Texas Treasury Notes and the Election of 1844

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> But suppose we [the Liberty Party] had all voted for Mr. Clay—suppose him elected and Texas kept out—where would have been the Liberty Party? Scattered among the slaveholders and their allies, without having accomplished anything.
>
> —James A. Birney, *Cincinnati Daily Gazette,* March 12, 1845

The election of 1844 is recognized as one of the great turning points in U.S. political history. Prior to this election, the country had accommodated itself, more or less, to the compromise it had made with slavery at the Founding. With the election of 1844, however, the country had to decide whether, as it expanded from ocean to ocean, its Manifest Destiny was to promote the cause of liberty and equality as expressed in the Declaration of Independence or instead to promote the peculiar form of slavery that had developed within its borders (Craven 1957).

In the election of 1844, the possible annexation of Texas amalgamated the issues of slavery and expansion. James K. Polk and the Democrats called for immediate annexation. Advocates of Manifest Destiny supported annexation not merely because it would add Texas to the union, but also because a war with Mexico, which the annexation might provoke, would provide an opportunity to seize all of northern Mexico and thereby enable the United States to reach the Pacific Ocean.

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Pro-slavery factions sought annexation in order to admit Texas as a slave state and to prevent Great Britain, the foremost proponent of abolition, from establishing a presence in Texas.

Henry Clay and the Whigs adopted a nuanced position with regard to annexation. They supported annexation only under what they described as proper conditions. Continued compromise with slavery, however, had become unacceptable to a growing number of people in the northern states, who had organized themselves into the country's first "third party," the Liberty Party. The election proved to be as close as it was momentous. The final outcome turned on the Liberty Party's ability to siphon enough votes away from Clay to tip New York and therefore the election to Polk.

In this article, we examine the revival of the moribund liabilities of the Republic of Texas as annexation became a possibility, and we trace the course of their market value through the election of 1844 and afterward. (As of 1846, the national debt of Texas was $10 million, of which $3 million was in the form of Treasury Notes and the rest in the form of bonds and other claims [Miller 1916, 391]). The prices of the liabilities of the Republic of Texas during the campaign reveal the market's assessment of the prospects of a Polk victory. The jump in these prices upon the reporting of the votes—in particular, upon the reporting of the votes from New York—reveals the extent to which the outcome came as a surprise.

In addition, we examine the course of the market value of Texas securities after Polk's election, through the legislative process concerning annexation both in the U.S. Congress and in Texas, through the Mexican War, and through the second repudiation of these securities by Texas. We characterize this entire period as Episode II.[1]

The data we have assembled allow us to take a fresh look at the election of 1844 and to make a definitive statement regarding the market's assessment of its probable outcome. Clay was viewed initially as the favorite, but with the conduct of certain state elections during the run-up to the presidential election, the outcome came to be seen as in doubt. By the end of September, Polk seemed to have the advantage. By the end of October, Clay's fortunes had rebounded. At the time of the election itself, the outcome was truly uncertain, and this uncertainty was resolved only by the counting of the votes from New York.

A Time Series of the Market Value of Texas Treasury Notes

We have constructed three time series of the market value of Texas Treasury notes that show end-of-week prices (more precisely, last-observed, weekly prices). These series are displayed in figures 1 to 4.[2] The first is a time series of market quotations that spans the period from the New Orleans market; it is based on seven New Orleans

1. The first episode is described in Pecquet and Thies forthcoming.

2. Figure numbers and time series numbers do not correspond directly. Dates in the figures indicate where times series begin and end, as described in the text.

newspapers, most important the *Bee, Commercial Bulletin, Daily Picayune,* and *Price Current,* and, less important, the *Commercial Times*, *Jeffersonian-Republican,* and *True Delta*.

The second time series is a sporadic series of quotations from the *New York Journal of Commerce* and the *New York Herald,* from March 1844 to January 1845. The third is a series cobbled together from six Philadelphia newspapers, primarily *Bicknel's Reporter* and the *Philadelphia Public Ledger,* but also the *Bulletin, Commercial List, North American,* and *United States Gazette*. This series begins in October 1844 and continues until the ultimate redemption of the liabilities of the Republic of Texas.

Newspapers of the time often published currency tables, with quotations on foreign and domestic exchange, bank notes, and other financial claims. These currency tables typically were "corrected" daily, semiweekly, or weekly by a local broker.[3] Insofar as brokers acted as market makers, these quotations would be relatively free of the noise associated with sales prices bouncing between bid and ask prices or with other causes. Unfortunately, it is apparent that broker quotes were sometimes stale (as might happen if brokers included quotations in their tables for the sake of apparent completeness, for securities for which they were not market makers and to which they were not always attentive). Moreover, sometimes brokers were accused of "puffing" the values of certain bank notes in return for bribes or other considerations (Dillistin 1949, 47–51). Therefore, we determine carefully whether the broker quotes we use are representative of contemporaneous broker quotes from other sources and of sales prices in the same market.

