MONEY OF THE REPUBLIC OF TEXAS

**http://www.tsha.utexas.edu/handbook/online/articles/view/MM/mpmzv.html**

To Texans of the period of the republic money meant coins and notes. The media of exchange did not include bank demand deposits, for neither an incorporated nor a private bank operated in Texas during the entire period of the republic. Imports exceeded exports, and the adverse trade balance drained out gold, silver, and other money that was acceptable abroad. Claims against outsiders such as exports, loans, or donations were converted into merchandise imports, because goods for personal, productive, and defense uses were more needed than gold or silver. Another factor of importance in an explanation of the money and credit trials of the republic was that business and financial conditions in the United States largely determined what those conditions would be in Texas. In the United States the bank panic of 1837 brought a period of business depression that lasted from 1837 until 1845, or a period practically coterminous with the life of the republic. The Constitution of the Republic of Texasqv gave Congress the "power to coin money, regulate the value thereof and of foreign coins" and provided that "nothing but gold and silver coins shall be made a lawful tender." Congress provided that the standard value of gold and silver coins should be the same as in the United States, but no coins were ever minted by, or for, the republic. Metallic money was scarce in the United States at that time, and it was even more scarce in Texas. The notes of state-chartered banks constituted in all the states the principal money, and those of Alabama, Georgia, Louisiana, Mississippi, and Tennessee were the most commonly found in Texas. Up to the time of the issue of the promissory notes of the republic in the fall of 1837, there were in use as money not only the notes of the state banks but also "shinplasters," a name popularly given to notes issued in Texas by private firms and municipal corporations, in denominations usually of less than one dollar. In 1837 Congress prohibited the use of bank notes in payment of import duties or of any dues of the republic, and it also forbade the use or putting into circulation by any person of any promissory note intended to circulate as money. These restrictions had as their purpose the elimination of state bank and individual notes from competition with notes of the republic.

The currency that was unstinted in amount and most generally used was that issued by the republic itself. The act of June 12, 1837, which authorized an issue of $500,000 of promissory notes, started the republic on its paper money career. President Sam Houstonqv said the issue was necessary in order "to avoid the absolute dissolution of the Government." The first notes appeared in the fall of 1837, were printed, bore 10 percent interest, and were payable twelve months from date. The name of the payee was written in on the face of the note, and the note was passed by endorsement. The denominations issued were $1 $2, $3, $5, $10, $20, $50, $100 and $500. These printed notes were generally called "Star Money" because of a small five-pointed star in the center of the upper part of the face of the note. In December 1837 an increase of $150,000 of the interest notes and an issue of $10,000 of noninterest bearing "change notes" of low denominations were authorized. Change notes were redeemable in notes of larger denominations. The printed series of interest notes was followed in January 1838 by an engraved series. A total of $1,165,139 in notes was issued in 1837 and 1838. Houston believed that the notes should not be issued to "a greater amount than would meet the actual necessities of a circulating medium." This condition appears to have been practically met in the case of the printed interest notes, for they, in an amount of $514,500, circulated at, or nearly at, par in specie. Their interest-bearing feature caused them to have an investment character and accounted for their readier acceptance in the states. The engraved interest notes, however, depreciated; their value in specie per dollar dropped from sixty-five cents in May 1838 to forty cents in January 1839.

In Mirabeau B. Lamar'sqv administration, a new type of paper money was issued by an act of January 19, 1839. It provided for promissory notes payable to bearer and without interest. Called at the time "red backs," they were in denominations of $5, $10, $20, $100, and $500, with change notes of $1, $2, and $3. The amount of the change notes was limited to $150,000, but there was no limit set on the red backs other than the amount of appropriations to be met. From January 1839 to September 1840, after which time no further new issues but only reissues were made, the net amount of original issues of the red backs was $2,780,361. A frequently quoted total is $3,552,800, but this figure includes $772,439 of notes redeemed by giving new notes for old. Overissue of the government notes had already gone so far that when the red backs first made their appearance, they were valued at only thirty-seven and one-half cents in specie. They continued to sink in value until in the winter of 1841-42 they had in some sections a market value of only two cents on the dollar. In the fall of 1840 the government began to pay out the notes at their market value, and in February 1842 they lost their legal tender power in the payment of taxes. After the collapse of the red backs, recognized even by the government in 1840, the people of Texas were in such sore straits for a currency that the prohibitory laws of 1837 were ignored, and state bank notes and shinplasters again came into extensive use. The mercantile firm of McKinney, Williams and Company,qv of Galveston, was authorized in 1841 to issue $30,000 of its promissory notes as money. Best known of the bank notes circulated by a Texas firm were those of the defunct Northern Bank of Mississippi at Holly Springs. These were endorsed and reissued by R. and D. G. Mills *(see* MILLS, ROBERT) of Galveston and were called "Mills' Money." Counterfeits of state bank notes and notes of failed banks found their way into Texas and were, as Houston said in 1842, "no light evils."

Upon assuming the presidency for a second time, Houston advocated the issue of a new type of currency. Congress by an act of January 19, 1842, provided for the issue of "exchequer bills." Actually treasury notes under a new name, they were in denominations of $5, $10, $20, $50, and $100, with change notes in denominations of from twelve and one-half cents to $3. The exchequer bills were payable to a designated payee or to order. The first issues were printed, but the later ones were engraved. Although a limit of $200,000 was set on the amount of these bills when issued and only a small amount was in circulation at any time, they were at a discount when first put out. By the summer of 1842 they had sunk to as low as twenty-five cents on the dollar. There was virtually no use made of them by the public except for payment of taxes. In July 1842 they were made receivable for taxes and postage at their market value. Improving economic conditions, the economical administration of the government, and the annexationqv movement led to a gradual rise in the value of the bills in 1843 and 1844, and by 1845 they had reached par in many parts of the republic. The year 1845 saw the end of the state of monetary disorder. Specie was in such sufficiency by that time that it was possible to repeal the law that authorized the issue of the exchequer bills. The need of funds by the government, however, resulted later in the authorization of a reissue of the bills to an amount not to exceed $10,000. The total of the exchequer bills issued was $150,490; that of interest notes was $1,165,139, and that of red backs, $2,780,361. These make a grand total of $4,095,990 in paper money issued by the republic. These notes are entitled to a place among the classic historical examples of "fiat money." The inflation imposed a particularly great hardship upon officials and employees of the government who received salaries of fixed amounts in the paper money at its face value.

BIBLIOGRAPHY: Herbert T. Hoover, "Ashbel Smith on Currency and Finance in the Republic of Texas," *Southwestern Historical Quarterly* 71 (January 1968).E. T. Miller, "The Money of the Republic of Texas," *Southwestern Historical Quarterly* 52 (January 1949).

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