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THE ECONOMETRIC SOCIETY ANNUAL REPORTS

REPORT OF THE TREASURER

VENICE, ITALY
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1. *Introduction*

MANY IF NOT MOST NONPROFIT institutions have experienced a decline in their net worth over the past two years as a result of the decline in U.S. and foreign stock markets. For instance, the American Economic Association (AEA) experienced a 25 percent decline in its net unrestricted assets from year-end 2000 to year-end 2001, and presumably another substantial decline has occurred thus far in 2002. The unrestricted net worth of the Econometric Society (ES) has also declined over the past two years (between end-1999 and end-2001) but for an entirely different reason. Despite the decline in the stock market, the return on the ES unrestricted investment portfolio has actually been positive between August 1, 2000 and August 1, 2002, thanks to a well-timed exit from domestic U.S. equities in February and May, 2000. Instead, the decline in the net worth of the ES has been the result of a deliberate policy to spend the fruits of the stock market gains of the 1990's in ways that benefit our members, as detailed below.

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 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 year 2000, and by making substantial investments in its web site, including creating an electronic Members' Directory and online access to *Econometrica* for all ES members.[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 and 2001 the Society incurred the financial losses that had been planned and that were necessary to reduce the *NW*/*ATR* ratio back

[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 2003 (\$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.

TABLE I
ECONOMETRIC SOCIETY BALANCE SHEETS, 1997–2001

	12/31/97 $	12/31/98 $	12/31/99 $	12/31/00 $	12/31/01 $
A. *Unrestricted Assets*					
1. Short Term Assets	10,956	141,361	46,089	48,184	101,745
2. Investments at Fair Value	1,079,122	1,152,369	1,150,995	719,098	658,869
3. Accounts Receivable	114,614	113,921	5,933	395,779	306,136
4. Back Issue Inventory	28,010	27,095	27,373	27,544	9,205
5. Furniture and Equipment	16,788	13,509	14,705	10,740	19,888
6. Prepaid Expenses and Other Assets	24,299	15,841	23,998	17,105	13,017
Total Assets	1,273,789	1,464,096	1,269,093	1,218,470	1,108,860
B. *Unrestricted Liabilities*					
1. Accounts Payable	10,884	9,715	27,246	58,775	51,457
2. Deferred Revenue	162,073	336,995	50,784	325,735	354,082
3. World Congress Fund	153,333	226,667	300,000	60,000	120,000
Total Liabilities	326,290	573,377	378,030	444,510	525,539
C. *Unrestricted Fund Balance*	947,499	890,719	891,063	773,960	583,321
Total Liabilities and Fund Balance	1,273,789	1,464,096	1,269,093	1,218,470	1,108,860
D. *Jacob Marschak Fund Balance*	29,787	26,813	27,127	29,107	28,485
E. *World Congress Fund Balance*	153,333	226,667	300,000	60,000	120,000
F. *Far Eastern Fund Balance*	66,129	62,169	63,524	64,080	64,477
G. *Latin American Fund Balance*	22,913	21,230	22,450	23,777	24,701

toward the longstanding goal of 50 percent, and projected additional losses in 2002 and a break-even operation in 2003 will reduce the ratio to 56 percent at the end of 2003 from its end-1999 peak of 137 percent.

2. *2001 Results*

As shown on line F of Table III, the Society's financial loss in 2001 was $190,641, well above my estimate, made at this time last year, of $105,000.[2] This forecasting error reflects several factors that all operated to increase the loss, including a shortfall of subscription revenue, a small capital loss on our one remaining (European) equity fund, and expense overruns related to publishing extra pages in *Econometrica*, web development, grants to regional conferences, and an unanticipated write-down of our inventory of back issues.[3]

[2] The forecast error in the previous year went in the opposite direction, so the projected cumulative loss during the two years 2000 and 2001 of −$260,700 was not far from the actual outcome of −$307,746.

[3] Our previous back-issue agent that held our inventory of issues before 1985 went out of business, and our previous inventory of 100 copies of each issue was reduced to 15, with the new agent committed to reprinting individual issues when needed. With the growing availability of web access, the need for multiple hard copies of individual back issues has greatly diminished.

