

THE ECONOMETRIC SOCIETY ANNUAL REPORTS, 2000

REPORT OF THE TREASURER

SEATTLE, WASHINGTON

AUGUST 10, 2000

1. *Introduction*

OVER THE PAST DECADE the resources of the Society have exceeded its needs. The target variable for Society management has been the ratio of net worth (*NW*) to adjusted total revenues (*ATR*, that is, total revenues minus capital gains). In contrast to a target *NW/ATR* ratio of roughly 50 percent that has guided financial planning for the past two decades, the ratio reached a peak of 137 percent at the end of 1999, up from 64 percent at the end of 1991. This increase, experienced also by many other nonprofit institutions, reflects both the American stock market boom of the 1990s and the auditing requirement that unrealized capital gains must be recognized as revenue in the year in which they occur. This increase in the *NW/ATR* ratio occurred despite the provision of substantial travel grants to the 1995 World Congress, allowance for larger grants to the 2000 World Congress, suspension of dues increases, and publication of Members' directories in both 1995 and 1997.¹

2. *1999 Results*

Despite my forecast that the Society would make a substantial loss in 1999, several unforeseen events, particularly further capital gains, allowed the Society to make a slim profit in its basic fund. Although net worth was flat, adjusted total revenue declined substantially, boosting the *NW/ATR* ratio from 129 percent at the end of 1998 to 137 percent at the end of 1999. As we shall see later in the report, substantial losses and rapid declines in the ratio are in store for 2000 and 2001. The 1999 consolidated net surplus was \$73,991. This sum is divided in the accounts among the basic surplus of \$344 (Table III, line F), plus the \$73,333 transfer from the general fund to the World Congress Fund (Table VI, line A.1), plus the \$314 change in the net worth of the Marschak Fund (Table IV, line D).² 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

¹Over the years, the executive committee has made a series of decisions that in effect reduce revenue and raise costs. The ES provided travel grants to its members in 1985 of \$100,000, in 1990 of \$136,000, and in 1995 of \$168,075. The ES suspended dues increases for members in 1989, 1992, 1996, 1997, and 2000, and reduced dues by 5 percent in 1998 and 10 percent in 1999. In 1992 it substantially reduced membership dues and library subscription rates in non-OECD countries; in 1987 it restructured its editorial honoraria to make them comparable to those of the American Economic Association journals; and in 1995 and 1997 it incurred the extra expense of publishing a Members' Directory.

²Successive 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 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 I
ECONOMETRIC SOCIETY BALANCE SHEETS, 1995–1999

	12/31/95 \$	12/31/96 \$	12/31/97 \$	12/31/98 \$	12/31/99 \$
<i>A. Unrestricted Assets</i>					
1. Short Term Assets	217,386	165,314	10,956	141,361	46,089
2. Investments at Fair Value	567,918	792,761	1,079,122	1,152,369	1,150,995
3. Accounts Receivable	88,346	121,455	114,614	113,921	5,933
4. Back Issue Inventory	36,039	34,460	28,010	27,095	27,373
5. Furniture and Equipment	6,271	14,991	16,788	13,509	14,705
6. Prepaid Expenses and Other Assets	19,598	6,840	24,299	15,841	23,998
Total Assets	935,558	1,135,821	1,273,789	1,464,096	1,269,093
<i>B. Unrestricted Liabilities</i>					
1. Accounts Payable	17,931	3,576	10,884	9,715	27,246
2. Deferred Revenue	256,667	241,360	162,073	336,995	50,784
3. World Congress Fund	40,000	80,000	153,333	226,667	300,000
Total Liabilities	314,598	324,936	326,290	573,377	378,030
<i>C. Unrestricted Fund Balance</i>	620,960	783,801	947,499	890,719	891,063
Total Liabilities and Fund Balance	935,558	1,135,821	1,273,789	1,464,096	1,269,093
<i>D. Jacob Marschak Fund Balance</i>	25,381	27,084	29,787	26,813	27,127
<i>E. World Congress Fund Balance</i>	40,000	80,000	153,333	226,667	300,000
<i>F. Far Eastern Fund Balance</i>	56,699	57,770	66,129	62,169	63,524
<i>G. Latin American Fund Balance</i>	—	20,000	22,913	21,230	22,450

region, and the Latin American fund, which is also held in custody for the convenience of the Latin American region.³

