*Econometrica*, Vol. 67, No. 1 (January, 1999)

# THE ECONOMETRIC SOCIETY ANNUAL REPORTS, 1998

## REPORT OF THE TREASURER

BERLIN, GERMANY
AUGUST 29, 1998

### 1. *Introduction*

AT YEAR-END 1997 the resources of the ES, that is, its net worth ($NW$), continued to increase relative 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 increased from 108 to 129 percent from 1996 to 1997. This increase, experienced also by many other nonprofit institutions, including most major U.S. universities, 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. *1997 Results*

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.[2] The 1997 consolidated net surplus was \$239,734. The first three components of this sum are divided in the accounts among the basic surplus of \$163,698 (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 \$2,703 change in the net worth of the Marschak Fund (Table IV, line D).[3] 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.

[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 will reduce 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. 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. There is no reflection of the World Congress fund in the auditor's report.

[3] The cumulative surplus from 1975 to 1996 is the difference between the Society's 1997 net worth (excluding the Far Eastern and Latin American funds) of \$1,130,619 and the end-1974 net worth of −\$79,207, for a cumulative surplus of \$1,209,826. In addition the Society has provided its members with \$404,075 of self-financed travel grants, making the effective cumulative surplus \$1,613,901.

TABLE I

ECONOMETRIC SOCIETY BALANCE SHEETS, 1993–1997

| | 12/31/93 $ | 12/31/94 $ | 12/31/95 $ | 12/31/96 $ | 12/31/97 $ |
|---|---|---|---|---|---|
| A. *Assets* | | | | | |
| 1. Short Term Assets | 148,385 | 128,326 | 217,386 | 165,314 | 10,956 |
| 2. Investments at Cost | 556,679 | 634,196 | 567,918 | 792,761 | 1,079,122 |
| 3. Accounts Receivable | 164,593 | 164,154 | 88,346 | 121,455 | 114,614 |
| 4. Back Issue Inventory | 34,592 | 26,048 | 36,039 | 34,460 | 28,010 |
| 5. Furniture and Equipment | 9,747 | 6,066 | 6,271 | 14,991 | 16,788 |
| 6. Prepaid Expenses and Other Assets | 6,828 | 19,095 | 19,598 | 6,840 | 24,299 |
| Total Assets | 920,824 | 977,885 | 935,558 | 1,135,821 | 1,273,789 |
| B. *Liabilities* | | | | | |
| 1. Accounts Payable | 15,117 | 37,668 | 17,931 | 3,576 | 10,884 |
| 2. Deferred Revenue | 361,330 | 316,136 | 256,667 | 241,360 | 162,073 |
| 3. World Congress Fund | 160,000 | 200,000 | 40,000 | 80,000 | 153,333 |
| Total Liabilites | 536,447 | 553,804 | 314,598 | 324,936 | 326,290 |
| C. *Fund Balance* | 384,377 | 424,081 | 620,960 | 783,801 | 947,499 |
| Total Liabilities and Fund Balance | 920,824 | 977,885 | 935,558 | 1,135,821 | 1,273,789 |
| D. *Jacob Marschak Fund Balance* | 20,176 | 21,156 | 25,381 | 27,084 | 29,787 |
| E. *World Congress Fund Balance* | 160,000 | 200,000 | 40,000 | 80,000 | 153,333 |
| F. *Far Eastern Fund Balance* | — | — | 56,699 | 57,770 | 66,129 |
| G. *Latin American Fund Balance* | — | — | — | 20,000 | 22,913 |

The surplus of $163,698 in the general fund is much larger than the $27,000 surplus forecast at this time last year. This error of $136,698 is more than explained by $139,783 in realized and unrealized[4] capital gains on investments that occurred in 1997 (I never attempt to predict capital gains in advance). Revenue other than capital gains exceeded my estimate by $27,966, largely because of unusually high income from back issues, North American meetings, permissions, and interest. Expenses net of special items overshot the estimate by $28,837, most of which was due to sharp increases in postage, freight, and editorial expenses.[5]

[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 postage and freight, and in circulation fulfillment expense, appear to be due to timing issues. Expenses in these categories declined inexplicably from 1995 to 1996, and this was due to several major postage and freight bills for 1996 being posted by Basil Blackwell in 1997 after last year's audit was complete. The 1996–97 average for the postage-freight category was only 0.7 percent higher than the 1995 expense. Similarly, the 1996–97 average for the circulation fulfillment cateogry was 8.1 percent higher than the 1995 expense, and this corresponds roughly to the effect of British inflation expressed in dollars. The increase in editorial expense reflects in part the full-year effect of the move of the editorial office from INSEE to Harvard in mid-1996, and also the addition of a fifth co-editor in mid-1997. Another timing issue involves administrative salaries, where there was a one-time only retroactive merit increase given in 1997 to the Society's Administrative Assistant covering four years back to 1993.