With regard to the market value of Texas Treasury Notes in New Orleans, quotations from the *New Orleans Price Current* cover the entire period of this study, except for two gaps. We filled these gaps, first, by reference to the *New Orleans Commercial Bulletin* (from May 13, 1844 to March 15, 1845) and, second, by reference to the *New Orleans Commercial Times* (from June 24, 1848 to July 24, 1848).

With regard to the market value of Texas Treasury Notes in New York, we have only a few quotations. For lack of a better option, we treat both broker quotes and sales prices as interchangeable. We also include some quotations, both broker quotes and sales prices, on Texas Treasury Bonds, divided by 1.4, which equals the ratio of bond to note prices when they are observed simultaneously or nearly simultaneously in the New York market at the time.

With regard to the market value of Texas Treasury Notes in Philadelphia, we use sales prices from October 3, 1844, to December 9, 1844 (these prices being the only data available) and broker quotes from *Bicknel's Reporter* from December 10, 1844, to December 8, 1849, except as shown in table 1. Our sales prices are from the

3. These broker quotes, sometimes given as a single number and sometimes as a range, might be considered to be bid prices or to be bid-and-ask prices, if not explicitly described as bid prices or as bid-and-ask prices.

Table 1
Alternate Sources for Prices of Texas Treasury Notes at Philadelphia

From	To	Alternate Source	Reason *Bicknel's* Not Used
10/3/44	12/9/44	Sales prices	NA
12/26/44	1/14/45	Sales prices	NA
6/28/45	7/14/45	*U.S. Gazette* broker quotes	*Bicknel's* quotes low
10/12/45	11/16/45	*Phil. Ledger* broker quotes	*Bicknel's* quotes low
11/17/45	12/15/45	Sales prices	NA
5/11/46	6/8/46	*Phil. Ledger* broker quotes	NA
8/30/46	9/7/46	*Phil. Ledger* broker quotes	NA
2/9/47	2/15/47	Sales prices	*Bicknel's* quotes inattentive
7/2/47	7/12/47	Sales prices	NA
10/17/47	10/23/47	Sales prices	NA

Philadelphia Public Ledger, with additions and corrections based on sales prices and broker quotes in the other Philadelphia newspapers we tracked. On ten occasions, we used a quotation on a bond price divided by a nearby ratio of bond to note prices. On one occasion, we used a linear interpolation.

The Emission of Red Backs and Their First Repudiation

In 1837, the fledgling Republic of Texas began to issue promissory notes suitable for use as currency, unbacked except that they were receivable in payment of taxes. The Red Backs—so called because of the red ink used on their reverse side—were the predominant form of these promissory notes. Through the next several years, the republic embarked on a program of inflationary finance, issuing at par many times more promissory notes than the Texas economy needed for a medium of exchange.

By 1840, the currency of Texas had become greatly depreciated, and its economy was in ruins. Weems and Weems observe that trade had come to a virtual halt (1971, 169). Hogan, relying on the correspondence of a prominent Texan who had originally supported the issue of promissory notes, indicates that business was depressed and "times . . . terribly hard" (1946, 87–88). For the next year or so, the government of Texas tried to secure a bailout in the form of a foreign loan. In the end, however, there was no bailout, and in 1841 there was a change of government.

Following the 1841 election, the new president of the republic, Sam Houston, instructed the Texas Congress to repudiate the much-depreciated currency, and by February 1842 the Red Backs and Texas bonds had lost their acceptability for the payment of taxes. Following this repudiation, the market values of these securities fell to zero or nearly zero, and they ceased being traded actively.[4] The Texas economy remained a shambles. In the interior, most economic activity was conducted on a barter basis. "Money was scarce in Texas; not one in ten sales were made in cash" (Carlson 1930, 6). Although prices might be quoted in silver dollars, the "general system at present is exchange, or barter," one resident of the time commented (in Hollon 1956, 269). An example is given of the sale of land for $1,400, for which the buyer paid with a Negro boy valued at $600 and a note (Hollon 1956, 270).

