt aforesaid.
4th: The excess of income shall be divided equally between the government of the Republic of Hawaii and the stockholders of said corporation.
5th: A quarterly account or trial balance of the corporation shall be rendered by the corporation to the minister of the interior from the beginning of the actual construction of the railway.

The foregoing covers the financial provisions of the contract made between the legislature of Hawaii and the company, ratified and confirmed by the congress of the United States. This contract can not be altered or abridged except by the consent of the company.

Stock and Bond Issues.

The company began to operate its cars in the fall of 1901. Its property and outstanding capital stock and bonds, respectively, at the close of each of the succeeding years, up to the present time are contained in the following table:

Table with 5 columns: Year, Cost of Property, Stock Plus 25%, Bonds Outstanding, Aggregate of Stock and Bonds. Rows for years 1902 through 1912.

The validity of the stock issues as conditioned by the relative cost at the time of the property of the railway, can easily be ascertained by reference to the above table.

Mainland Capital Secured.

The statement has been made that the company watered its stock in 1902 to the extent of \$500,000. Up to that time the company had not availed itself of its manifest right of stock issue against the cost of all of its property, plus twenty-five per cent., even irrespective of its indebtedness. The cost at the close of that year, as seen above, was \$1,200,452.00. Shortly before, the Board of directors of the company had studied above \$200,000.00. Local banks had threatened the company with attachment suits. Many local capitalists and financial institutions were unwilling to lend credit, as justified by our showing of operating earnings, but without asset.

We then turned for aid to financial institutions on the mainland. One of them sent investigators to Honolulu, and after examining the company's accounts and establishing the cost and estimating the earning power of its property, agreed to put the company on its feet on the sole condition that its existing bonds be canceled and a new issue be authorized large enough to provide for all probable future requirements. This maximum was arbitrarily fixed at \$1,000,000.00 by the bankers who underwrite the first portion of the issue. For their own protection, and that of their clients, and solely because of the Hawaiian statute which limits corporation indebtedness by the amount of its capital stock, they demanded that our outstanding stock be increased forthwith to an amount not less than the proposed authorized limit of \$1,000,000 of bonds. Increase in Stock.

This necessitated in June, 1902, an increase of our capital stock by \$500,000, which, together with all prior issues, was amply covered by the cost of the company's property, plus twenty-five per cent.

In the following year the property and franchise rights of the Hawaiian Tramways Company, Limited, were purchased on a cash basis of \$300,000. At the close of that year the cost of the property of the railway, plus twenty-five per cent., as shown above, was \$1,750,963, or slightly more than the combined par value of the stock and bonds then outstanding. The relation of stock and bond issues, with respect to the cost of the property of the railway, has continued with an increasing conservative margin until at the end of 1912 cost of the property, without any added percentage, was \$2,093,000, against which were outstanding issues of stocks and bonds aggregating only \$1,798,500, showing a large under issue of capital stock with reference to the cost of the property exclusive of the additional twenty-five per cent. authorized by the franchise.

As regards the present cost of the property, there was invested from the sales of stock \$707,500, and from the sales of bonds \$600,000. The balance represents investment in its working capital of sums otherwise applicable to dividends and to reserves for renewals, extensions and sinking funds, authorized, as lawful charges upon income, under section 17 of the franchise act above quoted, and contributions from suburban real estate owners, of \$78,000.

No Early Dividends.

No dividends whatever were paid by the company from 1898 until the last half of the year 1903, and not one dollar of profit in dividends was secured by the stockholders by reason of doubling its capital stock in 1902, nor any contingent benefit other than being enabled thereby to float a bond issue, without which the Rapid Transit enterprise would probably have been speedily forced into bankruptcy. That expedient was a sound bridge temporarily used over a narrow but yawning chasm.

First Dividend One Per Cent.

In 1903 the first dividends were paid on our common stock at the rate of one per cent. for the year. The rate on the preferred stock, the maximum issue of which has been \$350,000, was fixed when authorized at six per cent., which has been paid each year beginning in 1903. In 1904 and 1905, four per cent. only was paid on the common stock; in 1906, the annual rate was reduced to three and one-fourth per cent., and in 1907 still further reduced to three per cent. In 1908, 1909 and in 1910, the annual rate was again four per cent., since which time it has been six per cent.

