

THE ECONOMETRIC SOCIETY ANNUAL REPORTS

REPORT OF THE TREASURER

LAUSANNE, SWITZERLAND

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1. *Introduction*

THE FINANCIAL SITUATION of the Econometric Society (ES) has improved markedly over the last few years. Like most organizations with investments in the U.S. stock market, the ES benefited from the unprecedented appreciation of its equity holdings in the period 1995–1999. Unlike many organizations, the ES does not allow its financial outcome to float around like a bobbing cork in a stormy sea. Instead, the ES makes its financial decisions based on the criterion of maintaining its ratio of net worth (*NW*) to adjusted total revenue (*ATR*), that is, NW/ATR , equal to 50 percent. As capital gains on the U.S. stock market pushed up the NW/ATR ratio in the late 1990's far above that 50 percent goal, the Society made regular, prudent decisions to shift these gains from its *NW* to the welfare of its constituents, primarily by providing substantial travel grants to participants in its World Congresses, by improving the quality of editorial service, and by freezing or reducing membership dues over the past decade or more.¹

Despite repeated decisions to raise costs and reduce revenue, the NW/ATR ratio reached a peak of 137 percent at the end of 1999, up from 64 percent at the end of 1991. This increase reflected both the American stock market boom of the 1990's and the auditing requirement that unrealized capital gains must be recognized as revenue in the year in which they occur. Finally in 2000 the Society incurred the financial losses that had been planned and that were necessary to reduce the NW/ATR ratio back toward the longstanding goal of 50 percent, and projected additional losses in 2001 and 2002 will reduce the ratio from 137 percent at the end of 1999 to 84 percent at the end of 2002.

2. *2000 Results*

As shown on line F of Table III, the Society's financial loss in 2000 was \$117,105, somewhat below my estimate of \$155,700. This forecasting error reflects several offsetting factors. First, estimates never include any allowance for capital gains or losses, and the Society registered capital losses of \$63,155 in 2000.² Second, largely offsetting the first factor was an unanticipated profit on the 2000 Seattle World Congress of \$75,832 and an unanticipated underspending of World Congress travel grants by \$20,120 (see Table VI). These two factors taken together explain \$32,797 of the \$38,595 by which the actual outcome was better than the previously estimated outcome, indicating that other forecasting

¹ The ES provided travel grants to its members in 1995 of \$168,075 and in 2000 of \$279,880. On the editorial side, a fifth co-editor was added in 1999 and EditorialExpress software was developed. Membership dues in OECD countries in 2002 (\$59) will be virtually the same as in 1991 (\$58); the non-OECD rate (\$30) will be lower than in 1984 (\$31), and the student rate of \$17 will be the same as in 1982.

² As shown in Table II, lines 10 and 11, this is the sum of large realized gains and even larger unrealized losses. The unrealized losses reflect the difference between accrued unrealized gains of \$228,363 as of December 31, 1999, and accrued unrealized losses of \$21,272 as of December 31, 2000. Most of the unrealized 1999 gains were translated to realized gains through the sale of two large equity mutual fund holdings in February and May, 2000. However, the realized gains did not fully match the previous unrealized gains, since the sales prices in February and May, 2000, were lower than the market values on December 31, 1999.

TABLE I
ECONOMETRIC SOCIETY BALANCE SHEETS, 1996–2000

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00
	\$	\$	\$	\$	\$
<i>A. Unrestricted Assets</i>					
1. Short Term Assets	165,314	10,956	141,361	46,089	48,184
2. Investments at Fair Value	792,761	1,079,122	1,152,369	1,150,995	719,098
3. Accounts Receivable	121,455	114,614	113,921	5,933	395,779
4. Back Issue Inventory	34,460	28,010	27,095	27,373	27,544
5. Furniture and Equipment	14,991	16,788	13,509	14,705	10,740
6. Prepaid Expenses and Other Assets	6,840	24,299	15,841	23,998	17,105
Total Assets	1,135,821	1,273,789	1,464,096	1,269,093	1,218,470
<i>B. Unrestricted Liabilities</i>					
1. Accounts Payable	3,576	10,884	9,715	27,246	58,775
2. Deferred Revenue	241,360	162,073	336,995	50,784	325,735
3. World Congress Fund	80,000	153,333	226,667	300,000	60,000
Total Liabilities	324,936	326,290	573,377	378,030	444,510
<i>C. Unrestricted Fund Balance</i>					
Total Liabilities and Fund Balance	1,135,821	1,273,789	1,464,096	1,269,093	1,218,470
<i>D. Jacob Marschak Fund Balance</i>					
	27,084	29,787	26,813	27,127	29,107
<i>E. World Congress Fund Balance</i>					
	80,000	153,333	226,667	300,000	60,000
<i>F. Far Eastern Fund Balance</i>					
	57,770	66,129	62,169	63,524	64,080
<i>G. Latin American Fund Balance</i>					
	20,000	22,913	21,230	22,450	23,777