TABLE II

REVENUES, 1996–1999

| | Actual 1996 (1) $ | Estimate 1997 (2) $ | Actual 1997 (3) $ | Estimate 1998 (4) $ | Budget 1999 (5) $ |
|---|---|---|---|---|---|
| A. *Econometrica Circulation* | 616,376 | 610,000 | 581,430 | 585,000 | 570,000 |
| B. *Other Revenue* | 183,145 | 95,000 | 291,319 | 133,000 | 138,000 |
| 1. Back Issues (net) | 2,753 | 2,000 | 12,727 | 5,000 | 5,000 |
| 2. Reprints (net) | 798 | 1,000 | 16 | 0 | 0 |
| 3. Advertising (net) | 7,099 | 5,000 | 8,721 | 6,000 | 6,000 |
| 4. List Rentals (net) | 8,078 | 8,000 | 5,662 | 7,000 | 7,000 |
| 5. North American Meetings (net) | 10,342 | 10,000 | 20,833 | 15,000 | 15,000 |
| 6. Monograph Series | −96 | 0 | −820 | 0 | 0 |
| 7. Other Income | 14,400 | 0 | 2,174 | 0 | 0 |
| 8. Permissions | 10,671 | 9,000 | 23,177 | 10,000 | 10,000 |
| 9. Interest-Dividends | 52,699 | 60,000 | 79,046 | 90,000 | 95,000 |
| 10. Realized Capital Gains on Investments | 20,847 | 0 | 90,210 | 0 | 0 |
| 11. Unrealized Capital Gains on Investments | 55,554 | 0 | 49,573 | 0 | 0 |
| C. *Total Revenue* | 799,521 | 705,000 | 872,749 | 718,000 | 708,000 |
| D. *Adjusted Total Revenue* (minus Realized and Unrealized Capital Gains) | 723,120 | 705,000 | 732,966 | 718,000 | 708,000 |

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 121 percent between 1982 and 1997, for an annual percentage growth rate of 5.3 percent (which can be compared with the 1982–97 U.S. inflation rate of 3.1 percent for the GDP deflator). Nominal expenses net of the special expense category increased by 103 percent, for an annual growth rate of 4.7 percent. The increase in total expense was held down in large part by 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: $58.07

The increase between 1975 and 1997 of 22 percent compares to an increase in the U.S. GDP deflator of 167 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 1998 and 1999*

The mid-1998 circulation figures displayed in the top portion of Table I of the Secretary's report show a substantial recovery from mid-1997. The revenue forecasts for 1998 and 1999 are based on the maintenance of a roughly constant circulation, adjusted

TABLE III

EXPENSES, 1996–1999

| | Actual 1996 (1) $ | Estimate 1997 (2) $ | Actual 1997 (3) $ | Estimate 1998 (4) $ | Budget 1999 (5) $ |
|---|---|---|---|---|---|
| A. *Publishing* | 382,060 | 419,000 | 456,121 | 455,000 | 470,000 |
| 1. Composition-Printing | 96,016 | 100,000 | 95,818 | 100,000 | 100,000 |
| 2. Circulation Fulfillment | 41,091 | 45,000 | 50,880 | 50,000 | 53,000 |
| 3. Postage-Freight | 71,706 | 85,000 | 107,276 | 95,000 | 100,000 |
| 4. Editorial | 173,247 | 189,000 | 202,147 | 210,000 | 217,000 |
| B. *Administrative* | 136,906 | 144,500 | 149,279 | 147,500 | 151,500 |
| 1. Salaries-Fringe | 110,025 | 114,000 | 123,177 | 118,000 | 122,000 |
| 2. Supplies-Xerox | 9,222 | 7,500 | 6,154 | 7,500 | 7,500 |
| 3. Office Postage | 1,159 | 3,000 | 2,430 | 2,500 | 2,500 |
| 4. Telephone | 4,468 | 5,000 | 4,907 | 5,000 | 5,000 |
| 5. Depreciation | 3,523 | 4,500 | 4,047 | 4,000 | 4,000 |
| 6. Insurance-Audit | 4,076 | 4,500 | 4,308 | 4,500 | 4,500 |
| 7. Other | 188 | 1,000 | 561 | 5,000 | 5,000 |
| 8. Member Solicitation | 4,245 | 5,000 | 3,695 | 1,000 | 1,000 |
| C. *Executive Committee Expense* | 28,252 | 25,000 | 11,937 | 15,000 | 15,000 |
| D. *Special Expense* | 89,462 | 89,500 | 91,714 | 105,353 | 80,834 |
| 1. IRS (UBI Tax) | 2,256 | 2,500 | 2,033 | 2,500 | 2,500 |
| 2. World Congress Fund | 40,000 | 40,000 | 73,333 | 73,333 | 73,334 |
| 3. Member Directory | 45,603 | 40,000 | — | 24,520 | — |
| 4. Grant to ISE Region | 1,603 | — | — | — | — |
| 5. Website | — | 7,000 | 6,348 | 5,000 | 5,000 |
| 6. Memorial Contribution | — | — | 10,000 | — | — |
| E. *Total Expense* | 636,680 | 678,000 | 709,051 | 722,853 | 717,334 |
| F. *Surplus* | 162,841 | 27,000 | 163,698 | −4,853 | −9,334 |
| G. *Fund Balance* | 783,801 | 810,801 | 947,499 | 942,646 | 933,312 |
| H. *Ratio of Fund Balance to Adjusted Total Revenue* | 1.08 | 1.15 | 1.29 | 1.31 | 1.32 |

