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# HENRY SWEENEY AND STABILIZED ACCOUNTING

by

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Since the mid-1960's, inflation has been exacting a heavy toll from American business and the American Public. During this period, the Accounting profession has studied the problem of price-level changes and has issued many pronouncements upon the subject. Thus, the public assumes that the theory of handling price-level changes is a recent development. This is an incorrect view as accounting theorists were concerned with and were writing about the problem as far back as 1920. One of these early individuals, who considered price-level accounting in depth, was Henry Sweeney. This article will present a brief biographical sketch of Sweeney encompassing the circumstances which led to his interest in stabilized accounting and will trace his professional activities related to stabilized accounting.

During the 1920's, Sweeney reworked and consolidated the ideas of the Europeans, who wrote during the post World War I period, into a proposed method of inflation accounting for America. His proposal was contained in a group of articles and in his dissertation which later became his book, *Stabilized Accounting*, originally published in 1936.<sup>1</sup> Sweeney's proposal did not receive much consideration during the 1930's because inflation was not then a problem facing American society.

## Biography of Henry Whitcomb Sweeney

Henry Whitcomb Sweeney was a lawyer and an accountant who had among his many accomplishments the honor of serving as the Deputy Assistant Secretary of Defense during 1964 and 1965. Earlier, he had formed and supervised the Defense Contract Audit Agency for the Defense Department. From 1951 to 1953 he served as a special consultant to the Defense Department.

Mr. Sweeney's professional life extended over a broad range of activities. He was a university educator, a federal government administrator, an attorney, and a public accountant. He was a Certified Public Accountant in seven states<sup>2</sup> as well as an attorney admitted to practice before the U.S. Supreme Court, the U.S. Court of Claims, and the

U.S. Tax Court.<sup>3</sup> He began his professional career as a faculty member at the University of Wisconsin, Madison, from 1921 to 1923. For the academic year 1924-25, he was Assistant Professor of Accounting at the University of Pittsburgh. In 1925, he returned to New York City to enter public accounting. Between December 1925 and April 1934, he practiced with three New York City public accounting firms before becoming Assistant Comptroller of C.I.T. Corp. of New York from April 1934 to April 1935.<sup>4</sup>

In May 1935, Mr. Sweeney left New York City for Washington, D.C., where he served as an Accounting Supervisor and Depreciation Expert with the Federal Communications Commission until July 1935. Then he transferred to the Farm Credit Administration as a Senior Land Bank Examiner until August 1939.

In the summer of 1939, he was appointed Chief Accountant for what was to become the Navy Board of Contract Appeals. During 1940 and 1941, he employed and trained most of the Navy Board's civilian "cost inspection" personnel, whose responsibility was the auditing of the records of private firms holding cost-type contracts with the War and Navy Departments. In early 1943, as a result of his experience with the law of government contracts, he was offered the Washington partnership of the New York City law firm of Leve, Hecht and Hadfield. He accepted the post. In 1943, with the firm's approval, he opened his own CPA firm, Henry W. Sweeney and Co., in New York City, to serve clientele who required specialized legal-accounting assistance with government contracts and income taxation. In 1944, he withdrew from the law firm and transferred his endeavors to his public accounting practice. There he remained except for short leaves of absences for other work such as two years as Deputy Assistant Secretary of Defense. Mr. Sweeney maintained his CPA practice on Wall Street until shortly before his death, when he sold his practice to and joined Main, LaFrentz, and Co. as a general partner.

During his professional career, he held membership in many professional organizations

related to the fields of accounting, law, and government service. He served as Federal legislation editor for the *Georgetown Law Review* from 1937 to 1939 and as assistant editor of *The Accounting Review* from 1936 to 1940. From 1936 until his death, he served as adjunct professor of law or accounting or both, first at Georgetown University and then later at Columbia.

Four books on accounting and income taxes were authored or co-authored by Mr. Sweeney. He also contributed many articles to accounting and business journals on topics as varied as stabilized accounting, income taxes, and government contracts. His best known work was his doctoral dissertation, *Stabilized Accounting*, which was published as a book. In order to expand and treat the subject of stabilized accounting more fully, he contributed fifteen articles to various journals on the subject. Among his published books were *Bookkeeping and Introductory Accounting*; *Tax Effects of Operating as a Corporation or Partnership*, with H. Shockey; and *Taxation and Business Planning*, with H. Shockey And G. P. Brady. At the time of his death, he was working on a book which was to have been entitled "The Defense Contract: A Critique."