TABLE II
REVENUES, 2000–2003

	Actual 2000 (1) $	Estimate 2001 (2) $	Actual 2001 (3) $	Estimate 2002 (4) $	Budget 2003 (5) $
A. *Econometrica Circulation*	514,467	590,000	557,830	670,300	791,350
B. *Other Revenue*	35,168	77,500	65,002	64,500	71,000
1. Back Issues (net)	5,247	5,000	19,582	5,000	5,000
2. Reprints (net)	1,483	1,500	158	1,000	1,000
3. Advertising (net)	7,314	7,500	8,143	7,500	9,000
4. List Rentals (net)	5,482	5,000	2,218	3,000	3,000
5. North American Meetings (net)	9,447	8,500	6,861	8,000	8,000
6. Monograph Series	−3,733	−3,000	−4,111	−3,000	−3,000
7. Other Income	—	—	—	—	—
8. Permissions	22,475	18,000	18,258	18,000	18,000
9. Interest-Dividends	50,608	35,000	32,997	25,000	30,000
10. Realized Capital Gains on Investments	186,480	0	0	0	0
11. Unrealized Capital Gains on Investments	−249,635	0	−19,104	0	0
C. *Total Revenue*	549,635	667,500	622,832	734,800	862,350
D. *Adjusted Total Revenue* (minus Realized and Unrealized Capital Gains)	612,790	667,500	641,936	734,800	862,350

The 2001 consolidated net deficit was −\$131,263. This sum is divided in the accounts among the basic deficit of −\$190,641 (Table III, line F), minus the \$60,000 contribution to the World Congress fund (Table VI, line A), plus the \$622 decrease 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 region, and the Latin American fund, which is also held in custody for the convenience of the Latin American region. It is important to recognize that the deficits of the ES in 2000 and 2001 were deliberately planned, and that the Society has

[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 III
EXPENSES, 2000–2003

	Actual 2000 (1) $	Estimate 2001 (2) $	Actual 2001 (3) $	Estimate 2002 (4) $	Budget 2003 (5) $
A. *Publishing*	508,546	518,000	531,072	597,000	583,000
1. Composition-Printing	102,059	105,000	114,796	150,000	130,000
2. Circulation Fulfillment	56,640	48,000	51,956	55,000	58,000
3. Postage-Freight	103,718	110,000	99,136	120,000	115,000
4. Editorial	246,129	255,000	265,184	272,000	280,000
B. *Administrative*	155,597	161,000	153,994	160,000	164,500
1. Salaries-Fringe	128,844	133,500	129,523	134,000	138,000
2. Supplies-Xerox	3,391	4,000	2,805	3,000	3,000
3. Office Postage	2,652	2,500	2,280	2,500	2,500
4. Telephone	4,608	4,000	4,222	4,000	4,000
5. Depreciation	6,935	6,500	6,987	7,000	7,000
6. Insurance-Audit	5,386	5,500	4,917	5,000	5,500
7. Other	259	1,000	21	1,000	1,000
8. Member Solicitation	3,522	4,000	3,237	3,500	3,500
C. *Executive Committee Expense*	23,622	18,000	18,740	25,000	25,000
D. *Special Expense*	−21,025	75,500	109,667	72,000	72,000
1. IRS (UBI Tax)	1,769	2,500	1,404	2,000	2,000
2. World Congress Fund	−35,952	60,000	60,000	60,000	60,000
3. Web Development	8,119	8,000	20,833	5,000	5,000
4. Regional Conferences	5,039	5,000	13,682	5,000	5,000
5. Back Issue Inventory Writeoff	0	0	13,748	0	0
E. *Total Expense*	666,740	772,500	813,473	854,000	844,500
F. *Surplus*	−117,105	−105,000	−190,639	−119,200	17,850
G. *Fund Balance*	773,960	668,960	583,321	464,121	481,971
H. *Ratio of Fund Balance to Adjusted Total Revenue*	1.26	1.00	0.91	0.63	0.56

made substantial surpluses since the beginning of the current planning model in 1975, particularly when World Congress travel grants are included.[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 94 percent between 1982 and 2001, for an annual percentage growth rate of 3.5 percent (which can be compared with the 1982–2001 U.S. inflation rate of 2.6 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 130 percent, for an annual growth rate of 4.4 percent. Obviously the ability of the Society to sustain a

[5] The cumulative surplus from 1975 to 2001 is the difference between the Society's 2001 net worth (excluding the Far Eastern and Latin American funds) of $731,804 and the end-1974 net worth of −$79,207, for a cumulative surplus of $811,011. In addition the Society has provided its members with $683,955 of self-financed travel grants, making the effective cumulative surplus $1,494,966.

TABLE IV

JACOB MARSCHAK FUND, 1997–2001

	Actual 1997 (1) $	Actual 1998 (2) $	Actual 1999 (3) $	Actual 2000 (4) $	Actual 2001 (5) $
A. *Income*	3,807	3,488	2,658	1,980	1,378
Interest-Dividends	3,807	3,488	2,658	1,980	1,378
B. *Expenses*	2,231	646	−1,509	0	2,000
C. *Realized and Unrealized Gains on Investments*	1,227	−5,916	−835	0	0
D. *Fund Balance*	29,887	26,813	27,127	29,107	28,485

TABLE VA

FAR EASTERN FUND, 1997–2001

	Actual 1997 (1) $	Actual 1998 (2) $	Actual 1999 (3) $	Actual 2000 (4) $	Actual 2001 (5) $
A. *Income*	6,466	6,182	4,806	3,556	2,397
Interest and Dividends	6,466	6,182	4,806	3,556	2,397
B. *Expenses*	—	—	2,000	3,000	2,000
C. *Realized and Unrealized Gains on Investments*	1,893	−10,142	−1,451	—	—
D. *Fund Balance*	66,129	62,169	63,524	64,080	64,477