The surplus of \$344 in the general fund differs greatly from the \$83,833 deficit forecast at this time last year. This error of \$84,177 is explained mainly by \$74,749 in net capital gains. A shortfall in expenses by \$38,827 relative to forecast was largely offset by a shortfall in adjusted revenue (net of capital gains) of \$29,399.⁴

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 96 percent between 1982 and 1999, for an annual percentage growth rate of 4.0 percent (which can be compared with the 1982–98 U.S. inflation rate of 2.7 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 109 percent, for an annual growth rate of 4.3 percent. An important factor in moderating the growth rate of total expense was the benign behavior of our printing costs. The

³ The cumulative surplus from 1975 to 1999 is the difference between the Society's 1999 net worth (excluding the Far Eastern and Latin American funds) of \$1,218,190 and the end-1974 net worth of -\$79,207, for a cumulative surplus of \$1,297,397. In addition the Society has provided its members with \$404,075 of self-financed travel grants, making the effective cumulative surplus \$1,701,472.

⁴ A major part of the shortfall of expenses was in Circulation Fulfillment, Table III, line A.1. Basil Blackwell posted our renewal income unusually late in the fall of 1999 and winter of 2000. Because they charge a per-subscriber fee at the time that a renewal order is posted, much of their normal fee that would normally have been charged in the fall of 1999 was actually charged in the winter of 2000 and will show up as extra expense in the year 2000.

TABLE II
REVENUES, 1998–2001

	Actual 1998 (1) \$	Estimate 1999 (2) \$	Actual 1999 (3) \$	Estimate 2000 (4) \$	Budget 2001 (5) \$
A. <i>Econometrica</i> Circulation	558,114	540,000	519,208	500,000	525,000
B. <i>Other Revenue</i>	172,628	138,000	204,142	117,300	117,300
1. Back Issues (net)	3,443	4,000	5,191	5,000	5,000
2. Reprints (net)	1,516	1,000	1,391	1,300	1,300
3. Advertising (net)	9,608	8,000	10,250	10,000	10,000
4. List Rentals (net)	8,730	8,000	4,185	5,000	5,000
5. North American Meetings (net)	11,414	15,000	18,546	13,000	13,000
6. Monograph Series	–3,151	–3,000	–3,173	–3,000	–3,000
7. Other Income	3,296	2,000	–1,015	3,000	3,000
8. Permissions	8,177	8,000	15,529	8,000	8,000
9. Interest-Dividends	90,921	95,000	78,489	75,000	75,000
10. Realized Capital Gains on Investments	70,593	0	–55,270	0	0
11. Unrealized Capital Gains on Investments	–31,919	0	130,019	0	0
C. <i>Total Revenue</i>	730,742	678,000	723,350	617,300	642,300
D. <i>Adjusted Total Revenue</i> (minus Realized and Unrealized Capital Gains)	692,068	678,000	648,601	617,300	642,300

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

1975: \$47.50 1999: \$62.18

The increase between 1975 and 1999 of 31 percent compares to an increase in the U.S. GDP deflator of 159 percent. Hence the real cost per page declined by 50 percent over this period. The comparison is even more favorable, since the number of copies printed of an issue with a given number of pages increased substantially from 1975 to 1999 (see Secretary's Report, Table I).

3. Projections for 2000 and 2001

Mid-2000 circulation figures displayed in the top portion of Table I of the Secretary's report show a decline from mid-1999. The revenue forecasts for 2000 are based on a circulation decline of about 5 percent, taking into account the fact that our rates have remained constant for 2000, as well as for the changing mix between institutional, regular, and student subscriptions.⁵ The forecast for 2001 assumes no change in circula-

⁵ The OECD Member rate was reduced by 4.5 percent in 1998 and by 9.3 percent in 1999 but will remain unchanged in 2000. The OECD Library rate was reduced by 1.7 percent in 1998 but remains unchanged in 1999 and 2000.

tion from 2000.⁶ Reasonable guesses about components of other revenue lead to a 1999 estimate for adjusted total revenue (*ATR*) that is about 5 percent below that in 1998. Over the 1998–2001 period, expenditures (net of special expenses) are projected to increase by 5.7 percent, or 1.9 percent per year.⁷

The implication of these projections is that a large financial deficit (Table III, line F) will occur in 2000 and 2001 that will be sufficient to reduce the *NW/ATR* ratio from 137 to 95 percent. 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 downturn in the U.S. stock market.