#### Stabilized Accounting

Sweeney's association with the subject of stabilized accounting extended over a period of forty-two years. His involvement with the subject matter was intense during the early years of his career, but diminished to little involvement after 1936.

After passing his comprehensive examination for the Doctor of Philosophy degree in May 1924, he selected the area of valuation theory for his dissertation topic. He noted that he had been singularly unimpressed by the orthodox rules of valuations. He was dissatisfied with the valuation process of the mid-1920's. He expressed his negative view of valuation.

The whole valuation process, dictated by conservatism, expediency, and practicality, seemed a mere conglomerate hodge-podge, largely because of the continuing reliance on original (or, as it was often called, aboriginal) cost.<sup>1</sup>

He thus set out to improve the valuation process. As he considered various valuation theories, he found himself continuously having to deal with the problem of fluctuations in the purchasing power of the dollar. Since he was unable to work into his valuation theory the effects of the changing

purchase power of the dollar, his attempts to develop a better valuation method was stymied.

His ensuing frustration ended when he realized that the old, easy-going treatment of a dollar as always remaining the same in value had to be discarded. He asked how could he measure with a ruler that was twelve inches long at one date, seven or eight inches at another date, and perhaps twenty or twenty-four at still another? Before he could proceed with any sound measurement of values, therefore, he had to have a sound money unit of measurement. At that moment "stabilized accounting" was born.

In the fall of 1925, Sweeney left his teaching position at the University of Pittsburgh and returned to New York City. His decision was strongly influenced by comments made to him by Professor Roy B. Kester, his dissertation advisor at Columbia. Professor Kester advised him that theory alone, regardless of how intellectually stimulating it might be, would not be acceptable as a dissertation: any valuation theory would have to be applicable to actual accounts. Realizing that he must test his theory in practice, using real accounts, Sweeney returned to public accounting. It was here, in his early years in public practice, that stabilized accounting reached full development.

Recognizing that Germany, in the years immediately following World War I, had undergone the most extreme inflation in history, Sweeney decided to investigate the German post-World War I inflation experience for ideas that would lead to a practical solution. He mastered the technical procedures of the German experience and published his first article on stabilized accounting entitled "Effects of Inflation on German Accounting." It was included in the March 1927 issue of the *Journal of Accountancy*.

In May 1927, he submitted the first draft of his dissertation to the Hart, Schaffner and Marx Economic Contest. The manuscript won the contest and he would have been awarded a \$500 prize if he had had it ready for publication by Houghton, Mifflin and Company within two years. Sweeney, however, chose not to claim the prize but to concentrate on improving his theory by incorporating ideas from the French books and pamphlets on inflation accounting which were beginning to appear. The French literature, having benefited from the earlier German experience tended to be more mature, concrete, and practical. Consequently, in order to enhance the soundness, completeness, and workability of his theory, he continued work on it, allowing the prize to lapse.

After successfully defending his thesis in early 1933, the awarding of the Ph.D. awaited its

publication. Realizing the time it would take to publish the concepts contained in ARS 6 were his.

and that it contained numerous tables which made it too expensive to publish, he developed a plan which enabled him to reduce the size of his manuscript and still keep his theory intact. He had already been parceling out sections of the manuscript for publication in magazines, mostly in the *Accounting Review*, although he had planned to include them in the final book. About 1932, however, he developed the plan of having the lengthy explanations of the new fundamental concepts published as magazine articles only and of then summarizing them in the manuscript and referring to them in footnotes. By this method, he was able to reduce greatly the length and complexity, hence cost, of the final book while preserving its breath of coverage. Magazine editors welcomed this approach because it presented a thought-provoking set of new unified principles and techniques based on foreign experiences.