errors for individual components of revenue and expenditure netted out to only \$5,798, or only one percent of revenue.³

The 2000 consolidated net deficit was \$355,125, which includes the large payout of World Congress travel grants. This sum is divided in the accounts among the basic deficit of \$117,105 (Table III, line F), plus the \$240,000 net reduction in the value of the World Congress Fund (Table VI, line C), minus the \$1,980 increase in the value of the Marschak Fund (Table IV, line D).⁴ Not included in the Society's surplus are changes in the net worth of the Far Eastern Fund, which is held in custody for the convenience of the Far Eastern

³ The largest forecasting error in a single item of income or expense was in interest income, reflecting the shift from a high-yield bond fund to a lower-yielding money-market mutual fund.

⁴ Successive executive committees have determined that a primary use of the Society's accumulated surplus should be for the purpose of providing travel grants to its World Congress. Since 1982 the Society has set aside each year a contribution to its World Congress travel fund, which is broken out separately in the tables of this report but not in the Auditor's report. The 1989 executive committee voted that a sum of \$30,000 per year would be transferred for each of the five years between 1990 and 1994. The 1991 executive committee voted that the total 1990–94 contribution should be raised from \$150,000 to \$200,000, and the 1997 executive committee voted that the total 1995–99 contribution should be raised from \$200,000 to \$300,000. The tables in this report assume that the 2000–2004 contribution will remain at \$300,000. The World Congress fund is purely a bookkeeping entry that does not exist as a separate financial account; interest and capital gains implicitly earned on this fund are included as investment income of the Society's general fund.

TABLE II
REVENUES, 1999–2002

	Actual 1999 (1) \$	Estimate 2000 (2) \$	Actual 2000 (3) \$	Estimate 2001 (4) \$	Budget 2002 (5) \$
A. <i>Econometrica</i> Circulation	531,061	500,000	514,467	590,000	690,000
B. <i>Other Revenue</i>	204,142	117,300	35,168	77,500	82,500
1. Back Issues (net)	5,191	5,000	5,247	5,000	5,000
2. Reprints (net)	1,391	1,300	1,483	1,500	1,500
3. Advertising (net)	10,250	10,000	7,314	7,500	7,500
4. List Rentals (net)	4,185	5,000	5,482	5,000	5,000
5. North American Meetings (net)	18,546	13,000	9,447	8,500	8,500
6. Monograph Series	–3,173	–3,000	–3,733	–3,000	–3,000
7. Other Income	–1,015	3,000	—	—	—
8. Permissions	15,529	8,000	22,475	18,000	18,000
9. Interest-Dividends	78,489	75,000	50,608	35,000	40,000
10. Realized Capital					
Gains on Investments	–55,270	0	186,480	0	0
11. Unrealized Capital					
Gains on Investments	130,019	0	–249,635	0	0
C. <i>Total Revenue</i>	723,350	617,300	549,635	667,500	772,500
D. <i>Adjusted Total Revenue</i> (minus Realized and Unrealized Capital Gains)	648,601	617,300	612,790	667,500	772,500

region, and the Latin American fund, which is also held in custody for the convenience of the Latin American region.⁵

