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THE ECONOMETRIC SOCIETY ANNUAL REPORTS, 1999

REPORT OF THE TREASURER

SANTIAGO DE COMPOSTELA, SPAIN
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1. *Introduction*

FOR SEVERAL YEARS 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 129 percent at the end of 1997, 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. *1998 Results*

Finally in 1998 the Society ''succeeded'' in posting a loss in its basic fund, thus reducing NW/ATR ratio slightly from 1.293 to 1.287. As we shall see later in the report, much more rapid declines in the ratio are in store in 1999 and 2000. The 1998 consolidated net surplus was $13,480. This sum is divided in the accounts among the basic deficit of $56,819 (Table III, line F), plus the $73,334 transfer from the general fund to the World Congress Fund (Table VI, line A.1), plus the −$3,035 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

[1] Over 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, and 1997 and has 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.

[2] 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 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.

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.[3]

The deficit of $56,819 in the general fund is much larger than the $4,853 deficit forecast at this time last year. This error of $51,966 is explained by $25,932 less in adjusted revenue than had been expected and by $64,668 more in total expense than had been expected, partially offset by $38,674 in net capital gains.[4] Revenue other than capital gains fell short of my estimate by $25,932 largely because of lower than expected circulation revenue. (My optimistic projection had assumed that growth in circulation would offset price reductions that took effect in 1998.) Expenses net of special items overshot the estimate by $39,014, most of which was due to sharp increases in postage, freight, and editorial expenses.[5] Additional bills for the 1997 Member Directory brought that expense above forecast, and contributions to the European winter symposium (Table III, line D6) had not been forecast at all.

TABLE I

ECONOMETRIC SOCIETY BALANCE SHEETS, 1994–1998

	12/31/94 $	12/31/95 $	12/31/96 $	12/31/97 $	12/31/98 $
A. *Unrestricted Assets*					
1. Short Term Assets	128,326	217,386	165,314	10,956	141,361
2. Investments at Fair Value	634,196	567,918	792,761	1,079,122	1,152,369
3. Accounts Receivable	164,154	88,346	121,455	114,614	113,921
4. Back Issue Inventory	26,048	36,039	34,460	28,010	27,095
5. Furniture and Equipment	6,066	6,271	14,991	16,788	13,509
6. Prepaid Expenses and Other Assets	19,095	19,598	6,840	24,299	15,841
Total Assets	977,885	935,558	1,135,821	1,273,789	1,464,096
B. *Unrestricted Liabilities*					
1. Accounts Payable	37,668	17,931	3,576	10,884	9,715
2. Deferred Revenue	316,136	256,667	241,360	162,073	336,995
3. World Congress Fund	200,000	40,000	80,000	153,333	226,667
Total Liabilities	553,804	314,598	324,936	326,290	573,377
C. *Unrestricted*	424,081	620,960	783,801	947,499	890,719
Total Liabilities and Fund Balance	977,885	935,558	1,135,821	1,273,789	1,464,096
D. *Jacob Marschak Fund Balance*	21,156	25,381	27,084	29,787	26,852
E. *World Congress Fund Balance*	200,000	40,000	80,000	153,333	226,667
F. *Far Eastern Fund Balance*	—	56,699	57,770	66,129	62,169
G. *Latin American Fund Balance*	—	—	20,000	22,913	21,230

[3] The cumulative surplus from 1975 to 1998 is the difference between the Society's 1998 net worth (excluding the Far Eastern and Latin American funds) of $1,144,238 and the end-1974 net worth of −$79,207, for a cumulative surplus of $1,223,445. In addition the Society has provided its members with $404,075 of self-financed travel grants, making the effective cumulative surplus $1,627,520.

[4] Prior to 1995 accounting practices required the treatment of unrealized capital losses as negative revenue, while unrealized capital gains were not treated as positive revenue. 1995 was the first year in which unrealized capital gains were treated as revenue.

[5] The increase in editorial expense reflects in part the addition of a fifth co-editor in mid-1997.

