

THE ECONOMETRIC SOCIETY ANNUAL REPORTS
REPORT OF THE TREASURER

STOCKHOLM, SWEDEN
AUGUST 19, 2003

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*, 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 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.¹

Despite repeated decisions to raise costs and reduce revenue, the *NW/ATR* ratio reached a peak of 144 percent at the end of the year 2000, 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 2000–2002 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 indeed the ratio at end of 2002 had declined to 66 percent (see Table III, line H).

2. *2002 Results*

As shown on line F of Table III, the Society's financial loss in 2001 was \$107,300, somewhat below my estimate, made at this time last year, of \$119,200. The revenue forecast was very close to the actual outcome, as shown in Table II, line C, and adjusted total revenue (*ATR*) came in below forecast only because of a capital loss on our single equity mutual fund.² Offsetting this slight revenue shortfall was a larger shortfall of actual expense relative to the estimate, as shown in Table III, line E. The largest item contributing to this favorable outcome on the expense side was postage and freight for *Econometrica* (Table III, line A3), which did not increase in response to the sharp

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) 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. New 2004 membership rates for electronic access only will be even lower (\$45, \$23, and \$13, respectively).

²Capital gains and losses are never forecast in advance, so lines B9 and B10 in Table II are always set at "zero" in each year's estimates.

TABLE I
ECONOMETRIC SOCIETY BALANCE SHEETS, 1998–2002

	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02
	\$	\$	\$	\$	\$
<i>A. Unrestricted Assets</i>					
1. Short Term Assets	141,361	46,089	48,184	101,745	163,575
2. Investments at Fair Value	1,152,369	1,150,995	719,098	658,869	649,766
3. Accounts Receivable	113,921	5,933	395,779	306,136	268,209
4. Back Issue Inventory	27,095	27,373	27,544	9,205	10,774
5. Furniture and Equipment	13,509	14,705	10,740	19,888	16,627
6. Prepaid Expenses and Other Assets	15,841	23,998	17,105	13,017	15,379
Total Assets	1,464,096	1,269,093	1,218,470	1,108,860	1,124,330
<i>B. Unrestricted Liabilities</i>					
1. Accounts Payable	9,715	27,246	58,775	51,457	33,266
2. Deferred Revenue	336,995	50,784	325,735	354,082	435,046
3. World Congress Fund	226,667	300,000	60,000	120,000	180,000
Total Liabilities	573,377	378,030	444,510	525,539	648,312
<i>C. Unrestricted Fund Balance</i>					
Total Liabilities and Fund Balance	1,464,096	1,269,093	1,218,470	1,108,860	1,124,330
<i>D. Jacob Marschak Fund Balance</i>					
	26,813	27,127	29,107	28,485	29,056
<i>E. World Congress Fund Balance</i>					
	226,667	300,000	60,000	120,000	180,000
<i>F. Far Eastern Fund Balance</i>					
	62,169	63,524	64,080	64,477	65,471
<i>G. Latin American Fund Balance</i>					
	21,230	22,450	23,777	24,701	25,086

increase in the number of pages published during 2002, as did composition and printing expense (line A1).³ Another item holding down actual expense was the absence of any expenditure for regional grants in 2002 (line D4), offset by a temporary increase in administrative salaries (line B1).⁴

The 2002 consolidated net deficit was $-\$46,728$. This sum is divided in the accounts among the basic deficit of $-\$107,300$ (Table III, line F), minus the $\$60,000$ contribution to the World Congress fund (Table VI, line A), minus the $\$572$ increase in the value of the Marschak Fund (Table IV, line D).⁵ Not included in the Society's surplus are

³To 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.

⁴This temporary increase in administrative salaries involved a Northwestern University accounting error that counted roughly $\$4,000$ in 2001 expense as 2002 expense. Adjusted amounts for line B1 would have been $\$133,500$ for 2001 (3.6 percent above the actual 2000 amount) and $\$138,500$ for 2002 (3.7 percent above the adjusted 2001 amount).