It is interesting to summarize the behavior of revenues and expenditures over a somewhat longer period. Nominal revenue exclusive of special financial items increased by 85 percent between 1982 and 2000, for an annual percentage growth rate of 3.4 percent (which can be compared with the 1982–2000 U.S. inflation rate of 2.7 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 125 percent, for an annual growth rate of 4.5 percent. Obviously the ability of the Society to sustain a long-run increase in expenses substantially in excess of revenue reflects the exclusion of capital gains from the revenue component. An important factor in moderating the growth rate of total expense was the benign behavior of our printing costs. The following shows the evolution of the nominal cost of composition and printing for one page of *Econometrica* since 1975:

1975: \$47.50 2000: \$63.95

The increase between 1975 and 2000 of 35 percent compares to an increase in the U.S. GDP deflator of 168 percent. Hence the real cost per page declined by 50 percent over

⁵ The cumulative surplus from 1975 to 2000 is the difference between the Society's 2000 net worth (excluding the Far Eastern and Latin American funds) of \$834,251 and the end-1974 net worth of –\$79,207, for a cumulative surplus of \$913,583. In addition the Society has provided its members with \$683,955 of self-financed travel grants, making the effective cumulative surplus \$1,597,538.

TABLE III
EXPENSES, 1999–2002

	Actual 1999 (1) \$	Estimate 2000 (2) \$	Actual 2000 (3) \$	Estimate 2001 (4) \$	Budget 2002 (5) \$
A. <i>Publishing</i>	471,421	518,000	508,546	518,000	538,000
1. Composition-Printing	95,516	100,000	102,059	105,000	109,000
2. Circulation Fulfillment	37,558	70,000	56,640	48,000	52,000
3. Postage-Freight	107,095	110,000	103,718	110,000	114,000
4. Editorial	231,252	238,000	246,129	255,000	263,000
B. <i>Administrative</i>	156,823	165,000	159,457	166,000	170,500
1. Salaries-Fringe	127,968	130,000	128,844	133,500	138,000
2. Supplies-Xerox	7,052	6,500	3,391	4,000	4,000
3. Office Postage	2,342	2,500	2,652	2,500	2,500
4. Telephone	3,750	4,000	4,608	4,000	4,000
5. Depreciation	4,978	5,000	6,935	6,500	6,500
6. Insurance-Audit	4,684	5,000	5,386	5,500	5,500
7. Website	4,140	5,000	3,860	5,000	5,000
8. Other	72	5,000	259	1,000	1,000
9. Member Solicitation	1,837	2,000	3,522	4,000	4,000
C. <i>Executive Committee Expense</i>	14,646	15,000	23,622	18,000	19,000
D. <i>Special Expense</i>	80,116	75,000	-24,885	70,500	65,500
1. IRS (UBI Tax)	2,015	2,500	1,769	2,500	2,500
2. World Congress Fund	73,333	60,000	-35,952	60,000	60,000
3. Web Related	—	5,000	4,259	3,000	3,000
4. Regional Conferences	4,768	7,500	5,039	5,000	—
E. <i>Total Expense</i>	723,006	773,000	666,740	772,500	793,000
F. <i>Surplus</i>	344	-155,700	-117,105	-105,000	-20,500
G. <i>Fund Balance</i>	891,063	735,363	773,960	668,960	648,460
H. <i>Ratio of Fund Balance to Adjusted Total Revenue</i>	1.37	1.19	1.26	1.00	0.84

TABLE IV
JACOB MARSCHAK FUND, 1996–2000

	Actual 1996 (1) \$	Actual 1997 (2) \$	Actual 1998 (3) \$	Actual 1999 (4) \$	Actual 2000 (5) \$
A. <i>Income</i>	3,061	3,807	3,488	2,658	1,980
Interest-Dividends	3,061	3,807	3,488	2,658	1,980
B. <i>Expenses</i>	2,181	2,231	646	-1,509	0
Marschak Lecturer	2,181	2,231	646	-1,509	0
C. <i>Realized and Unrealized Gains on Investments</i>	766	1,227	-5,916	-835	0
D. <i>Fund Balance</i>	27,804	29,887	26,813	27,127	29,107

TABLE VA
FAR EASTERN FUND, 1996–2000

	Actual 1996 (1) \$	Actual 1997 (2) \$	Actual 1998 (3) \$	Actual 1999 (4) \$	Actual 2000 (5) \$
A. <i>Income</i>	5,670	6,466	6,182	4,806	3,556
Interest and Dividends	5,670	6,466	6,182	4,806	3,556
B. <i>Expenses</i>	—	—	—	2,000	3,000
C. <i>Realized and Unrealized Gains on Investments</i>	—	1,893	–10,142	–1,451	—
D. <i>Fund Balance</i>	57,770	66,129	62,169	63,524	64,080

this period. The comparison is even more favorable, since the number of copies printed of an issue with a given number of pages increased by one-third from 1975 to 2000.

