

THE ECONOMETRIC SOCIETY ANNUAL REPORTS  
REPORT OF THE TREASURER

LONDON, ENGLAND  
AUGUST 18, 2005

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.<sup>1</sup> 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 and then by reducing membership rates in 2005 and 2006, 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.<sup>2</sup>

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 planned turnaround began, and the Society's  $NW/ATR$  ratio is currently on an upward trajectory, having reached 0.72 at the end of 2004 and on track to reach 0.78 at the end of 2005 and 0.91 at the end of 2006. 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 in the spring of 2003.

2. *2004 Results*

As shown on line G of Table III, the Society's surplus in 2003 was \$309,664, very close to my estimate, made at this time last year, of \$331,082. This small difference of \$21,418 resulted from the fact that expenses (Table III, line F) were fully \$105,061 higher than my estimate, while total revenue was \$83,643 high than my estimate, of

<sup>1</sup>This objective was raised to 80 percent at the Executive Committee meeting in August, 2004, due to the perceived risk that library subscriptions would perhaps erode at an accelerating rate.

<sup>2</sup>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 "rich" countries in 2005 (\$50 for print and electronic access) were the same as in 1987, the non-rich country rate (\$25) was the same as in 1993, and the student rate of \$17 was the same as in 1982. The 2005 membership rates for electronic access only (no print copies) were even lower (\$30, \$15, and \$10, respectively), and membership dues will be further reduced in 2006.

TABLE I  
ECONOMETRIC SOCIETY BALANCE SHEETS, 2000–2004

	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
	\$	\$	\$	\$	\$
<i>A. Unrestricted Assets</i>					
1. Short Term Assets	48,184	101,745	163,575	364,781	452,851
2. Investments at Fair Value	719,098	658,869	649,766	769,325	849,980
3. Accounts Receivable	395,779	306,136	268,209	201,281	436,678
4. Back Issue Inventory	27,544	9,205	10,774	11,203	7,285
5. Furniture and Equipment	10,740	19,888	16,627	12,214	10,448
6. Prepaid Expenses and Other Assets	17,105	13,017	15,379	7,050	7,063
Total Assets	1,218,470	1,108,860	1,124,330	1,365,854	1,764,305
<i>B. Unrestricted Liabilities</i>					
1. Accounts Payable	58,775	51,457	85,497	52,082	19,470
2. Deferred Revenue	325,735	354,082	435,046	502,030	563,519
3. World Congress Fund	60,000	120,000	180,000	240,000	300,000
Total Liabilities	444,510	525,539	700,543	794,112	882,989
<i>C. Unrestricted Fund Balance</i>	773,960	583,321	423,787	571,742	881,316
Total Liabilities and Fund Balance	1,218,470	1,108,860	1,124,330	1,365,854	1,764,305
<i>D. World Congress Fund Balance</i>	60,000	120,000	180,000	240,000	300,000
<i>E. Jacob Marschak Fund Balance</i>	29,107	28,485	29,056	28,370	28,756
<i>F. Far Eastern Fund Balance</i>	64,080	64,477	65,471	66,024	66,698
<i>G. Latin American Fund Balance</i>	23,777	24,701	25,086	25,297	15,494

which \$38,489 represented capital gains. The primary sources of the overshooting of expenses include my excessively optimistic guess about savings in composition costs, and a sharp increase in circulation fulfillment and postage–freight, due both to rate increases denominated in sterling and to the appreciation of sterling relative to the U.S. dollar. Editorial and administrative expenses were slightly below estimates, while the estimates for web expenses did not adequately anticipate the high charges that Blackwell would levy to develop and maintain our web site.

The 2004 consolidated net surplus was \$370,051. This sum is divided in the accounts among the basic surplus of \$309,664 (Table III, line G), plus the \$60,000 contribution to the World Congress fund (Table VI, line A), plus the \$387 increase in the value of the Marschak Fund (Table IV, line D).<sup>3</sup> 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

<sup>3</sup>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 1990–1994 contribution should be raised from \$150,000 to \$200,000, the 1997 Executive Committee voted