⁵Successive 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

TABLE II
REVENUES, 2001–2004

	Actual 2001 (1) \$	Estimate 2002 (2) \$	Actual 2002 (3) \$	Estimate 2003 (4) \$	Budget 2004 (5) \$
A. <i>Econometrica</i> Circulation	557,830	670,300	686,461	786,000	1,009,000
B. <i>Other Revenue</i>	65,002	64,500	34,473	68,500	66,500
1. Back Issues (net)	19,582	5,000	14,017	15,000	15,000
2. Reprints (net)	158	1,000	321	1,000	1,000
3. Advertising	8,143	7,500	7,850	7,500	7,500
4. List Rentals (net)	2,218	3,000	3,355	3,000	3,000
5. North American Meetings (net)	6,861	8,000	11,377	12,000	10,000
6. Monograph Series	–4,111	–3,000	–5,851	–5,000	–5,000
7. Permissions	18,258	18,000	9,190	10,000	10,000
8. Interest-Dividends	32,997	25,000	13,382	25,000	25,000
9. Realized Capital	0	0	0	0	0
Gains on Investments					
10. Unrealized Capital	–19,104	0	–19,168	0	0
Gains on Investments					
C. <i>Total Revenue</i>	622,832	734,800	720,934	854,500	1,075,500
D. <i>Adjusted Total Revenue</i> (minus Realized and Unrealized Capital Gains)	641,936	734,800	740,102	845,500	1,075,500

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 2000–2002 were deliberately planned, and that the Society has made substantial surpluses since the beginning of the current planning model in 1975, particularly when World Congress travel grants are included.⁶

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 118 percent between 1982 and 2002, for an annual percentage growth rate of 3.9 percent (which can be compared with the 1982–2002 U.S. inflation rate of 2.6 per-

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.

⁶The cumulative surplus from 1975 to 2002 is the difference between the Society's 2001 net worth (excluding the Far Eastern and Latin American funds) of \$685,074 and the end-1974 net worth of –\$79,207, for a cumulative surplus of \$765,281. In addition the Society has provided its members with \$683,955 of self-financed travel grants, making the effective cumulative surplus \$1,448,236.

TABLE III
EXPENSES, 2001–2004

	Actual 2001 (1) \$	Estimate 2002 (2) \$	Actual 2002 (3) \$	Estimate 2003 (4) \$	Budget 2004 (5) \$
<i>A. Publishing</i>	531,072	597,000	570,463	582,500	555,000
1. Composition-Printing	114,796	150,000	147,958	120,000	110,000
2. Circulation Fulfillment	51,956	55,000	55,538	57,500	60,000
3. Postage-Freight	99,136	120,000	94,137	100,000	100,000
4. Editorial	265,184	272,000	272,830	305,000	285,000
<i>B. Administrative</i>	153,994	160,000	165,131	163,500	166,800
1. Salaries-Fringe	129,523	134,000	142,695	140,000	143,000
2. Supplies-Xerox	2,805	3,000	2,934	3,000	3,000
3. Office Postage	2,280	2,500	3,154	3,000	3,000
4. Telephone	4,222	4,000	2,766	3,000	3,000
5. Depreciation	6,987	7,000	5,837	6,000	6,000
6. Insurance-Audit	4,917	5,000	5,548	5,500	5,800
7. Other	21	1,000	731	1,000	1,000
8. Member Solicitation	3,237	3,500	1,466	2,000	2,000
<i>C. Executive Committee Expense</i>	18,740	25,000	26,012	20,000	22,000
<i>D. Special Expense</i>	109,667	72,000	66,628	72,500	71,500
1. IRS (UBI Tax)	1,404	2,000	1,531	1,500	1,500
2. World Congress Fund	60,000	60,000	60,000	60,000	60,000
3. Web Development	20,833	5,000	5,097	5,000	5,000
4. Regional Conferences	13,682	5,000	0	6,000	5,000
5. Back Issue Inventory Writeoff	13,748	0	0	0	0
<i>E. Total Expense</i>	813,473	854,000	828,234	838,500	815,300
<i>F. Surplus</i>	-190,639	-119,200	-107,300	16,000	260,200
<i>G. Fund Balance</i>	583,321	464,121	476,021	492,021	752,221
<i>H. Ratio of Fund Balance to Adjusted Total Revenue</i>	0.91	0.63	0.66	0.58	0.70

cent for the GDP deflator). Nominal expenses net of the special expense category increased by 130 percent, for an annual growth rate of 4.6 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 2002: \$58.53

TABLE IV
JACOB MARSCHAK FUND, 1998–2002

	Actual 1998 (1) \$	Actual 1999 (2) \$	Actual 2000 (3) \$	Actual 2001 (4) \$	Actual 2002 (5) \$
<i>A. Income</i>	3,488	2,658	1,980	1,378	572
Interest-Dividends	3,488	2,658	1,980	1,378	572
<i>B. Expenses</i>	646	-1,509	0	2,000	0
<i>C. Realized and Unrealized Gains on Investments</i>	-5,916	-835	0	0	0
<i>D. Fund Balance</i>	26,813	27,127	29,107	28,485	29,056

