

George Washington's Economic Legacy

"We may spin the thread of the economy 'til it breaks."

George Washington to Robert Morris 1783

No study of George Washington would be complete, or more topical, without mention of the economic policy created during his administration. It was responsible for the formation of many of the country's most important public institutions: the system of federal taxation, government finance, public credit, banking and currency. This would establish the blueprint for a strong federal government at the heart of all things economic. It is of course attributed to the financial foresight of Secretary of the Treasury Alexander Hamilton. It is to Washington's credit that he recognized Hamilton's genius in spite of its conflict with his own financial background. Washington, like Hamilton's political rival Thomas Jefferson, was a product of the southern plantation system. Hamilton's legacy of financial institutions and urban industrialization would seem at odds with such a foundation.

George Washington and Alexander Hamilton shared the common bond of war. They were pragmatic men whose experiences were defined by action. Also, they were disinclined to accept theory and abstract ideas. Hamilton would become the predominant spokesman for strong central government and helped form the Federalist Party to support this belief. As treasury secretary under Washington, Hamilton introduced landmark proposals for restoring credit, establishing a central bank, and encouraging manufacturing.

"There is no practice more dangerous than that of borrowing money."

George Washington to Sam Washington 1797

The United States at the end of the Revolutionary War was a small country of less than 3 million inhabitants spread over a narrow strip of the Atlantic coast. It had been a British dependant for 150 years, not allowed to develop beyond being a principal supplier of raw materials, and a dutiful customer for its manufactured goods.

The American colonies comprised three different economies spread through three distinct regions. Large labor-intensive agricultural plantations dominated the economy of the southern colonies (Maryland-Georgia), with tobacco the dominant crop. In the middle colonies (Delaware-New York), the economy was based on market farming, and the activities of merchants and traders. In New England, the economy was dependant on trading, shipping, fishing, timber and ship building. A frontier region was also developing, which extended through all the colonies once one got 100 miles from the Atlantic coast. Trading with the Indians, especially for furs, and the clearing of new land for settlement were the main economic activities.

George Washington was part of the plantation society prevalent in the southern economy. Tobacco was the principal cash crop, most of which was shipped to British merchants. British ships could sail up the Chesapeake Bay into the rivers of Virginia and Maryland then proceed right up to the plantation docks. There they would load the tobacco on consignment to a London merchant, and a few months later, return with a cargo of English goods (furniture, cloth, guns, wine, etc.). The planter had little alternative but to trust his merchant and hope for optimal market conditions at the time of its arrival in Europe. This arrangement was a constant frustration for men like Washington, voiced in his correspondences to the London Merchant, Cary and Company. *“Can it be otherwise than a little mortifying to find that we, who... Contribute so largely to the dispatch of your ships in this country should meet with such unprofitable returns? Surely I may answer NO!”*¹

Washington eventually realized the fallacy of such an economic arrangement and acted upon it. In the decade predating the revolution he has begun to diversify the agricultural output of Mt. Vernon by converting more fields to wheat and corn. He planted various types of wheat, each ripening at different times of year. This kept his mill, another profitable investment, functioning year round. In reaction to the rise in price of English cloth, Washington set up a weaving plant to convert his flax crop into homespun textiles. This allowed him to clothe his slaves and servants for next to no cost. A schooner was constructed for the spring herring and shad runs, and chartered to planters and shipmasters the rest of the year. These revenues were compounded by Washington’s many landholdings and their subsequent leases and sales. The Mount Vernon estate would eventually contain five farms. The original plantation, River Farm (1,207 acres), Muddy Hole Farm (476 acres), Dogue Farm (649 acres) and Union Farm (928 acres).²

¹ Unger (p59)

² Unger (p64)

At the outset of the American Revolution, Washington was in charge of a large profitable enterprise. These profits, like those of many Americans, would be adversely affected by the British policy of taxation instituted in the 1760's. As a Virginia gentleman, he had concerns, but remained distant from the more radical elements associated with New England. It would take a consistent British effort to subvert Virginia's liberties to make him a rebel.

The American Revolution was the ultimate test of Washington's managerial skills. Washington was able to maintain an army for eight years with limited supplies and an almost nonexistent network to provide them. Correspondences reveal the struggles of his plight. *"I see nothing before us but accumulating distress. We have been half of our time without provisions and are likely to continue so. We have no Magazines [of munitions], nor money to form them, and in a little time we shall have no Men, if we had money to pay them."* It is a testament to his leadership that somehow they prevailed. *"It is in vain, however to look back, nor is it our business to do so. Our case is not desperate, if virtue exists in the people and there is wisdom among our rulers."*³

Immediately after the War, American finances were a mess. The various paper currencies in circulation were virtually worthless. Revenues from trade were scarce. Manufacturing had to be shifted away from war materials. Despite the bravery of Americans in the revolution and the elegance of the Declaration of Independence, the effort to create a new country would be in vain unless its financial condition could be rectified. The era of confederation following the war compounded these economic burdens. A weak Congress struggled to raise funds while facing the threat of further rebellion.

At his inauguration, Washington inherited a government that was near bankruptcy; no currency, no monetary or fiscal system to acquire capital. The country was facing crushing amounts of war debt with no sources of credit. It is a testament to Washington's administration that the country was able to correct its economic plight and harness the unlimited potential of its land. Above all, Washington's most important contribution to the development of the private sector of business and finance was the assurance that the public sector was efficient and confident. Real economic development may be the product of business and finance, not government, but the former cannot function efficiently if the latter does not.

³ Jones (p79)

Sources

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