4. Recommendations

The sharp prospective decline in the *NW/ATR* ratio is no cause for alarm, as long as plans are set in place to stabilize the ratio within a few years. 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 2000 OECD institutional rate of \$171 is only 4.3 percent above the \$164 rate charged in 1995, for an annual rate of increase of 0.9 percent.

1. I strongly recommend that the library rate be raised by 20 percent in 2001. While the Executive Committee already voted in 1999 to raise the library rate by 5 percent in 2001, assuming the usual time lag of 17 months between decision and implementation, this year I have requested that Basil Blackwell postpone listing our 2001 library rate until after the August 10 Executive Committee meeting. At the present level of OECD institutional circulation (about 2000), a 20 percent increase would raise revenues by \$68,000 (compared with \$17,000 for a 5 percent increase). A further 15 percent increase in 2002 would boost revenue by \$130,000 compared to 2000, and this is roughly the same as the projected deficit for 2001. The resulting 2002 OECD library rate of \$236 would be 44 percent above the 1995 rate of \$164, a logarithmic growth rate of 5.2 percent per year.

2. I recommend that all other rates, including membership dues, be raised by 5 percent in 2001 and again in 2002. Members will receive tangible benefits accompanying these rate increases, namely provision of an electronic members' directory, and more important, electronic member access to the current contents of *Econometrica*. Two successive 5 percent increases would raise the OECD member rate in 2002 only to \$65, still below the \$67 rate effective in 1995.

3. Repeat the decision of the last several years on editorial and administrative honoraria and salaries, namely an increase of 3 percent in 2000.

4. Retain our previous commitments for small matching regional grants but take no further initiatives.

5. 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.

[At the Executive Committee meeting in Seattle on August 10, the Executive Committee accepted all of the above recommendations except for library rates, which will be

⁶ Last year's Executive Committee decided to raise the OECD Library rate by 5 percent in 2001, the only rate that will be changed in 2001 unless this decision is reconsidered (see my recommendations below).

⁷ A comparison of 2001 expenses with 1999 would be misleading, because of the unusually low level of Circulation Fulfillment expense in 1999 (see footnote 4 above).

TABLE III
EXPENSES, 1998–2001

	Actual 1998 (1) \$	Estimate 1999 (2) \$	Actual 1999 (3) \$	Estimate 2000 (4) \$	Budget 2001 (5) \$
A. <i>Publishing</i>	487,769	504,000	471,421	518,000	520,000
1. Composition-Printing	97,316	100,000	95,516	100,000	100,000
2. Circulation Fulfillment	56,121	58,000	37,558	70,000	62,000
3. Postage-Freight	108,135	110,000	107,095	110,000	113,000
4. Editorial	226,197	236,000	231,252	238,000	245,000
B. <i>Administrative</i>	155,035	158,500	156,823	165,000	169,000
1. Salaries-Fringe	123,294	125,000	127,968	130,000	134,000
2. Supplies-Xerox	6,217	6,500	7,052	6,500	6,500
3. Office Postage	2,622	2,500	2,342	2,500	2,500
4. Telephone	4,194	4,500	3,750	4,000	4,000
5. Depreciation	4,758	5,000	4,978	5,000	5,000
6. Insurance-Audit	4,981	5,000	4,684	5,000	5,000
7. Website	4,356	5,000	4,140	5,000	5,000
8. Other	617	1,000	72	5,000	5,000
9. Member Solicitation	3,996	4,000	1,837	2,000	2,000
C. <i>Executive Committee Expense</i>	18,710	16,000	14,646	15,000	15,000
D. <i>Special Expense</i>	126,008	83,333	80,116	75,000	70,000
1. IRS (UBI Tax)	2,601	2,500	2,015	2,500	2,500
2. World Congress Fund	73,334	73,333	73,333	60,000	60,000
3. Member Directory	40,678	—	—	5,000	—
4. Conference Contributions	9,395	7,500	4,768	7,500	7,500
E. <i>Total Expense</i>	787,522	761,833	723,006	773,000	774,000
F. <i>Surplus</i>	–56,819	–83,833	344	–155,700	–131,700
G. <i>Fund Balance</i>	890,719	806,847	891,063	735,363	603,663
H. <i>Ratio of Fund Balance to Adjusted Total Revenue</i>	1.29	1.19	1.37	1.19	0.94