TABLE IV

JACOB MARSCHAK FUND, 1996–1998

| | Actual 1996 (1) $ | Estimate 1997 (2) $ | Actual 1997 (3) $ | Estimate 1998 (4) $ |
|---|---|---|---|---|
| A. *Income* | 3,061 | 3,000 | 3,807 | 3,600 |
| Interest-Dividends | 3,061 | 3,000 | 3,807 | 3,600 |
| B. *Expenses* | 2,181 | 2,500 | 2,231 | 1,000 |
| Marschak Lecturer | 2,181 | 2,500 | 2,231 | 1,000 |
| C. *Unrealized Gain on Investments* | 766 | 0 | 1,227 | 0 |
| D. *Fund Balance* | 27,084 | 27,584 | 29,787 | 32,387 |

## TABLE VA

FAR EASTERN FUND, 1995–1998

| | Actual 1995 (1) $ | Actual 1996 (2) $ | Actual 1997 (3) $ | Estimate 1998 (4) $ |
|---|---|---|---|---|
| A. *Income* | | | | |
| 1. Transfer from World Congress Fund | 56,699 | — | — | — |
| 2. Interest and Dividends | — | 5,670 | 6,466 | 7,000 |
| B. *Expenses* | — | 4,599 | — | 4,599 |
| C. *Unrealized Gain on Investments* | — | — | 1,893 | — |
| D. *Fund Balance* | 56,699 | 57,770 | 66,129 | 68,530 |

## TABLE VB

LATIN AMERICAN FUND, 1996–1998

| | Actual 1996 (1) $ | Actual 1997 (2) $ | Estimate 1998 (3) $ |
|---|---|---|---|
| A. *Income* | | | |
| 1. Transfer from Latin America | 20,000 | — | — |
| 2. Interest and Dividends | — | 2,254 | 2,300 |
| B. *Expenses* | — | — | 1,000 |
| C. *Unrealized Gain on Investments* | — | 659 | — |
| D. *Fund Balance* | 20,000 | 22,913 | 24,213 |

## TABLE VI

WORLD CONGRESS FUND, 1995–1999

| | Actual 1995 (1) $ | Actual 1996 (2) $ | Actual 1997 (3) $ | Estimate 1998 (4) $ | Budget 1999 (5) $ |
|---|---|---|---|---|---|
| A. *Income* | 230,675 | 40,000 | 73,333 | 73,333 | 73,334 |
| 1. Transfer from General Fund | 40,000 | 40,000 | 73,333 | 73,333 | 73,334 |
| 2. Grants | 190,675 | — | — | — | — |
| B. *Expenses* | 390,675 | — | — | — | — |
| 1. Travel | 302,051 | — | — | — | — |
| 2. Program Administration | 31,925 | — | — | — | — |
| 3. Transfer to Far Eastern Fund | 56,699 | — | — | — | — |
| C. *Fund Balance* | 40,000 | 80,000 | 153,333 | 226,666 | 300,000 |

for changes in rates for both years and for the changing mix between institutional, regular, and student subscriptions. Reasonable guesses about components of other revenue lead to a 1999 estimate for adjusted total revenue ($ATR$) that is about 4 percent below that in 1997, mainly reflecting the decline in rates already voted to occur in 1998–99. Over the 1997–99 period, expenditures (net of special expenses) are projected to increase by only about 3 percent, a low increase that reflects the timing issues that made some expenses unusually high in 1997 (see footnote 5).