3. Projections for 2001 and 2002

Mid-2001 circulation figures displayed in the top portion of Table I of the Secretary's report show a decline from mid-2000. Fortunately for the financial outlook, all of the decline in circulation has occurred in the lowest-priced categories, and the higher rates for OECD libraries will provide a substantial increase in revenue for 2001 and again in 2002. The revenue forecasts for 2001 are based on a circulation decline of 200 concentrated in the low-priced categories, priced out at the 2001 rates which are constant in all categories except OECD libraries, where a rate increase of 25 percent was applied. The forecast for 2002 assumes no change in circulation from 2001 and the application of another 25 percent rate increase for OECD libraries. Reasonable guesses about components of other revenue lead to a 2001 estimate for adjusted total revenue (*ATR*) in Table II that is about 9 percent higher than in 2000, followed by another 15.7 percent *ATR* increase in 2002. Over the 1999–2002 period, expenditures (net of special expenses) are projected to increase by 13.2 percent, or 4.1 percent per year.

The implication of these projections is that a large financial deficit (Table III, line F) will occur in 2001 and 2002 that will be sufficient to reduce the *NW/ATR* ratio from 126 percent at the end of 2000 to 84 percent at the end of 2002. Now that the bulk of the Society's assets are invested in "cash" (i.e., money market mutual funds), there is no danger of further erosion in the *NW/ATR* ratio from a further decline in the U.S. stock market.

TABLE VB
LATIN AMERICAN FUND, 1996–2000

	Actual 1996 (1) \$	Actual 1997 (2) \$	Actual 1998 (3) \$	Actual 1999 (4) \$	Actual 2000 (5) \$
A. <i>Income</i>	20,000	2,254	2,231	1,791	1,327
1. Transfer from Latin America	20,000	—	—	—	—
2. Interest and Dividends	—	2,254	2,231	1,791	1,327
B. <i>Expenses</i>	—	—	—	—	—
C. <i>Unrealized Gain on Investments</i>	—	659	–3,914	–571	—
D. <i>Fund Balance</i>	20,000	22,913	21,230	22,450	23,777

TABLE VI
WORLD CONGRESS FUND, 1997–2001

	Actual 1997 (1) \$	Actual 1998 (2) \$	Actual 1999 (3) \$	Actual 2000 (4) \$	Estimate 2001 (5) \$
A. <i>Income</i>	73,333	73,334	73,333	39,880	60,000
1. Transfer from General Fund	73,333	73,334	73,333	–35,952	60,000
2. Profit on World Congress	—	—	—	75,832	—
B. <i>Expenses</i>	—	—	—	279,880	—
C. <i>Fund Balance</i>	153,333	226,667	300,000	60,000	120,000

4. *Recommendations*

The sharp prospective decline in the *NW/ATR* ratio is no cause for alarm. The primary “lever” that the Society can turn to adjust its financial outcome is the rate charged to libraries, since library subscriptions are extremely inelastic (they neither shrink in response to unusually high rate increases nor rise in response to unusually low rate increases or rate reductions). The OECD library rate was increased only by 4 percent between 1995 and 2000, an annual rate of only 0.8 percent. The 2001 OECD library rate of \$214 is well below the rates charged by many journals that have a lesser reputation, fewer citations, and fewer pages. The Executive Committee already endorsed an increase in the OECD library rate by 25 percent in both 2001 and 2002, which will take the rate from \$171 in 2000 to \$267 in 2002.

1. I recommend that a further 20 percent increase be approved for 2003, which will raise the rate to \$320 in that year. As shown in Table III, the rate increases already approved should eliminate most of the deficit in 2002, and this further rate increase in 2003 will move the Society back to surplus and allow room for further initiatives on the cost side.

