

THE ECONOMETRIC SOCIETY ANNUAL REPORTS

REPORT OF THE TREASURER

MADRID, SPAIN
AUGUST 19, 2004

1. *Introduction*

FOR SEVERAL DECADES, the financial objective of the Econometric Society (*ES*) has been to maintain its ratio of net worth (*NW*) to adjusted total revenue (*ATR*), that is, *NW/ATR*, at roughly 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 2000 and 2005 World Congresses, by suspending increases in membership dues over the past decade, by providing for an extra co-editor of *Econometrica*, by instituting a 50 percent increase in the number of pages printed in *Econometrica* in the year 2002 compared to the normal number of pages, and by making substantial investments in its web site, including creating an electronic Members' Directory and online access to *Econometrica* for all *ES* members, as well as investing in a complete redesign of the web site during 2003.¹

The deliberate attempt to use all of these methods to stop the growth of the *NW/ATR* ratio eventually succeeded. Planned policies produced losses in the years 2000–2002 that totalled \$467,275 and reduced the Society's *NW/ATR* ratio from 1.37 at the end of 1999 to 0.57 at the end of 2002. Then a turnaround began, and the Society's *NW/ATR* ratio is currently on an upward trajectory. The three consecutive years of losses in 2000–2002 were intentional and had virtually nothing to do with the decline in the U.S. stock market, since the Society moved most of its assets out of the stock market in the spring of 2000 and moved them back into the stock market during the spring of 2003 (see Table VII).

2. *2003 Results*

As shown on line F of Table III, the Society's surplus in 2003 was \$147,953, far above my estimate, made at this time last year, of \$16,000. Of this difference of \$131,953, fully \$94,374 was accounted for by capital gains (Table II, line B9). Revenue other than capital gains was \$23,660 higher than my estimate, and this difference occurred entirely in the category of dues and subscriptions income. Total expenses were \$13,919 below my estimate, reflecting an unexpected drop in editorial expense that was partly offset

¹The *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 2004 (\$59) were virtually the same as in 1991 (\$58), the non-OECD rate (\$30) was lower than in 1984 (\$31), and the student rate of \$17 was the same as in 1982. New 2004 membership rates for electronic access only were even lower (\$45, \$23, and \$13, respectively), and membership dues will be further reduced in 2005.

TABLE I
ECONOMETRIC SOCIETY BALANCE SHEETS, 1999–2003

	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003
	\$	\$	\$	\$	\$
<i>A. Unrestricted Assets</i>					
1. Short Term Assets	46,089	48,184	101,745	163,575	364,781
2. Investments at Fair Value	1,150,995	719,098	658,869	649,766	769,325
3. Accounts Receivable	5,933	395,779	306,136	268,209	191,464
4. Back Issue Inventory	27,373	27,544	9,205	10,774	11,203
5. Furniture and Equipment	14,705	10,740	19,888	16,627	12,214
6. Prepaid Expenses and Other Assets	23,998	17,105	13,017	15,379	7,050
Total Assets	1,269,093	1,218,450	1,108,860	1,124,330	1,356,037
<i>B. Unrestricted Liabilities</i>					
1. Accounts Payable	27,246	58,775	51,457	85,497	42,265
2. Deferred Revenue	50,784	325,735	354,082	435,046	502,030
3. World Congress Fund	300,000	60,000	120,000	180,000	240,000
Total Liabilities	378,030	444,510	525,539	700,543	784,295
<i>C. Unrestricted Fund Balance</i>					
Total Liabilities and Fund Balance	891,063	773,940	583,321	423,787	571,742
<i>D. World Congress Fund Balance</i>					
	300,000	60,000	120,000	180,000	240,000
<i>E. Jacob Marschak Fund Balance</i>					
	27,127	29,107	28,485	29,056	28,370
<i>F. Far Eastern Fund Balance</i>					
	63,524	64,080	64,477	65,471	66,024
<i>G. Latin American Fund Balance</i>					
	22,450	23,777	24,701	25,086	25,297

by higher-than-expected expenses in several other categories. A puzzle reported in my report last year was that postage and freight expense did not jump in 2002 as would have been expected as the result of the publication of 50 percent more pages than usual in that year.² Subsequently I discovered that a substantial amount (\$52,231) of postage and freight expense had been misclassified by Basil Blackwell as 2003 rather than 2002 expense, and our 2002 results have been restated here and in the Auditor's report to correct this error. That is, the 2002 unrestricted *NW* of the Society reported in Table I, line F for 2002 is \$52,231 lower than was reported at this time last year.