TABLE VB

LATIN AMERICAN FUND, 1997–2001

	Actual 1997 (1) $	Actual 1998 (2) $	Actual 1999 (3) $	Actual 2000 (4) $	Actual 2001 (5) $
A. *Income*	2,254	2,231	1,791	1,327	924
Interest and Dividends	2,254	2,231	1,791	1,327	924
B. *Expenses*	—	—	—	—	—
C. *Unrealized Gain on Investments*	659	−3,914	−571	—	—
D. *Fund Balance*	22,913	21,230	22,450	23,777	24,701

TABLE VI
WORLD CONGRESS FUND, 1998–2002

	Actual 1998 (1) $	Actual 1999 (2) $	Actual 2000 (3) $	Actual 2001 (4) $	Estimate 2002 (5) $
A. *Income*	73,334	73,333	39,880	60,000	60,000
1. Transfer from General Fund	73,334	73,333	−35,952	60,000	60,000
2. Profit on World Congress	—	—	75,832	—	—
B. *Expenses*	—	—	279,880	—	—
C. *Fund Balance*	226,667	300,000	60,000	120,000	180,000

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   2001: \$62.05

The increase between 1975 and 2001 of 31 percent compares to an increase in the U.S. GDP deflator of 173 percent. Hence the real cost per page declined by 52 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 by one-third from 1975 to 2001.

3. *Projections for 2002 and 2003*

Mid-2002 circulation figures displayed in the top portion of Table I of the Secretary's report show a slight increase from mid-2001. The revenue forecasts for 2002 are based on a circulation decline of two percent occurring equally across all categories, priced at the 2002 prices which include a 25 percent increase for OECD libraries. The same technique is used to forecast revenue for 2003. Reasonable guesses about components of other revenue lead to a 2002 estimate for adjusted total revenue (*ATR*) in Table II that is about 14 percent higher than in 2001, followed by a 17.4 percent *ATR* increase in 2003. Over the 1999–2003 period, expenditures (net of special expenses) are projected to increase by 20.2 percent, or 4.6 percent per year.

The implication of these projections is that a large financial deficit (Table III, line F) will occur in 2002, albeit somewhat less than in 2001. However, a break-even result is projected for 2003, as a result of the large inflow of funds resulting from the much higher OECD library rate (which will almost double from 2000 to 2003). The combined losses of 2000 through 2002 will reduce the *NW/ATR* ratio from 137 percent at the end of 1999 to 56 percent at the end of 2003. 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.

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 2003 OECD library rate of $334 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 each year for the three years 2001 to 2003, which took the rate from $171 in 2000 to $334 in 2003.

1. My first recommendation is that the change in the OECD library rate for 2004 be postponed for e-mail discussion in July, 2003. By then we will have further information on any additional erosion in our library circulation base, and also information on any decisions about new electronic initiatives.

2. I recommend that all other rates, including membership dues, be held constant in 2004, especially in view of the gradual erosion in membership displayed in Table I of the Secretary's report.

3. I suggest that we reduce the annual rate of increase of editorial and administrative honoraria and salaries from the 3 percent rate of increase of recent years to an increase of 2 percent for the year 2003.

[All three recommendations were accepted at the closed meeting of the Executive Committee in Venice on August 24, 2002.]

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 July 31. For the years ending in late July 1992 through 2001,

TABLE VII

ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS, JULY 31, 2002, AND ANNUALIZED RATES OF RETURN

Name of Fund[a]	Market Value, 7-31-01	Purchases and Sales (dates)	Market Value, 7-31-02	Rate of Return[b]
Unrestricted Investment Portfolio				
A. European Capital Appreciation Fund	119,133		110,470	−7.5
B. Spartan Money Market Fund	600,380	−70,000 (12/20/01)	542,861	2.2
Total	719,513	−70,000	643,331	0.6
Restricted Investment Portfolio	118,906		121,715	2.3
Working Capital				
Cash Reserves	177,328		258,111	
Northern Trust checking	83,854		68,978	
Total Working Capital	261,182		327,089	
Total Financial Assets	1,099,601		1,092,135	

[a] All holdings in lines A through B 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.

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, -6.4, and $+18.6$ percent. Over the period 7-31-01 to 7-31-02, the weighted average return of the Society's portfolio was 0.6 percent, as shown in Table VII, which was 29.1 percent better than the increase in the S&P 500 index of -28.5 percent over the same period.[6] The superior performance in the period 2000–2002 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 thirteenth 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

[6] Daily data on the S&P 500 were obtained from *www.economagic.com/em-cgi/data.exe/sp/day-sp500c.*