Total Returns to Date.

The aggregate dividends paid to December 31st, 1912, have been \$531,286.95, covering eleven and one-fourth years of operation. All interest payments for the same period have been \$406,850.92, the combined dividend and interest payments thus being \$938,137.87, an average of \$83,890.00 per year. The approximate average cost of the property during the same period, computed from the foregoing table, was \$1,646,031. If the road had been built without any bonds and the above average of \$83,000 paid as dividends it would have been at an average annual rate of five per cent.

Unusual Policy.

Financiers from abroad have asked me how the stockholders are going to get off when the franchise runs out if we continue much longer our policy, unusual elsewhere, of putting back into extensions and service such a large proportion of our net earnings. I have always answered that we have for some time past asked ourselves the same question; that there were two ways out of it to ensure self-preservation: one was by shutting down on extensions and betterments, reducing expenses wherever possible and building up a capital account sinking fund; the other course was to go on expanding in extensions and service, keeping pace with the development of the city, which could only be made possible by an extension of the franchise on terms fair and acceptable alike to the public and to the company; that we were deeply sensible of the fact that it would be fatuous to go on without some rational provision against a final day of disaster, when our power plant would be permanently shut down and our rails and cars would turn, as the Governor says, into scrap-iron and junk.

No Advantage Taken.

It will be seen from the foregoing that the company has not taken advantage of its powers to pay a dollar of dividends except on cash capital stock paid for by its stockholders to the extent of \$707,500.00, and on capital stock underlain by extensions made possible by allowing stockholders' profits to remain in the business, by which the company, naturally, has the better served the public. It has no stock based on 125 per cent. of total cost, whether derived from bond issues or in any other way. In fact, as shown above, its stock is but fifty-eight per cent. of the total cost of the property.

Could Be Unfair.

Inferences, not, I believe, anticipated by him, could be drawn from the following extract from the Governor's statement which might seriously prejudice the public mind, if not otherwise informed of our history and policy:

"Again, if the contentions are sound which the company will undoubtedly make when the time comes... the public, in order to get the road, might have to pay for it at least three and a quarter times to a company that has not put a cent into it, but has been drawing good dividends from it."

Other railroads are known to have been financed much in that manner, but the Rapid Transit company has never made such claims nor has it proposed to make them.

"Confiscatory."

The Governor suggests, in the event of an extension of our franchise under radically changed conditions that we surrender the right to capitalize several hundred thousand dollars of net earnings in which all of our unpaid dividends are included, and which are not to be reckoned as company property in the valuation should the government exercise its option of purchase.

If this confiscatory principle is to be enforced against the Rapid Transit company, why is it not recommended at this time by him for every other railroad and public service corporation in Hawaii?

Respectfully,

L. T. PECK, President H. R. T. & L. Co.

SPECIAL SESSION CALL DOES NOT PUT ON TARIFF LIMIT FRANK WOODS WILL RUN FOR THE SENATE

(By Kahuku Wireless) HILLO, March 17.—(Special to The Advertiser)—Frank Woods, a brother of Palmer P. Woods, candidate for appointment as secretary of the Territory, will be a candidate for the territorial senate to fill the unexpired term of the late Senator Hewitt, representing Hawaii. Mr. Woods refused at first to run for the senate, but his friends brought such pressure to bear upon him that he finally consented to make the race on the Democratic ticket. HARRIMAN ESTATE IS SEVENTY MILLION (By Federal Wireless Telegraph.) ALBANY, New York, March 17.—(Special to The Advertiser)—Seventy million dollars is the estimated wealth of the estate of the late E. H. Harriman, according to an appraisal published by the State controller.

D.J. Collis Browne's Chlorodyne The ORIGINAL and ONLY GENUINE. Acts like a Charm in DIARRHOEA, and is the only Specific in CHOLERA and DYSENTERY. Checks and arrests FEVER, CROUP, AGUE. The Best Remedy known for COUGHS, COLDS, ASTHMA, BRONCHITIS. The only Palliative in NEURALGIA, GOUT, RHEUMATISM. Sole Manufacturers, Price in England 1/11, 2/6, 4/6. J. T. DAVENPORT, Ltd., London, S.E.