TABLE II  
REVENUES, 2003–2006

	Actual 2003 (1) \$	Estimate 2004 (2) \$	Actual 2004 (3) \$	Estimate 2005 (4) \$	Budget 2006 (5) \$
A. <i>Econometrica</i> Circulation	809,179	1,120,382	1,141,289	1,080,000	1,050,000
B. <i>Other Revenue</i>	163,355	70,000	132,736	94,000	89,000
1. Back Issues (net)	15,882	15,000	8,363	10,000	10,000
2. Reprints (net)	1,013	1,000	(133)	1,000	1,000
3. Advertising	6,248	7,000	6,330	6,000	6,000
4. List Rentals (net)	3,054	3,000	2,748	3,000	3,000
5. North American Meetings (net)	9,194	10,000	19,176	14,000	14,000
6. Monograph Series	–5,000	–5,000	(4,261)	–5,000	–5,000
7. Permissions	12,400	11,000	25,147	15,000	15,000
8. Interest-Dividends	26,190	28,000	36,877	50,000	45,000
9. Capital Gains on Investments	94,374	0	38,489	0	0
C. <i>Total Revenue</i>	972,534	1,190,382	1,274,025	1,174,000	1,139,000
D. <i>Adjusted Total Revenue</i> (minus Capital Gains)	878,160	1,190,382	1,235,536	1,174,000	1,139,000

of the Far Eastern region, and the Latin American fund, which is also held in custody for the convenience of the Latin American region.<sup>4</sup>

It is interesting to summarize the behavior of revenues and expenditures over a much longer period. Nominal revenue exclusive of special financial items increased by 264 percent between 1982 and 2004, for an annual percentage growth rate of 5.9 percent (which can be compared with the 1982–2004 U.S. inflation rate of 2.4 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 172 percent, for an annual growth rate of 4.5 percent. The following shows the evolution of the nominal cost of composition and printing for one page of *Econometrica* since 1975:

1975: \$47.50      2003: \$52.23.

that the total 1995–1999 contribution should be raised from \$200,000 to \$300,000, and the 2004 Executive Committee voted that the amount of travel grants at the 2005 World Congress would be raised from \$300,000 to \$400,000. In this report's Table VI, the extra contribution of \$100,000 is entered under 2005 rather than 2004, and the 2005 account also includes a contribution of \$80,000 toward travel grants at the 2010 World Congress. 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.

<sup>4</sup>The cumulative surplus from 1975 to 2004 is the difference between the Society's 2004 net worth (excluding the Far Eastern and Latin American funds) of \$1,215,072 and the end-1974 net worth of –\$79,207, for a cumulative surplus of \$1,294,279. In addition, the Society provided its members with \$683,955 of self-financed travel grants in 1985–2000, plus another \$353,200 in 2005, making the effective cumulative surplus \$2,331,434.

TABLE III  
EXPENSES, 2003–2006

	Actual 2003 (1) \$	Estimate 2004 (2) \$	Actual 2004 (3) \$	Estimate 2005 (4) \$	Budget 2006 (5) \$
<i>A. Publishing</i>	541,556	556,316	627,499	655,000	681,000
1. Composition-Printing	106,560	80,000	101,056	100,000	105,000
2. Circulation Fulfillment	58,656	60,416	77,908	80,000	85,000
3. Postage-Freight	121,350	120,000	167,407	160,000	150,000
4. Editorial	252,480	288,400	271,756	300,000	331,000
5. Co-Editors' Meeting	2,510	7,500	9,372	15,000	10,000
<i>B. Administrative</i>	177,774	179,484	175,438	183,000	139,250
1. Salaries-Fringe	150,761	155,284	150,261	158,000	115,250
2. Supplies-Xerox	4,079	3,500	2,861	3,000	3,000
3. Office Postage	3,152	3,000	2,621	2,500	2,500
4. Telephone	3,267	3,200	2,525	2,500	1,500
5. Depreciation	5,587	5,500	5,118	4,000	4,000
6. Insurance-Audit	5,174	5,500	5,229	5,500	5,500
7. Other	4,292	1,500	4,746	5,000	5,000
8. Member Solicitation	1,462	2,000	2,077	2,500	2,500
<i>C. Website</i>	8,101	35,000	65,757	20,000	15,000
1. Web Development	8,101	35,000	33,323	10,000	5,000
2. Web Maintenance	0	0	32,434	10,000	10,000
<i>D. Executive Committee Expenses</i>	28,762	22,000	29,455	45,000	30,000
1. Regular Annual Meeting	20,898	22,000	29,455	45,000	30,000
2. Special 2003 Winter Meeting	7,864	0	0	0	0
<i>E. Special Expenses</i>	68,388	66,500	66,212	239,346	148,823
1. IRS (UBI Tax)	1,245	1,500	1,212	1,500	1,500
2. World Congress Fund	60,000	60,000	60,000	180,000	80,000
3. Regional Conferences	6,073	5,000	5,000	0	0
4. Back Issue Inventory Writeoff	1,070	0	0	0	0
5. Transition: Equipment and Moving	0	0	0	5,000	2,000
6. Transition: Salaries	0	0	0	52,846	65,323
<i>F. Total Expenses</i>	824,581	859,300	964,361	1,142,346	1,014,073
<i>G. Surplus</i>	147,953	331,082	309,664	31,654	124,927
<i>H. Fund Balance</i>	571,742	902,824	881,406	918,060	1,037,987
<i>I. Ratio of Fund Balance to Adjusted Total Revenue</i>	0.65	0.76	0.72	0.78	0.91