The implication of these projections is that the financial surplus (Table III, line F) will disappear in 1998 and 1999, but the projected deficit will not be large enough to cause any decline in the $NW/TR$ ratio from its end-year 1997 value of 1.29. While a stock market crash would have some effect on this ratio, since capital losses would be recognized in the year that they occur, U.S. stock market averages as of August 11, 1998, despite falling 10 percent from their July highs, were still more than 10 percent higher than the year-end 1997 figures reflected in our 1997 balance sheet and revenue results. Further, more than half of the Society's financial assets are held in a bond fund that will be relatively immune to a further slide in the U.S. stock market.

TABLE VII

ECONOMETRIC SOCIETY INVESTMENT PORTFOLIO IN U.S. DOLLARS, JULY 31, 1998, AND ANNUALIZED RATES OF RETURN

| Name of Fund[a] | Market Value, 8-1-97 | Purchases and Sales (dates) | Market Value, 7-31-98 | Rate of Return[b] |
|---|---|---|---|---|
| *Unrestricted Investment Portfolio* | | | | |
| A. GNMA/Liquid Asset | 8,007 | −8,025 (8/7/97) | — | — |
| B. Spartan Market Index Fund | 360,086 | −70,000 (9/24/97) | 167,019 | 17.4 |
| | | −150,000 (12/22/97) | | |
| C. Equity-Income II Fund | 340,070 | 0 | 402,922 | 17.0 |
| D. High-Income Fund | 340,070 | +300,000 (2/23/98) | 615,155 | 14.7 |
| | | +172,470 (3/2/98) | | |
| | | −160,000 (5/12/98) | | |
| E. Growth Company Fund | 176,031 | −166, 723 (12/22/97) | — | — |
| F. Spartan Money Market Fund | — | +316,723 (12/22/97) | 20,107 | 5.4[c] |
| | | −300,000 (2/23/98) | | |
| Total | 1,135,673 | −65,555 | 1,205,203 | 11.5[d] |
| *Restricted Investment Portfolio*[e] | 119,974 | −6,830 | 129,988 | 14.5[d] |
| *Working Capital* | | | | |
| Daily Income Trust | 38,798 | | 46,813 | |
| Northern Trust checking | 29,783 | | 41,605 | |
| Total Working Capital | 68,581 | | 88,418 | |
| Total Financial Assets | 1,324,228 | | 1,423,609 | |

[a] All holdings in lines B through F are in no-load Fidelity Investment mutual funds.
[b] Rates of return are converted to *logarithmic* returns from one-year percentage *arithmetic* returns reported in the *New York Times*, August 2, 1998. The comparable logarithmic return of the S&P 500 over the same period was 16.9 percent.
[c] Seven-day return for the week ending July 31, 1998.
[d] Calculated as the weighted average of logarithmic returns between each deposit or withdrawal.
[e] The restricted investment portfolio on July 31, 1998, consisted of the Marschak Fund ($38,710), Far Eastern Fund ($66,481), and Latin American Fund ($24,797).

## 4. *Recommendations*

The excessive level of the *NW/ATR* ratio suggests that the executive committee has substantial latitude to reduce membership dues and to increase expenditures. (At its meeting on August 29, 1998, the Executive Committee decided to repeat last year's decision on editorial and administrative honoraria and salaries, namely an increase of 3 percent in 1999. It decided not to repeat last year's decision to reduce by 10 percent membership dues in all categories and rather decided to hold all membership dues and subscription fees constant in the year 2000 at the levels already decided last year for 1999.)

## 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 or first Friday in August. For the years ending in late July 1992 through 1997, the Society's portfolio had a return relative to the S&P500 (U.S. stock market index) of +1, +12, +1, −10, −5.3, and −11.2 percent. Over the period 8-1-97 to 7-31-98, the weighted average return of the Society's portfolio was 11.9 percent, as shown in Table VII, which compared to the increase in the S&P 500 index of 16.9 percent over the same period. The 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. (The market downturn that occurred in early August has already substantially narrowed the gap between the return on the S&P 500 and on the Society's current portfolio.)

In January, 1997, separate accounts were opened for the Far Eastern and Latin American funds so that interest accrued on these funds is automatically credited to those funds (as has always been true of the Marschak fund). Previously these assets were held as part of the Society's general fund. Assets of those funds, as well as the Marschak Fund, are invested in the Fidelity High Income Fund, which has had an average annual rate of return over the past four years of 15.3 percent, far superior to the alternative of investing these restricted assets in a money market mutual fund.

## 6. *Conclusion and Thanks*

In May, 1997, our office marked the ninth anniversary of Maryann Semer's association with the Econometric Society. Every day she manages to move seamlessly among her triple roles as Society administrative assistant, bookkeeper, and my academic secretary. 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*