In Galveston and Houston, some commerce was conducted on the basis of trade credit and with the use of merchant notes.[5] For example, one merchant issued several thousand dollars worth of tickets redeemable in groceries (Hayes 1974, 338–39). It might also be inferred from repeated warnings against counterfeits (for example, in the *Telegraph and Texas Register,* December 21, 1842, and February 8, 1843) that small-denomination municipal scrip from New Orleans served as change notes. Various promissory notes issued by individuals also circulated (*Telegraph and Texas Register,* March 27, 1844; Carlson 1930, 4). Throughout the state, depreciated and fraudulent bank notes of various foreign issuers were also placed or were attempted to be placed into circulation.[6]

The government of Texas conducted its own financial affairs with a new form of unbacked promissory note known as Exchequer Bills. According to Gouge, the Exchequer Bills did not circulate as currency, but were merely bought by merchants at various discounts for the purpose of paying taxes ([1852] 1969, 299, 230).[7]

4. To illustrate near worthlessness of these liabilities prior to their revival, Bicknel's Reporter for March 14, 1843, reported that Texas securities having a face value of $1,515 were sold for $8.

5. From 1841 to 1845, the Republic of Texas authorized McKinney, Williams and Company to issue a limited amount of notes. Following 1845, in spite of a prohibition on banking in the state constitution and in various statutes, a number of Galveston merchants acted as private bankers. R. & D.G. Mills, for example, endorsed and circulated notes of a Mississippi bank (Hogan 1946, 101-3; Gouge [1852] 1969, 231–35). Moreover, in 1848, McKinney and Williams organized the one incorporated bank that operated in Texas prior to 1865, under a grandfathered-in charter. By 1850, it appears that Galveston bankers were supplying the state with a functioning paper medium of exchange (Telegraph and Texas Register, April 11, 1850). The state of Texas repeatedly sought to put an end to the issue and circulation of paper money by Texans, and in 1858 it finally succeeded (Summers 1996, 423–36).

6. For example, the Cincinnati Daily Gazette, April 19, 1842, reported that a former cashier of the Lawrenceburg branch of the State Bank of Indiana was putting into circulation in Texas checks drawn on the Lawrenceburg branch, purported to be redeemable in Galveston and New Orleans. A few days later, on April 23, 1842, the newspaper reported that when the notes were presented to the Lawrenceburg branch, they were refused because there were no funds to meet them. From July to October 1842, an ad was run in the Civilian and Galveston Gazette, "Checks of E. D. John on the State Bank of Indiana received at par by Wm. Hall & Co."

7. Even so, the Telegraph and Texas Register (May 25, 1842) stated that "these bills have become in some degree a circulating medium in the country."

International Intrigue and the Nominating Conventions of 1844

Texas—with a moribund economy, its government in dire financial straits, and reliant almost entirely on its militia for its defense—inspired abundant international intrigue. In Mexico, the faction associated with Santa Anna continued to covet their country's lost province. In Europe, Great Britain attempted to form a grand coalition with France, Prussia, Austria, and Russia to oppose the slave trade in the world and tried to form an alliance with France to aid Santa Anna in his invasion of Texas (Adams 1963, 229–30).[8]

During 1842, Mexico twice invaded Texas. However, continuing civil war and financial difficulties within Mexico, as much as the Texas militia's resilience, prevented a reconquest. The looming threat from Mexico clearly would have to be dealt with eventually. The Republic of Texas entered into negotiations with Great Britain for protectorate status, perhaps merely to goad the United States into annexing it (Worley 1905; Erath 1923, 142–43). Great Britain, however, was anxious to abolish slavery, a prospect that troubled slaveholders in both the United States and Texas.

In 1843, certain politicians in the United States began to advocate annexation of Texas. At the time, John Tyler, derisively nick-named "His Accidency," was serving as president. Tyler, a states' rights man, had ascended to the presidency upon the death of William H. Harrison, a Whig. However, Tyler did not embrace the Whig agenda on many important issues, and he had no prospect of securing the party's presidential nomination. The Whig Party seemed certain to nominate and later did nominate Senator Henry Clay of Kentucky, who, though a slave-owner himself, shared his party's measured positions on slavery and annexation.

The Democratic Party seemed likely to nominate former president Martin Van Buren of New York. Van Buren, though he supported his party's pro-slavery position, was a Northerner, and he opposed annexation. Tyler seized on annexation as a way to place himself relative to the positions of the probable nominees of the two major parties for a possible run for the presidency as an independent candidate, appealing explicitly to those favoring states' rights, slavery, and annexation.

In April 1844, Tyler entered into the Treaty of Annexation with Houston. Among its various provisions, this treaty provided for the assumption of the liabilities and public lands of the Republic of Texas by the United States. This provision would have immediately propelled the value of the liabilities of the Republic of Texas to par. After Clay came out in opposition to the treaty, however, it failed in the U.S. Senate, obtaining only sixteen "yes" votes against thirty-five "no" votes (and needing a two-thirds majority for ratification).

8. Adams ([1910] 1963) indicates that Britain pursued four interests with regard to Mexico and Texas: Mexican indebtedness, trade, slavery, and containment of U.S. expansion. Although Britain initially supported Santa Anna, it later withdrew its support because of his blundering, and neither Britain nor France was willing to go to war over Texas. For a more recent consideration of these matters, see Pletcher 1973.