The nominal increase between 1975 and 2004 of 10 percent compares to an increase in the U.S. GDP deflator of 185 percent. Hence the real cost per page declined by 61 percent over this period.<sup>5</sup>

<sup>5</sup>Further decreases in printing cost per page will occur as the journal completes a transition to electronic submissions and electronic editing.

TABLE IV  
JACOB MARSCHAK FUND, 2000–2004

	2000	2001	2002	2003	2004
	(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	\$	\$
<i>A. Income</i>	1,980	1,378	572	316	387
Interest and Dividends	1,980	1,378	572	316	387
<i>B. Expenses</i>	0	2,000	0	1,002	0
<i>C. Realized and Unrealized Gains on Investments</i>	0	0	0	0	0
<i>D. Fund Balance</i>	29,107	28,485	29,056	28,370	28,757

TABLE VA  
FAR EASTERN FUND, 2000–2004

	2000	2001	2002	2003	2004
	(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	\$	\$
<i>A. Income</i>	3,556	2,397	995	552	674
Interest and Dividends	3,556	2,397	995	552	674
<i>B. Expenses</i>	3,000	2,000	0	0	0
<i>C. Realized and Unrealized Gains on Investments</i>	0	0	0	0	0
<i>D. Fund Balance</i>	64,080	64,477	65,471	66,024	66,698

TABLE VB  
LATIN AMERICAN FUND, 2000–2004

	2000	2001	2002	2003	2004
	(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	\$	\$
<i>A. Income</i>	1,327	924	384	212	197
Interest and Dividends	1,327	924	384	212	197
<i>B. Expenses</i>	0	0	0	0	(10,000)
<i>C. Unrealized Gain on Investments</i>	0	0	0	0	0
<i>D. Fund Balance</i>	23,777	24,701	25,086	25,297	15,494

### 3. Changes in Rates and Rate Structure for 2005 and 2006

Starting with the volume year 2004, the structure of institutional prices and membership dues experienced its most significant change in the history of the ES. Electronic access was made available to all institutional subscribers and a compulsory extra charge

TABLE VI  
WORLD CONGRESS FUND, 2000–2004

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

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 realized increase in Society revenues in 2004 and projections for a similar level of revenues in 2005 and 2006 (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). A substantial percentage of individual members and students has taken advantage of the electronic-only option (see Table II of the Secretary's Report).

In response to the large projected surpluses in 2005 and 2006, as discussed below, the Executive Committee decided by e-mail in July, 2005, to reduce membership dues further. The structure of rates for print and electronic versus electronic-only will drop from \$50/\$30 to \$45/\$27 for individual members from "rich countries" (as defined by the World Bank). Because the rates are already so low for members from other countries and for students, these are being maintained for 2006 at \$25/\$15 and \$17/\$10, respectively. The structure of library rates in 2006 will be the same as in 2005.

#### 4. Projections for 2005 and 2006

Mid-2005 circulation figures displayed in the top portion of Table I of the Secretary's Report show a significant decline in the number of institutional members and a large jump in the number of individual and student memberships. Revenue estimates for 2005 "price out" the changes in circulation that have already occurred at current prices, and revenue estimates for 2006 make a plausible guess that the increase in individual and student memberships will level off while the number of institutional subscribers will decline further. Because of the loss of institutions, total circulation revenues will be slightly less in 2005 and 2006 than in 2004. Expenses in 2005 and 2006 net of World Congress travel contributions and transition costs will remain essentially flat at about \$900,000 per year. The 2005 and 2006 transition costs include the overlap salary of the new General Manager, who began work on September 1, 2005, four months prior to the retirement of the Evanston office staff, and retirement compensation for the retiring Managing Editor, Executive Director–Secretary, Treasurer, and Administrative Assistant.