TABLE II

REVENUES, 1997–2000

	Actual 1997 (1) $	Estimate 1998 (2) $	Actual 1998 (3) $	Estimate 1999 (4) $	Budget 2000 (5) $
A. *Econometrica Circulation*	581,430	585,000	558,114	540,000	535,000
B. *Other Revenue*	291,319	133,000	172,628	138,000	143,000
1. Back Issues (net)	12,727	5,000	3,443	4,000	4,000
2. Reprints (net)	16	0	1,516	1,000	1,000
3. Advertising (net)	8,721	6,000	9,608	8,000	8,000
4. List Rentals (net)	5,662	7,000	8,730	8,000	8,000
5. North American Meetings (net)	20,833	15,000	11,414	15,000	15,000
6. Monograph Series	−820	0	−3,151	−3,000	−3,000
7. Other Income	2,174	0	3,296	2,000	2,000
8. Permissions	23,177	10,000	8,177	8,000	8,000
9. Interest-Dividends	79,046	90,000	90,921	95,000	100,000
10. Realized Capital Gains on Investments	90,210	0	70,593	0	0
11. Unrealized Capital Gains on Investments	49,573	0	−31,919	0	0
C. *Total Revenue*	872,749	718,000	730,742	678,000	678,000
D. *Adjusted Total Revenue* (minus Realized and Unrealized Capital Gains)	732,966	718,000	692,068	678,000	678,000

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 109 percent between 1982 and 1998, for an annual percentage growth rate of 4.6 percent (which can be compared with the 1982–98 U.S. inflation rate of 3.0 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 115 percent, for an annual growth rate of 4.8 percent. 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   1997: $58.98

The increase between 1975 and 1998 of 24 percent compares to an increase in the U.S. GDP deflator of 168 percent. Hence the real cost per page declined by 54 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 1997 (see Secretary's Report, Table I).

3. *Projections for 1999 and 2000*

Mid-1999 circulation figures displayed in the top portion of Table I of the Secretary's report show a slight decline from mid-1998. The revenue forecasts for 1999 and 2000 are based on the maintenance of a roughly constant circulation, adjusted for changes in rates for 1999 and for the changing mix between institutional, regular, and student subscriptions.[6] Reasonable guesses about components of other revenue lead to a 1999 estimate for adjusted total revenue (*ATR*) that is about 2 percent below that in 1998, mainly reflecting the decline in rates already voted to occur in 1999. Over the 1998–2000 period, expenditures (net of special expenses) are projected to increase by 5.4 percent.

The implication of these projections is that a large financial deficit (Table III, line F) will occur in 1999 and 2000 that will be sufficient to reduce the *NW/ATR* ratio from 129 to 107 percent. Potential fluctuations in the value of the U.S. stock market could cause these numbers to change; roughly half of the Society's fund balance is held in U.S. equity mutual funds that could experience a correction over the next few months or years of 10 or 20 percent.[7]

4. *Recommendations*

The sharp prospective decline in the *NW/ATR* ratio suggests that the executive committee should exercise care in further initiatives. My recommendations are as follows:

1. Repeat last year's decision on editorial and administrative honoraria and salaries, namely an increase of 3 percent in 2000.
2. Leave all rates unchanged for 2001 except the OECD library rate, which should increase by 5 percent (this would leave the OECD library rate only 3 percent above its 1997 level).
3. The primary additional expense that is contemplated is a set of small matching grants to several regions to subsidize participation in meetings by promising young economists. We have ample financial latitude to continue this initiative at a moderate pace.

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. 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, and −5.0 percent. Over the period 7-31-98 to 7-30-99, the weighted average return of the Society's portfolio was 8.5 percent, as shown in Table VII, which compared to the increase in the S&P 500 index of 17.9 percent over the same period. This shortfall can be explained by the fact that, anticipating the possibility of a market downturn, somewhat more than half of the Society's unrestricted investment portfolio is now held in a money-market fund and a bond fund, mainly in the latter.

[6] 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.

[7] As of July 31, 1999, the Society had earned additional unrealized capital gains of roughly $45,000 since December 31, 1998, which are not reflected in any of the estimates in Tables II or III.