TABLE VA
FAR EASTERN FUND, 1998–2002

	Actual 1998 (1) \$	Actual 1999 (2) \$	Actual 2000 (3) \$	Actual 2001 (4) \$	Actual 2002 (5) \$
<i>A. Income</i>	6,182	4,806	3,556	2,397	995
Interest and Dividends	6,182	4,806	3,556	2,397	995
<i>B. Expenses</i>	—	2,000	3,000	2,000	0
<i>C. Realized and Unrealized Gains on Investments</i>	-10,142	-1,451	0	0	0
<i>D. Fund Balance</i>	62,169	63,524	64,080	64,477	65,471

TABLE VB
LATIN AMERICAN FUND, 1998–2002

	Actual 1998 (1) \$	Actual 1999 (2) \$	Actual 2000 (3) \$	Actual 2001 (4) \$	Actual 2002 (5) \$
<i>A. Income</i>	2,231	1,791	1,327	924	384
Interest and Dividends	2,231	1,791	1,327	924	384
<i>B. Expenses</i>	0	0	0	0	0
<i>C. Unrealized Gain on Investments</i>	-3,914	-571	0	0	0
<i>D. Fund Balance</i>	21,230	22,450	23,777	24,701	25,085

TABLE VI
WORLD CONGRESS FUND, 1999–2003

	Actual 1999 (1) \$	Actual 2000 (2) \$	Actual 2001 (3) \$	Actual 2002 (4) \$	Estimate 2003 (5) \$
<i>A. Income</i>	73,333	39,880	60,000	60,000	60,000
1. Transfer from General Fund	73,333	–35,952	60,000	60,000	60,000
2. Profit on World Congress	0	75,832	0	0	0
<i>B. Expenses</i>	0	279,880	0	0	0
<i>C. Fund Balance</i>	300,000	60,000	120,000	180,000	240,000

The increase between 1975 and 2002 of 23 percent compares to an increase in the U.S. GDP deflator of 176 percent. Hence the real cost per page declined by 55 percent over this period.⁷

3. Changes in Rates and Rate Structure for 2004

Starting with the volume year 2004, the structure of institutional prices and membership dues will experience its most significant change in the history of the ES. For the first time electronic access will be available to all institutional subscribers, and a compulsory extra charge for electronic access will be included in all institutional prices. The basic institutional rate will increase from \$334 in 2003 (which provided no electronic access) to \$500 in 2004 (which provides print copies and electronic access for the current year only). Supplementary rates of 5 percent more (\$525) provide electronic access not only for the current year but for the period 1999 to the current year. A discount of 10 percent (\$450) is available to those libraries that choose not to receive the print copy, and this provides full electronic access for 1999 to the current year. The base rate of \$35 remains unchanged for institutional subscribers outside the group of rich countries (see below), with the same options of +5 and –10 percent.

A second change is that, for the first time, membership dues will provide the option of a discount for those who choose not to receive the print version and to rely on electronic access only (in this case, electronic access is provided to the full history of *Econometrica* since 1933). The regular membership rates will be \$59 with print (unchanged since 1991) and \$45 without print. For members outside of the rich countries, the rates will be \$30 (unchanged since 1984) and \$23, and for students \$17 (unchanged since 1982) and \$13.

A third change is that we are changing the basis for distinguishing the group of rich countries obliged to pay the higher rates for institutions and members from the other countries. Previously the rich countries were defined as members of the OECD.

⁷Further 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 20 percent less per page. Further cost savings will occur as the journal completes a transition to electronic submissions and electronic editing.

We have now changed to a definition of rich countries provided by the World Bank (see www.worldbank.org/data/countryclass/classgroups.htm#high_income). This has the effect of moving Mexico and three Eastern European countries from the high-price to the low-price group, and of moving Israel and several oil-producing Middle Eastern countries from the low-price to the high-price group.