In 1936, Harper and Brothers published *Stabilized Accounting*. However, its publication did not interest the accounting profession in the problem of the unstable dollar. Sweeney recognized that the publication of his work had been ill-timed and explained the accounting profession's lack of interest thus:

The probable reason is not at all mysterious. It is simply that a period of general economic depression does not cause much fault to be found with conventional accounting (although it should).<sup>6</sup>

After publication of *Stabilized Accounting*, Sweeney shifted his interest to other pursuits such as law and public accounting. He noted that he felt he had done all he could in the field of valuation and thus turned his attention toward becoming an attorney.

Between 1936 and 1964, Sweeney occasionally lectured on stabilized accounting. He produced only one written piece on the subject during this period: in 1960, he submitted an essay on valuation-depreciation accounting to the Columbia School of Law as a requirement for the Master of Laws degree.

In 1964, he prepared a detailed critique of Accounting Research Study (ARS), No. 6, *Reporting the Financial Effects of Price-Level Changes*, for the October 1964 issue of the *Accounting Review*. His reaction to Accounting Research Study No. 6 was three-fold. He was encouraged that the topic was now being seriously considered but disappointed that the accounting profession had been so slow in considering it and

"Stabilized Accounting" appeared in 1936 and, as far as I know, antedated by many years any similar complete exposition, in even booklet form, in the English language. Furthermore, as far as I know, it presented the first complete and realistic treatment, in any language, of gains and losses from changes in the value of money. (The early pioneer accountants in Germany and France had not had the time I had to work it out. Nor had they had the good fortune, as I had, to find the foundation of stabilized accounting already in place for them to build on.)

As partial compensation for the time, effort, and money that I spent in writing "Stabilized Accounting," I cherish the belief that it was the first fully-formed and mature exposition of what is bound to become a new branch of conventional accounting. . . . in 1937. . . . Victor Stumpf, . . . senior partner of Touche, Niven and Co., jocularly told me that I was "fifty years ahead of my time." The first half of the period has now elapsed. I shall be content if the second half sees the fulfillment of his flattering prophecy.<sup>7</sup>

Henry Sweeney could be referred to as the father of changing price accounting in the United States. Indeed, his contributions served as the foundation for much of the later developments in the field. Although Sweeney's theories were not picked up by others during the 1930's, the reason was because of the economic conditions of the time. Eventually, in 1979, most of his ideas were incorporated in Statement of Financial Accounting Standards No. 33. As the previous quote indicated, Sweeney was certainly ahead of his time.

#### FOOTNOTES

<sup>1</sup>This book has been published by three different publishers. Harper and Row originally published it in 1936; Holt, Rinehart and Winston published a Revised Edition in 1964; a Reprint Edition of the original was published by Arno Press in 1978.

<sup>2</sup>Sweeney, Reprint Edition, p. 223. (Certified Public Accountant-Illinois, 1923; Wisconsin, 1923; New York, 1930 Louisiana, 1931; Arkansas, 1931; New Hampshire, 1935; District of Columbia, 1935.)

<sup>3</sup>Contemporary Authors, *A Bio-bibliographical Guide to Current Authors and Their Works*, edited by Ethridge, James M., and Barbara Kopala, Gale Research Company, Detroit, Michigan, 1967, Volume 17-18, pp. 382-3.

<sup>4</sup>Sweeney, Reprint Edition, pp. 221-222. (The firms were Price, Waterhouse and Company, December 1925 to June 1931, rising to Supervising Senior Accountant; S.D. Leidesdorf and Co., December 1932 to May 1932, as a Supervisor; R. G. Rankin and Co., December 1932 to April 1934, as a Supervisor.)

<sup>5</sup>Sweeney, Revised Edition, p. XVIII.

<sup>6</sup>*Ibid.*, p. XXV.

<sup>7</sup>*Ibid.*, p. XXXVIII.

## ANNUAL MEETING IN SAN DIEGO

The Academy of Accounting Historians will hold its annual business meeting on Monday, August 16, 1982, at the Stardust Hotel and Convention Center in San Diego, California. This is across the street from the Town & Country where the American Accounting Association will be held. The schedule of events will begin with a Trustees' Meeting from 7:30-9:30 a.m. in the Gold Room. This will be followed by the General Business Meeting from 9:30-11:00 a.m. in the Terrace Room.

For those wanting to make reservations, they may write the Stardust at 950 Hotel Circle, San Diego, California 92108, or call (714) 298-0511. All members who are in the area are urged to attend this year's meeting.

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