TABLE IV
JACOB MARSCHAK FUND, 1996–1999

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

TABLE VA
FAR EASTERN FUND, 1995-1999

	Actual 1995 (1) \$	Actual 1996 (2) \$	Actual 1997 (3) \$	Actual 1998 (4) \$	Actual 1999 (5) \$
<i>A. Income</i>					
1. Transfer from World Congress Fund	56,699	—	—	—	—
2. Interest and Dividends	—	5,670	6,466	6,182	4,806
<i>B. Expenses</i>	4,599	—	—	—	2,000
<i>C. Realized and Unrealized Gains on Investments</i>	—	—	1,893	-10,142	-1,451
<i>D. Fund Balance</i>	56,699	57,770	66,129	62,169	63,524

TABLE VB
LATIN AMERICAN FUND, 1996-1999

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

TABLE VI
WORLD CONGRESS FUND, 1996-2000

	Actual 1996 (1) \$	Actual 1997 (2) \$	Actual 1998 (3) \$	Estimate 1999 (4) \$	Budget 2000 (5) \$
<i>A. Income</i>					
Transfer from General Fund	40,000	73,333	73,334	73,333	60,000
<i>B. Expenses</i>	—	—	—	—	300,000
<i>C. Fund Balance</i>	80,000	153,333	226,667	300,000	60,000

TABLE VII
ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS,
JULY 19, 2000, AND ANNUALIZED RATES OF RETURN

Name of Fund ^a	Market Value, 7-31-99	Purchases and Sales (dates)	Market Value, 7-19-00	Rate of Return ^b
<i>Unrestricted Investment Portfolio</i>				
A. Spartan Market Index Fund	513,685	- 539,067 (5/10/00)	0	5.6
B. Equity-Income II Fund	161,764	- 151,144 (2/15/00)	0	- 12.5
C. High-Income Fund	546,755	- 538,810 (8/09/99)	0	—
D. European Cap. App. Fund	0	+ 151,144 (2/15/00)	141,423	- 15.6
E. Spartan Money Market Fund	21,106	+ 837,877 (various)	886,822	5.6
Total	1,243,310	- 240,000	1,028,246	2.6
<i>Restricted Investment Portfolio</i>	116,972	- 7,875	115,206	5.6
<i>Working Capital</i>				
Daily Income Trust	70,734		133,507	
Northern Trust checking	41,605		41,714	
Total Working Capital	112,339		175,221	
Total Financial Assets	1,472,621		1,318,673	

^a All holdings in lines A through E are in no-load Fidelity Investment mutual funds.

^b Rates 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.

raised by 25 percent in 2001 and again in 2002, and for membership dues and other rates which will remain unchanged for 2001.]

5. Investment Policy

Since August 1991 the investment portfolio of the ES has been distributed among a group of no-load Fidelity mutual funds. We keep track of investment results on a one-year basis ending on the last Friday of July.⁸ For the years ending in late July 1992 through 1998, 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, and -9.4 percent. Over the period 7-31-99 to 7-19-00, the weighted average return of the Society's portfolio was 2.6 percent, as shown in Table VII, which compared to the increase in the S&P 500 index of 9.0 percent over the same period.⁹ This shortfall can be explained by the fact that the portfolio was converted from equity funds into a money market mutual fund in several stages over the past year, and the dates when the equity funds were sold were not as favorable as market conditions at the end of the period.

6. Conclusion and Thanks

In May, 2000, our office marked the eleventh anniversary of Maryann Semer's association with the Econometric Society. She functions in four roles, as Society adminis-

⁸ The relatively early date of the 2000 Executive Committee meeting, August 10, requires that the comparisons be made between July 31, 1999 and July 19, 2000.

⁹ The S&P 500 return is for the 52 weeks ending July 21, 2000.

trative 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