The 2003 consolidated net surplus was \$207,267. This sum is divided in the accounts among the basic surplus of \$147,953 (Table III, line F), plus the \$60,000 contribution to the World Congress fund (Table VI, line A), minus the \$572 decrease in the value of the Marschak Fund (Table IV, line D).³ 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

²To reduce the publication backlog, the number of annual pages in *Econometrica* was increased from the normal 1650 to 1720 in 2001, 2528 in 2002, and 1850 in 2003.

³Successive 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

TABLE II
REVENUES, 2002–2005

	Actual 2002 (1) \$	Estimate 2003 (2) \$	Actual 2003 (3) \$	Estimate 2004 (4) \$	Budget 2005 (5) \$
A. <i>Econometrica</i> Circulation	686,461	786,000	809,179	1,120,382	1,088,723
B. <i>Other Revenue</i>	34,473	68,500	163,355	70,000	70,000
1. Back Issues (net)	14,017	15,000	15,882	15,000	15,000
2. Reprints (net)	321	1,000	1,013	1,000	1,000
3. Advertising	7,850	7,500	6,248	7,000	7,000
4. List Rentals (net)	3,355	3,000	3,054	3,000	3,000
5. North American Meetings (net)	11,377	12,000	9,194	10,000	10,000
6. Monograph Series	–5,851	–5,000	–5,000	–5,000	–5,000
7. Permissions	9,190	10,000	12,400	11,000	11,000
8. Interest-Dividends	13,382	25,000	26,190	28,000	28,000
9. Capital Gains on Investments	–19,168	0	94,374	0	0
C. <i>Total Revenue</i>	720,934	854,500	972,534	1,190,382	1,158,723
D. <i>Adjusted Total Revenue</i> (minus Capital Gains)	740,102	854,500	878,160	1,190,382	1,158,723

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

It is interesting to summarize the behavior of revenues and expenditures over a somewhat longer period.⁴ Nominal revenue exclusive of special financial items increased by 159 percent between 1982 and 2003, for an annual percentage growth rate of 4.5 percent (which can be compared with the 1982–2002 U.S. inflation rate of 2.4 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 129 percent, for an annual growth rate of 3.9 percent. The IT revolution helped to hold down the growth of expenses, primarily in the composition and printing

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.

⁴The cumulative surplus from 1975 to 2003 is the difference between the Society's 2003 net worth (excluding the Far Eastern and Latin American funds) of \$840,112 and the end-1974 net worth of –\$79,207, for a cumulative surplus of \$919,319. In addition the Society has provided its members with \$683,955 of self-financed travel grants, making the effective cumulative surplus \$1,603,274.

