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## Old wine: The new Harvard bottle

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## **OLD WINE AND . . . THE NEW HARVARD BOTTLE**

Professor Robert Anthony of Harvard re-exposes for consideration the issue of "Accounting for the Cost of Equity," in a recent article in the *Harvard Business Review* (November-December, 1973).

What is somewhat disconcerting to the historian who reads this well written piece is the lack of adequate reference to the interesting and important precedent episodes involved in the controversy over interest as a cost that date back fifty years and more.

Accounting historians, familiar with the evolution of income determination theory are aware of the host of early writers who became embroiled in this issue. Indeed the early arguments over treatment of interest cost (both paid and imputed) spurred publication of countless articles and commentaries along with a relatively sound but since unheralded work *Interest as a Cost* (C. H. Scovell, Ronald Press, 1924, 254 pp.)

Advocates of interest costing included some of the most respected academicians and practitioners of the period—William Morse Cole, J. Lee Nicholson, John R. Wildman, DR Scott, D. C. Eggleston, Thomas H. Sanders and G. Charter Harrison.

In opposition was a formidable and, perhaps, politically more prominent group, and in the sense of the outcome, the success of their position may have been in large part because of such political strength. As early as 1911, Arthur Lowes Dickinson criticized advocates of interest inclusion. Dickinson's allies included R. H. Montgomery, Jos. F. Sterrett, and George O. May.

In the 1921 yearbook of the N.A.(C).A., then a newly formed group, a point by point summary of the interest debate was published. Later a special bulletin of this group (No. 61, New series, June 15, 1923) dealt with the issue and cited one of the earliest empirical investigations in modern accounting—a questionnaire circulated among members seeking to determine opinion concerning the interest matter.

It is evident that the interest topic has had a complex evolution. This explains the unsettling feeling which one experiences when

reading Professor Anthony's work noting its lack of reference to this treasury of prior thought.

It would benefit us as historians to consider the significance of this omission and the matter of repackaging this vintage issue in its new and appealing Harvard vessel. As such it betrays the ineffectiveness of accounting history to date—in that this type of oversight would have been less likely had the history of accounting thought and related issues been part of the basic training of research oriented accountants. In exposing aspiring researchers to such matters as a part of the educational process each would also become more firmly grounded in the theory of accountancy and be capable of moving ahead from established points thereby eliminating “reinvention” of each theoretical wheel.

Professor Anthony has reinvented the “interest wheel,” but he has also proposed innovations in interest measurement/distribution and in the concept of an “interest pool.” On balance then he has been a victim of the lack of both ready historical awareness and current historical literature on the subject—items for which the historian is ultimately to blame.

Professor Anthony's work is overall a timely contribution in the theory area. He calls for the reexamination of a point which was not “resolved” on the basis of merit—but merely tabled in years past. He has pointed to a paradigm of accepted economic theory and the lack of a suitable corollary in accounting theory. This then is not another of those hollow prestigious publications (*Rex non potest peccare*) but a legitimate inquiry.

The regrettable point from the view of accounting history and the efficient use of intellectual resources, is that so much ground already conquered has had to be rewon. The lesson for both historian and non-historian is simple: Historical events (such as the early interest controversy) of which no one generally knows or pays heed are as good as non-existent.

While we can expect that the monograph which Professor Anthony is writing on this subject will contain historical references let us hope that it also spurs fruitful historical inquiry.

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