The implication of these projections is that the ES will earn a much lower surplus in 2005 and 2006 than in 2004. These will raise the *NW/ATR* ratio from 57 percent at the end of 2002 to 91 percent at the end of 2006, somewhat higher than the 80 percent goal agreed on by the 2004 Executive Committee.

### 5. *Recommendations*

1. The Executive Committee has already decided by e-mail discussion during July, 2005, to hold the institutional rates constant in 2006 and to reduce membership dues as detailed above.

2. I suggest that we continue to raise editorial and administrative honoraria and salaries in 2006 at the traditional 3 percent rate of increase (it was boosted to 5 percent for 2005). [A closed meeting of the Executive Committee decided to reduce this recommendation from 3 percent to 2 percent.]

3. The prospect of a modest surplus in both 2005 and 2006 suggests that there is room for additional initiatives by the Executive Committee. I have no specific suggestions, other than to set a tentative allocation for World Congress travel grants in 2010 at \$400,000, the same amount allocated to the 2005 World Congress.

### 6. *Investment Policy*

Many if not most nonprofit institutions experienced a decline in their net worth over 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 unrestricted investment portfolio during the year between July 31, 2004 and July 29, 2005. As shown in Table VII the rate of return for the ES portfolio in the year ending July 29, 2005 was +10.2 percent, as compared to the increase in the S&P 500 index of +11.6 percent. The cumulative gain for the five years from end-July, 2000 to end-July, 2005 was 35.4 percent. In comparison, the change in the S&P 500 index over the same five-year period was –16.2 percent.

### 7. *Conclusion and Thanks*

In May, 2005, our office marked the sixteenth 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. After our joint retirement at the end of 2005, Julie and I will both miss working with Maryann on Econometric Society business matters. In addition, I will greatly miss her incredibly efficient handling of my classroom teaching handouts and tests, and the annual process of organizing the Economics Department annual Ph.D. placement process and department newsletter. I would also like to thank Chris Taylor,

TABLE VII  
ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS,  
JULY 29, 2005, AND ANNUALIZED RATES OF RETURN

Name of Fund <sup>a</sup>	Market Value, 7-31-04	Purchases and Sales (dates)	Market Value, 7-29-05	Annual Rate of Return <sup>b</sup>
<i>Unrestricted Investment Portfolio</i>				
A. Spartan 500 Index Fund	372,733	0	424,857	13.1
B. Fidelity High Income Fund	298,924	0	329,219	9.7
C. Spartan Money Market Fund	108,691	0	110,913	2.0
Total	780,348	0	864,189	10.2
<i>Restricted Investment Portfolio</i>	114,131	+7,000 (6/14/05)	123,490	2.0
<i>Working Capital</i>				
Cash Reserves	567,889		920,719	
Northern Trust Checking	67,684		129,131	
Barclay's Checking	14,430		18,137	
Total Working Capital	650,003		1,067,987	
Total Financial Assets	1,544,482		2,055,666	

<sup>a</sup>All holdings in lines A through C are in no-load Fidelity Investment mutual funds.

<sup>b</sup>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 and the value of each fund at the beginning of each holding period.

who has exhibited great efficiency during summer, 2005 in his dual roles in working both for Julie in the ES office and for me as a research assistant.

This is my last report as Treasurer. It seems a long time ago that we attended our first Executive Committee meeting at the Toronto World Congress in mid-August, 1975, and that I traveled on March 16, 1976, to the former ES business office at Yale to see what was there and to decide how much to move. Back in those days, moving was a heavy-duty operation, since every list and financial record was on paper and had to be shipped inside heavy filing cabinets. The first primitive personal computers arrived in the office in 1983, and the past two decades have witnessed the transition to electronic lists, financial accounting programs, and posting to the Society's web site. In contrast to the moving vans that traveled from New Haven to Evanston in early 1976, in the current 2005–2006 transition we can send all the records of the Society to the new business office location at NYU by e-mail attachments or on a two-inch long flash drive.

Our successors, Rafael Repullo as Executive Vice-President and Claire Sashi as General Manager, have already started bringing the Society's operations further into a near-paperless future, starting with the switch in 2006 to electronic voting for Officers, Council, and Fellows, and including a reorganization of all the electronic and paper office files. We wish them well as they inherit the business operations of the Econometric Society.

ROBERT J. GORDON  
*Treasurer*