TABLE III
EXPENSES, 2002–2005

	Actual	Estimate	Actual	Estimate	Preliminary	Revised
	2002	2003	2003	2004	Budget	Budget
	(1)	(2)	(3)	(4)	(5)	(5)
	\$	\$	\$	\$	\$	\$
<i>A. Publishing</i>	622,694	582,500	541,556	556,316	578,680	623,728
1. Composition-Printing	147,958	120,000	106,560	80,000	85,000	85,000
2. Circulation Fulfillment	55,538	57,500	58,656	60,416	62,228	62,228
3. Postage-Freight	146,368	100,000	121,350	120,000	126,000	126,000
4. Editorial	272,830	305,000	252,480	288,400	297,952	343,000
5. Co-Editors' Meeting	0	0	2,510	7,500	7,500	7,500
<i>B. Administrative</i>	165,131	163,500	177,774	179,484	183,642	186,748
1. Salaries-Fringe	142,695	140,000	150,761	155,284	159,942	163,048
2. Supplies-Xerox	2,934	3,000	4,079	3,500	3,500	3,500
3. Office Postage	3,154	3,000	3,152	3,000	3,000	3,000
4. Telephone	2,766	3,000	3,267	3,200	3,200	3,200
5. Depreciation	5,837	6,000	5,587	5,500	5,000	5,000
6. Insurance-Audit	5,548	5,500	5,174	5,500	5,500	5,500
7. Other	731	1,000	4,292	1,500	1,500	1,500
8. Member Solicitation	1,466	2,000	1,462	2,000	2,000	2,000
<i>C. Executive Committee Expense</i>	26,012	20,000	28,762	22,000	28,000	28,000
1. Regular Annual Meeting	26,012	20,000	20,898	22,000	28,000	28,000
2. Special 2003 Winter Meeting	0	0	7,864	0	0	0
<i>D. Special Expense</i>	66,628	72,500	76,489	101,500	71,500	191,500
1. IRS (UBI Tax)	1,531	1,500	1,245	1,500	1,500	1,500
2. World Congress Fund	60,000	60,000	60,000	60,000	60,000	180,000
3. Web Development	5,097	5,000	8,101	35,000	10,000	10,000
4. Regional Conferences	0	6,000	6,073	5,000	0	0
5. Back Issue Inventory Writeoff	0	0	1,070	0	0	0
<i>E. Total Expense</i>	880,465	838,500	824,581	859,300	861,822	1,029,976
<i>F. Surplus</i>	-159,531	16,000	147,953	331,082	296,901	128,747
<i>G. Fund Balance</i>	423,787	439,787	571,740	902,822	1,199,723	1,031,569
<i>H. Ratio of Fund Balance to Adjusted Total Revenue</i>	0.57	0.51	0.65	0.76	1.04	0.89

category of expense. The following shows the evolution of the nominal cost of composition and printing for one page of *Econometrica* since 1975:

1975: \$47.50 2003: \$57.60

TABLE IV
JACOB MARSCHAK FUND, 1999–2003

	1999	2000	2001	2002	2003
	(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	\$	\$
<i>A. Income</i>	2,658	1,980	1,378	572	316
Interest-Dividends	2,658	1,980	1,378	572	316
<i>B. Expenses</i>	-1,509	0	2,000	0	1,002
<i>C. Realized and Unrealized Gains on Investments</i>	-835	0	0	0	0
<i>D. Fund Balance</i>	27,127	29,107	28,485	29,057	28,371

TABLE VA
FAR EASTERN FUND, 1999–2003

	1999	2000	2001	2002	2003
	(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	\$	\$
<i>A. Income</i>	4,806	3,556	2,397	995	552
Interest-Dividends	4,806	3,556	2,397	995	552
<i>B. Expenses</i>	2,000	3,000	2,000	0	0
<i>C. Realized and Unrealized Gains on Investments</i>	-1,451	0	0	0	0
<i>D. Fund Balance</i>	63,524	64,080	64,477	65,472	66,024

TABLE VB
LATIN AMERICAN FUND, 1999–2003

	1999	2000	2001	2002	2003
	(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	\$	\$
<i>A. Income</i>	1,791	1,327	924	384	212
Interest-Dividends	1,791	1,327	924	384	212
<i>B. Expenses</i>	0	0	0	0	0
<i>C. Realized and Unrealized Gains on Investments</i>	-571	0	0	0	0
<i>D. Fund Balance</i>	22,450	23,777	24,701	25,085	25,297

TABLE VI
WORLD CONGRESS FUND, 2000–2004

	Actual 2000 (1) \$	Actual 2001 (2) \$	Actual 2002 (3) \$	Actual 2003 (4) \$	Estimate 2004 (5) \$	Budget 2005 (6) \$
A. <i>Income</i>	39,880	60,000	60,000	60,000	60,000	180,000
Transfer from General Fund	–35,952	60,000	60,000	60,000	60,000	180,000
Profit on World Congress	75,832	0	0	0	0	0
B. <i>Expenses</i>	279,880	0	0	0	0	400,000
C. <i>Fund Balance</i>	60,000	120,000	180,000	240,000	300,000	80,000

The increase between 1975 and 2003 of 21 percent compares to an increase in the U.S. GDP deflator of 173 percent. Hence the real cost per page declined by 56 percent over this period.⁵

3. *Changes in Rates and Rate Structure for 2004 and 2005*

Starting with the volume year 2004, the structure of institutional prices and membership dues experienced its most significant change in the history of the Society. Electronic access was made available to all institutional subscribers, and a compulsory extra charge for electronic access was included in all institutional prices. The increase from \$334 to \$500 per year in the basic institutional rate is primarily responsible for the large projected increase in Society revenues in 2004 and 2005 (see Table II). Also for the first time in 2004, membership dues provided the option of a discount for those who chose not to receive the print version and to rely on electronic access only (electronic access for individuals, but not for libraries, is provided to the full history of *Econometrica* since 1933).