TABLE III

EXPENSES, 1997–2000

	Actual 1997 (1) $	Estimate 1998 (2) $	Actual 1998 (3) $	Estimate 1999 (4) $	Budget 2000 (5) $
A. *Publishing*	456,121	455,000	487,769	504,000	519,000
1. Composition-Printing	95,818	100,000	97,316	100,000	103,000
2. Circulation Fulfillment	50,880	50,000	56,121	58,000	60,000
3. Postage-Freight	107,276	95,000	108,135	110,000	113,000
4. Editorial	202,147	210,000	226,197	236,000	243,000
B. *Administrative*	155,627	152,500	155,035	158,500	160,500
1. Salaries-Fringe	123,177	118,000	123,294	125,000	129,000
2. Supplies-Xerox	6,154	7,500	6,217	6,500	6,500
3. Office Postage	2,430	2,500	2,622	2,500	2,500
4. Telephone	4,907	5,000	4,194	4,500	4,500
5. Depreciation	4,047	4,000	4,758	5,000	5,000
6. Insurance-Audit	4,308	4,500	4,981	5,000	5,000
7. Website	6,348	5,000	4,356	5,000	3,000
8. Other	561	5,000	617	1,000	1,000
9. Member Solicitation	3,695	1,000	3,996	4,000	4,000
C. *Executive Committee Expense*	11,937	15,000	18,710	16,000	18,000
D. *Special Expense*	85,366	100,354	126,008	83,333	62,500
1. IRS (UBI Tax)	2,033	2,500	2,601	2,500	2,500
2. World Congress Fund	73,333	73,334	73,334	73,333	60,000
3. Member Directory	—	24,520	40,678	—	—
4. Grant to ISE Region	—	—	—	7,500	—
5. Memorial Contribution	10,000	—	—	—	—
6. Conference Contributions	—	—	9,395	—	—
E. *Total Expense*	709,051	722,854	787,522	761,833	760,000
F. *Surplus*	163,698	−4,853	−56,819	−83,833	−82,000
G. *Fund Balance*	947,499	942,646	890,719	806,847	724,847
H. *Ratio of Fund Balance to Adjusted Total Revenue*	1.29	1.31	1.29	1.19	1.07

TABLE IV

JACOB MARSCHAK FUND, 1995–1998

	Actual 1995 (1) $	Actual 1996 (2) $	Actual 1997 (3) $	Actual 1998 (4) $
A. *Income*	2,699	3,061	3,807	3,488
Interest-Dividends	2,699	3,061	3,807	3,527
B. *Expenses*	0	2,181	2,231	646
Marschak Lecturer	0	2,181	2,231	646
C. *Realized and Unrealized Gains on Investments*	1,526	766	1,227	−5,916
D. *Fund Balance*	25,381	27,804	29,887	26,852

TABLE VA

FAR EASTERN FUND, 1995–1998

	Actual 1995 (1) $	Actual 1996 (2) $	Actual 1997 (3) $	Actual 1998 (4) $
A. *Income*				
1. Transfer from World Congress Fund	56,699	—	—	—
2. Interest and Dividends	—	5,670	6,466	6,182
B. *Expenses*	—	4,599	—	—
C. *Realized and Unrealized Gains on Investments*	—	—	1,893	− 10,142
D. *Fund Balance*	56,699	57,770	66,129	62,169

TABLE VB

LATIN AMERICAN FUND, 1996–1998

	Actual 1996 (1) $	Actual 1997 (2) $	Actual 1998 (3) $
A. *Income*			
1. Transfer from Latin America	20,000	—	—
2. Interest and Dividends	—	2,254	2,231
B. *Expenses*	—	—	—
C. *Unrealized Gain on Investments*	—	659	− 3,914
D. *Fund Balance*	20,000	22,913	21,230

TABLE VI

WORLD CONGRESS FUND, 1996–2000

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

TABLE VII

ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS, JULY 30, 1999, AND ANNUALIZED RATES OF RETURN

Name of Fund[a]	Market Value, 7-31-98	Purchases and Sales (dates)	Market Value, 7-31-99	Rate of Return[b]
Unrestricted Investment Portfolio				
A. Spartan Market Index Fund	167,019	+248,257 (10/19/98)	513,685	18.3
B. Equity-Income II Fund	402,922	−250,000 (11/11/98)	161,764	10.6
C. High-Income Fund	615,155	−60,000 (9/14/98) −250,000 (10/19/98) +250,000 (11/11/98)	546,755	3.8
D. Spartan Money Market Fund	20,107	0	21,106	4.8
Total	1,205,203	−61,743	1,243,310	8.5
Restricted Investment Portfolio	129,988	−2,877	116,972	−8.3
Working Capital				
Daily Income Trust	46,813		70,734	
Northern Trust checking	41,605		41,605	
Total Working Capital	88,418		112,339	
Total Financial Assets	1,423,609		1,472,621	

[a] All holdings in lines A through D are in no-load Fidelity Investment mutual funds.
[b] Rates of return for each fund are calculated with natural logarithms separately for each holding period and then are aggregated using weights for the length of each holding period. 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. *Conclusion and Thanks*

In May, 1999, our office marked the tenth 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 performed admirably in the Fall of 1998, when staff resignations in the Department of Economics required that she handle a greatly increased workload for graduate placement without any reduction in her other responsibilities. 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