4. Projections for 2003 and 2004

Mid-2003 circulation figures displayed in the top portion of Table I of the Secretary's report show a continuing erosion of institutional members but a sharp jump in regular and student members. The revenue forecasts for 2003 are based on actual prices, a 5 percent decline in institutional subscriptions, and a prorated increase in regular and student members based on the likely growth from the observed June 30 figures until December 31. For 2004 another five percent decline in institutional subscribers is forecast, but the number of regular and student members is assumed to remain stable. Reasonable guesses about components of other revenue lead to a 2003 estimate for adjusted total revenue (*ATR*) in Table II that is about 15 percent higher than in 2002, followed by a 27 percent *ATR* increase in 2004. While revenues will be increasing rapidly as a result of the very large increases in institutional subscription prices, expenses will be stable in nominal terms as the diminished number of pages published in *Econometrica* offset small increases in honoraria and a bulge in editorial expenses in 2003 due to the transition of the editorial office from MIT to Tel Aviv.⁸

The implication of these projections is that a small surplus will occur in 2003 followed by a very large surplus in 2004 (Table III, line F). The combined losses of 2000 through 2002 reduced the *NW/ATR* ratio from 144 percent at the end of 2000 to 58 percent at the end of 2003, with a small increase to 70 percent in 2004.

While the forecasts on the expense side seem fairly straightforward, the projections on the revenue side involve an unusual amount of uncertainty. Will libraries balk at paying \$166 more in 2004 than in 2003, not recognizing that the extra charge is accompanied by provision of electronic access?⁹ Will a significant number of members fail to renew once they recognize that they can access *Econometrica* through their libraries? Will any members choose to pay the lower \$45 membership dues for the no-print option when they can obtain electronic access automatically through their libraries? Will the new practice of providing access to accepted papers for free, once recognized, lead members to ask why they should pay to join the Society? These sources of uncertainty may not be resolved until 2005 at the earliest, since it may take time for members to recognize that library electronic access is available.¹⁰

⁸The main extra expense is not for moving or new equipment, but rather the fact that there is an overlap period in which both the new and old editors and their assistants are receiving honoraria at the same time.

⁹The \$500 rate including electronic access is still well below the rates charged by journals of lower reputation with many fewer pages and citations.

¹⁰Also, it may take time for members to recognize by experimentation that access to past issues prior to 1999 is not available through libraries unless they are already a member of JSTOR.

5. *Recommendations*

1. My first recommendation is that the change in the rich-country library rate for 2005 be postponed for e-mail discussion in July, 2004. By then we will have further information on any additional erosion in our library or membership circulation base, and also information on the cost of new electronic initiatives. Depending on the evolution of our circulation in the first six months of 2004, we might decide to leave the library rate unchanged or even to reduce it.

2. I recommend that we maintain the new 2004 rate structure on all other rates, including membership dues, into 2005.

3. I suggest that the annual rate of increase of editorial and administrative honoraria and salaries be restored in 2004 to 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 2.0 to 2.5 percent, a 3 percent nominal increase would amount to a negligible increase in real compensation. [The first three recommendations were approved on August 19, 2003.]

4. The prospect of a large surplus in 2004 allows the Executive Committee more flexibility in considering new initiatives, electronic and otherwise. If a large surplus emerges in 2004 and is projected to continue in 2005, the amount of travel support for the 2005 World Congress could be raised above the current allocation of \$300,000.

TABLE VII
ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS, JULY 31, 2003, AND
ANNUALIZED RATES OF RETURN

Name of Fund ^a	Market Value, 7-31-02	Purchases and Sales (dates)	Market Value, 7-31-03	Annual Rate of Return ^b
<i>Unrestricted Investment Portfolio</i>				
A. European Capital Appreciation Fund	110,470	-94,157 (4/04/03)		-23.8
B. Spartan 500 Index Fund	0	+294,157 (4/04/03)	329,920	35.9
C. Fidelity High Income Fund	0	+250,000 (4/04/03)	267,278	20.9
D. Spartan Money Market Fund	542,861	-450,000 (4/04/03)	97,904	1.3
Total	643,331	0	695,102	8.0
<i>Restricted Investment Portfolio</i>	121,715		123,149	2.3
<i>Working Capital</i>				
Cash Reserves	258,111		163,122	
Northern Trust checking	68,978		155,067	
Total Working Capital	327,089		318,189	
Total Financial Assets	1,092,135		1,136,440	

^aAll holdings in lines A through D 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.

6. Investment Policy

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 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 has actually been positive between July 31, 2000 and July 31, 2003, thanks to a well-timed exit from domestic U.S. equities in February and May, 2000 and a return in early April, 2003. The cumulative return on the E. S. 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. Table VII provides details on the year ending July 31, 2003.

7. Conclusion and Thanks

In May, 2003, our office marked the fourteenth 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