

FUND-FLOW ANALYSIS IN ECONOMIC RESEARCH*

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THIS STUDY IS A SURVEY of certain methods employed by economists in utilizing data contained in published financial reports. These methods are related variations of a systematic apparatus for deriving statistics of business expenditures and the means by which they are financed: that is, for analyzing the sources and uses of funds.

Economists have been using the technique of fund-flow analysis in order to ascertain the impact of business decisions on the rest of the economy. They have developed methods and forms to suit their various special interests. These methods and forms are reviewed with careful attention to the mechanics of construction, followed by a consideration of utility and limitations.

The presentation has been designed to serve the needs of the economist who is not a trained accountant but who must work with the accountant's product.

Part I (two chapters) surveys the economic studies utilizing fund-flow techniques for the purpose of indicating why economists have used these procedures. Stress is placed on the fact that fund-flow analysis involves not one but a variety of methods, and that the method utilized by the economist is directly dependent upon the purpose of his study.

Part II (eight chapters) deals with various aspects of the most popular type of fund-flow analysis, the cash-or-equivalent fund method, as employed by Dirks, Dobrovolsky, Hersey, Koch, Merwin, Schmidt, Terborgh, and many other economists. The discussion is concerned first with general problems, including sources of data, adjustments required, and forms of presentation. Attention is then given to problems associated with more specialized topics, such as fixed assets, inventories, depreciation, retained earnings, and internal and external sources of funds. Among other conclusions it is demonstrated that statistics on internal and external financing are related closely to the purpose for which fund-flow analysis is undertaken, i.e., the terms "internal" and "external" do not have fixed meanings. Though based on the same data, conclusions as to internal and external financing may differ according to whether the subject

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studied is the financing of total asset expansion, the financing of physical asset expansion, the financing of fixed asset expenditures, or the financing of all requirements for funds.

Part III (two chapters) explains the construction, utility, and limitations of several fund-flow statements derived by techniques other than the cash-or-equivalent fund method, and discusses the fund-flow methods employed in macro-economic studies of the national economy, giving consideration to the work of the United States Department of Commerce, Copeland, Derksen, Goldsmith, Stone, and other economists in this field.