In response to the large projected surpluses in 2004 and 2005, as discussed below, the Executive Committee decided by e-mail in July, 2004, to reduce membership dues significantly for 2005. The structure of rates for print and electronic vs. electronic only will drop from \$59/\$45 to \$50/\$30 for individual members from “rich countries” (as defined by the World Bank), from \$30/\$23 to \$25/\$15 for members from other countries, and the student rate will drop from \$17/\$13 to \$17/\$10. The structure of library rates in 2005 will be the same as in 2004.

4. *Projections for 2004 and 2005*

Mid-2004 circulation figures displayed in the top portion of Table I of the Secretary’s report show a surprising stability in the number of institutional members, in light of the

⁵Further decreases in printing cost per page will occur after mid-2003 due to the bankruptcy of our previous typesetter, TTI, and its replacement by a firm (VTEX) operating in Lithuania charging about 40 percent less per page. Further cost savings will occur as the journal completes a transition to electronic submissions and electronic editing.

sharp increases in library rates discussed in the previous section, and a further healthy increase in individual and student members that was first evident in the mid-2003 circulation figures. The revenue forecasts for 2004 are based on projections of year-end 2004/2003 numbers in each circulation category at the same percentage rate of increase or decrease already observed in the mid-year 2004/2003 numbers. For 2005 library rates and the assumed number of institutional subscribers are assumed to remain constant. Projected 2005 numbers for individual and student members are based on assuming a price elasticity of demand of -0.20 in response to the significant decline in membership dues detailed in the previous section.⁶

Table III provides two columns showing projected expenses for 2005. The “preliminary budget” in column (5) represents my estimates prior to the Madrid meeting of the Executive Committee in August, 2004. While revenues will be much higher in 2004 and 2005 than in previous years, expenses were projected to remain slightly below the 2002 level in nominal terms, as the diminished number of pages published in *Econometrica* offset small increases in honoraria and the extra expenses in 2004 and 2005 of the newly instituted annual meeting of co-editors and the cost of redesigning the ES web site (Table III, line D3).

The implication of these preliminary projections was that the ES will earn a very large surplus in 2004 and again in 2005. These will raise the *NW/ATR* ratio from 57 percent at the end of 2002 to 76 percent at the end of 2004 and, using the expense figures of column (5), to 104 percent at the end of 2005. Responding to this projected *NW/ATR* ratio exceeding 100 percent at the end of 2005, the Executive Committee in Madrid made numerous decisions to raise expenses considerably above the preliminary estimates, and these revised expenses are shown in column (6) of Table III. All these changes taken together reduce the projected 2005 surplus from \$296,901 to \$128,747, and reduce the projected year-end *NW/ATR* ratio from 104 percent to 89 percent.

5. Recommendations

For the record, the following are my recommendations made to the Executive Committee prior to its Madrid meeting, based on the large projected 2005 surplus shown in column (5) of Table III. Subsequently the Committee made numerous changes in these recommendations, as detailed in the next section.

1. The Executive Committee has already decided by e-mail discussion during July, 2004, to hold the institutional rates constant in 2005 and to reduce membership dues as detailed above. Given the elasticity assumption introduced above (-0.2), and the proration of mid-year 2004 circulation to the end of the year, the result is a 38 percent increase in nominal revenue from 2003 to 2004 and a 3 percent decline in revenue from 2004 to 2005.

2. I suggest that we continue to raise editorial and administrative honoraria and salaries in 2005 at the traditional 3 percent rate of increase (it was reduced to 2 percent for 2003). With a projected increase in the U.S. Consumer Price Index of 3.0 to 3.5 percent, a 3 percent nominal increase would amount to a zero to -0.5 percent increase in real compensation.

