



1975

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Recommended Citation

Geib, George W., "The Power of the Purse" *Army Administrator* / (1975): 10-12.
Available at https://digitalcommons.butler.edu/facsch_papers/799

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The power of the purse

The powers of the purse and sword forged the basis for modern finance operations

by Dr. George W. Geib

The Army finance office was born two centuries ago in the midst of the American Revolution. From the golden orle insignia that legend reports was first authorized by George Washington, to the outline of its modern functions and limitations that emerged during the war, the service took form in the critical years of the struggle for independence.

America's Revolutionary War leaders believed that victory in that conflict required the proper use of the two great powers of the Continental Congress, the power of the purse and the power of the sword. The first, the purse, was their shorthand phrase to describe the ability of the government to raise money. The second, the sword, was used to describe the power to raise military forces. Each, those men believed, formed a cornerstone of the Revolutionary effort. Together, they believed, the exercise of those powers constituted the basis of all legitimate government.

The office that served as the immediate, essential link between these two elements was the position of Paymaster-General. It was a position to which the Continental Congress attached great importance, as is indicated by the speed with which it was created on June 16, 1775, mere days after the appointment of George Washington as Commander-in-Chief.

Its importance also appears in the credentials of the man first chosen for the post on June 27, 1775. James Warren was a member of one of the leading patriot families of Massachusetts Bay, an

intimate of John Hancock and Samuel Adams, and the President of the Massachusetts Provincial Convention that had replaced the royal governor as the ruling authority of the state.

Under Warren's leadership the office's relationship to the Congress and the Army was defined. Warren or his deputy, it was established, would pay the newly created Army monthly with funds voted him by the Congress from their Treasury. The amount of funds would, in turn, be determined by warrants issued by General Washington based upon the actual size and composition of the forces under his command.

This system worked well as long as the Continental Army was gathered at a single site, besieging Boston in 1775. But the war soon broadened to Canada, to the Carolinas, to New York. As this happened it became ever more difficult for the Congress to issue pay through a single officer. The result was the gradual extension of the number of deputy paymasters.

In early 1776 this expansion first took the form of naming a deputy paymaster for each region of the country where the Army was active. In 1778

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The Fugio dollar

the system was further extended to the regimental level when each regiment was required to name a paymaster for its own men from among the ranks of its junior officers.

The increasing number of military deputies also led the Congress to turn the office of Paymaster General itself into a military appointment. James Warren's successors in the post were two of Washington's former staff officers: LTC William Palfrey assumed the office in early 1776, LTC John Pierce succeeded him in 1781.

Each Paymaster-General was a competent administrator, whose most serious problems were imposed upon him by wartime conditions over which he had little control. Chief among these were the problems of Revolutionary Public finance. With vivid memories of the abusive taxes imposed by the British, patriot leaders denied the Continental Congress the power to lay and collect taxes. Instead, it was decided that the Congress would be supported by voluntary contributions solicited from each of the thirteen states, and that in anticipation of those contributions the Congress could issue paper money to meet the expenses of the war.

This system of finance never worked well in practice because several states were unwilling to contribute as much as the Congress requested.

Some were willing to contribute only if their support went to the regiments from their state. But while contributions lagged, the Congress continued to issue paper money. As a result, by 1778 the country found itself in the grip of rapid and ruinous currency inflation that made "not worth a Continental" a household phrase.

These considerations placed the Congress in an unenviable position. If paper money were issued to their Army without state support, its value might prove so low as to undermine morale and even encourage desertion. If pay were not issued until state contributions arrived, it might fall months in arrears.

Such situations could even lead to mutiny. Early in 1781, for example, six unpaid regiments of the Pennsylvania Line disarmed their officers, abandoned their camp near New York, and marched to Princeton, New Jersey, where they forced government acceptance of their demands. It was an object lesson in both the weaknesses of Revolutionary finance and the problems confronting the Paymaster-General.

Thus the War for Independence served to impress upon both civil and military authority the need for effective wartime cooperation, while creating in the office of Paymaster-General a vital binding link that could serve both in the future.