2. I recommend that all other rates, including membership dues, be held constant in 2002 and 2003, especially in view of the gradual erosion in membership displayed in Table I of the Secretary’s report. Hopefully membership will increase soon, now that members are receiving new tangible benefits, namely provision of an electronic members’ directory, and more important, electronic member access to the current and historical contents of *Econometrica*.

3. Repeat the decision of the last several years on editorial and administrative honoraria and salaries, namely an increase of 3 percent in 2002.

4. Implement a decision (already assumed in the Treasurer’s Report tables) to set aside \$300,000 in travel grants for the 2005 World Congress. This decision can be reconsidered in subsequent years, if necessary, as the financial outcome evolves.

[In the closed meeting of voting members of the Executive Committee, recommendations 2–4 above were ratified, but it was decided to postpone a decision on the 2003 OECD library rate until July, 2002, when the Treasurer would make a new recommendation and conduct an e-mail poll of the Executive Committee.]

5. *Investment Policy*

From August 1991 until early in the year 2000, the investment portfolio of the ES was distributed among a group of no-load Fidelity equity mutual funds, with occasional switches in and out of a high-yield bond fund. We keep track of investment results on a one-year basis ending on the last Friday of July.⁶ For the years ending in late July 1992

⁶ The relatively early date of the 2000 Executive Committee meeting in Seattle, August 10, required that the comparisons be made for July 19 rather than July 31 in the year 2000 (see Table VII).

TABLE VII
ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS, JULY 31, 2001, AND
ANNUALIZED RATES OF RETURN

Name of Fund ^a	Market Value, 7-19-00	Purchases and Sales (dates)	Market Value, 7-31-01	Rate of Return ^b
<i>Unrestricted Investment Portfolio</i>				
A. European Capital Appreciation Fund	141,423		119,133	-17.2
B. Spartan Money Market Fund	886,822	-242,102 (8/04/00) -80,000 (12/20/00)	600,380	5.8
Total	1,028,246	-322,102	719,513	2.6
<i>Restricted Investment Portfolio</i>				
	115,206	-3,000	118,906	5.8
<i>Working Capital</i>				
Cash Reserves	133,507		177,328	
Northern Trust checking	41,714		83,854	
Total Working Capital	175,221		261,182	
Total Financial Assets	1,318,673		1,099,601	

^aAll holdings in lines A through B are in no-load Fidelity Investment mutual funds.

^bRates of return for each fund are at annual rates and are calculated with natural logarithms separately for each holding period and then are aggregated using weights for the length of each holding period. The rate of return for the Spartan Money Market Fund is computed as a simple average of average monthly rates of return over the twelve months. The average rate of return of the portfolio is calculated using as weights the value of each fund at the beginning of each holding period.

through 1999, the Society's portfolio had a return relative to the S&P500 (U.S. stock market index) of +1, +12, +1, -10, -5.3, -11.2, -5.0, -9.4, and -6.4 percent. Over the period 7-19-00 to 7-31-01, the weighted average return of the Society's portfolio was 2.6 percent, as shown in Table VII, which was 18.6 percent better than the increase in the S&P 500 index of -16.0 percent over the same period.⁷ The shortfall in returns over the period 1994-2000 can be explained by the fact that the portfolio was invested only partially in equities during this period, and by the fact that some of our funds did not perform as well as the S&P 500 index. The superior performance in the period 2000-2001 is explained by the fact that almost 90 percent of the Society's investment portfolio was converted into "cash" (money market mutual funds) between August, 1999, and May, 2000, when the equity market was at or near its peak.

6. Conclusion and Thanks

In May, 2002, our office marked the twelfth anniversary of Maryann Semer's association with the Econometric Society. She functions in four roles, as Society administrative assistant, bookkeeper, my academic secretary, and graduate placement secretary for the Department of Economics. She has accepted gracefully an increase in her graduate placement duties while maintaining her excellent performance for the Society. The students who work in our office, the Northwestern graduate students who work with her in her role as department placement secretary, and other economics department staff members all value her friendship, talent, and experience.

ROBERT J. GORDON
Treasurer

⁷ The S&P 500 return is for the 52 weeks ending August 1, 2001.