⁶I have also arbitrarily assumed that there will be a modest shift in 2005 toward electronic-only access within each circulation category, with the least shift for institutions, next for individuals, and the most for students.

3. The prospect of a large surplus in both 2004 and 2005 suggests that there is room for additional initiatives by the Executive Committee. I recommend that we contain the increase in the *NW/ATR* ratio by increasing our allocation for 2005 World Congress travel grants from \$300,000 to \$500,000, which would reduce the forecast ratio at end-2005 from 107 to 86 percent.

6. Decisions Made by the Executive Committee

At its Madrid meeting, the Executive Committee made the following decisions that are reflected in the higher expense projections in column (6) compared to column (5) of Table III.

1. The allocation of World Congress Travel grants for 2005 is set at \$400,000 rather than \$500,000 as recommended above. In column (6) of Table III the transfer to the World Congress Fund is raised from \$60,000 to \$180,000, of which \$100,000 is the amount needed to “top off” the fund to \$400,000 prior to the World Congress, and the remaining \$80,000 is the regular annual contribution toward an assumed set-aside of \$400,000 for the 2010 World Congress.

2. The increase in honoraria for the administrative staff and the Managing Editor was set at 5 percent instead of 3 percent as recommended above.

3. Special one-time increases in the honoraria of the editor and co-editors were agreed.

4. A retirement honorarium for the retiring Managing Editor was agreed.

TABLE VII
ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS,
JULY 31, 2004, AND ANNUALIZED RATES OF RETURN

Name of Fund ^a	Market Value, 7/31/2003	Purchases and Sales (dates)	Market Value, 7/31/2004	Annual Rate of Return ^b
<i>Unrestricted Investment Portfolio</i>				
A. Spartan 500 Index Fund	329,920	0	372,733	12.2
B. Fidelity High Income Fund	267,278	0	298,924	11.2
C. Spartan Money Market Fund	97,904	+10,000 (7/16/04)	108,691	0.8
Total	695,102	10,000	780,348	10.3
<i>Restricted Investment Portfolio</i>	123,149	-10,000 (7/16/04)	123,149	2.3
<i>Working Capital</i>				
Cash Reserves	163,122		567,889	
Northern Trust Checking	155,067		67,684	
Total Working Capital	318,189		635,573	
Total Financial Assets	1,136,440		1,539,070	

^aAll holdings in lines A through C 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 and the value of each fund at the beginning of each holding period.

These decisions are reflected in the difference between columns (5) and (6) of Table III in three categories, editorial expense (line A4), administrative salaries (line B1), and the World Congress Fund (line D2).

7. Investment Policy

Many if not most nonprofit institutions experienced a decline in their net worth over the 2000–2002 period as a result of the decline in U.S. and foreign stock markets. For instance, the American Economic Association (AEA) experienced a 41 percent decline in its net unrestricted assets from year-end 2000 to year-end 2002. In contrast, the return on the ES unrestricted investment portfolio was 11.5 percent in the three years ending on July 31, 2003, a period when the S&P 500 stock market index declined by 33 percent. There have been no changes in the ES portfolio during the year between July 31, 2003 and July 31, 2004. As shown in Table VII the rate of return for the ES portfolio in the year ending July 31, 2004 was +10.3 percent, as compared to the increase in the S&P 500 index of +10.6 percent.

8. Conclusion and Thanks

In May, 2003, our office marked the fifteenth 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. 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. I would also like to thank Will Bruns, who has exhibited incredible speed and intelligence in his work during summer 2004 both for Julie in the ES office and for me as a research assistant.

As discussed at the conclusion of the Secretary's report, there will be a complete changing of the guard at the ES during 2005. Dorothy Hodges will retire after 40 years as Managing Editor in March, 2005, and Julie and I will retire after 30 years as Secretary and Treasurer (and for Julie 20 years as Executive Director) at the end of 2005. After we close down the Evanston business office and send phalanxes of file cabinets and records to the replacement team, which is as yet undetermined, Maryann will also retire with us. We will doubtless provide some historical reminiscences as part of our final reports to be presented to the Executive Committee at the World Congress in London in August, 2005.

ROBERT J. GORDON
Treasurer