As figure 1 shows, the market value of the Texas Red Backs peaked in April 1844, only to fall upon the failure of the annexation treaty in the Senate. In his subsequent message to the U.S. Congress, Tyler said he would inform Texas and Great Britain (!) of the decision. He also proceeded to organize a nominating convention, to be held concurrently with the Democratic Party's nominating convention.

At about the same time that Tyler was negotiating his annexation treaty, former president Andrew Jackson allowed publication of a letter he had written calling for annexation, which he characterized as "retrocession."[9] In an oft-quoted phrase from this letter, Jackson described annexation as essential to the "welfare and happiness of our Union." He appealed to the entire nation. In the South, however, a decidedly sectional interest in annexation prevailed, as expressed in a letter to the editor of a New Orleans paper: annexation would thwart "the design and operation of English Negropholists with regard to Texas." The letter writer continued, "Who can contemplate, without a shudder, the conditions of Louisiana, Arkansas, Mississippi, Alabama, indeed, all the slave–holding parts of the Union—should Texas become an emancipation State under the patronage of a British association of pseudo-philanthropists?" (*New Orleans Commercial Bulletin,* April 23, 1844).

In May 1844, at the Democratic Party's convention, Van Buren received a (simple) majority of the votes cast on the first ballot, but not the two-thirds majority required for nomination. In this ballot, he received all but 17 of the 151 Northern delegates' votes, but only 17 of the 105 Southern delegates' votes, a division indicative of the sectional difference on the intertwined issues of slavery and annexation (Smith 1941, 250).

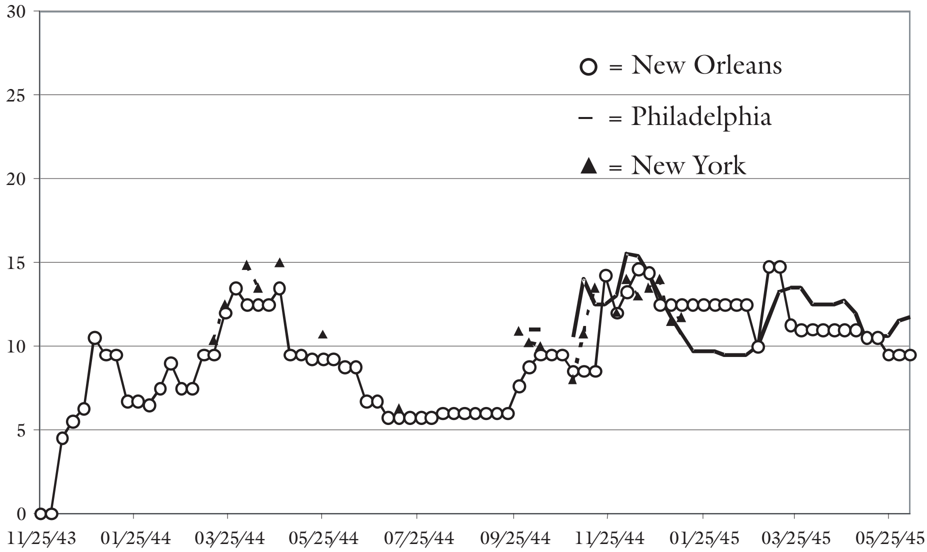
By the seventh ballot, Van Buren had slipped to second place (following Lewis Cass of Michigan). On the eighth ballot, James K. Polk of Tennessee, an unabashed Jacksonian, appeared as a candidate, receiving 44 votes. Then, on the ninth ballot, when the New York delegation threw its support to Polk, he was nominated by acclamation. With the Democratic Party thus committed to annexation, Tyler retired from the scene, leaving the contest to Polk of the Democratic Party, favoring immediate annexation; Clay of the Whig Party, favoring annexation under the right conditions; and, in the North, James A. Birney of the Liberty Party, opposing annexation.

Odds during the Campaign of 1844

Most historians are guarded in their assessment of which candidate, Polk or Clay, if either, was the favorite in 1844. Silbey, for example, says that "[o]ptimism among the Whigs was quite high as they entered the campaign," whereas the Democrats were "divided over the electoral viability of their presumed candidate." Then, with the campaign well under way, "[e]ach party's concerns for the closeness of the race were

9. "Retrocession," on the theory that the United States had acquired Texas in the purchase of the Louisiana Territory from France and then ceded Texas to Spain when it acquired Florida from that country.

Figure 1
Market Value of Texas Red Backs in New Orleans, Philadelphia, and New York per $100 par Value, November 25, 1843, to June 7, 1845



underscored when spokesmen for both presidential candidates occasionally fudged their party's usual policy commitments for electoral purposes" (2005, 56–57, 73).

To be sure, there were no scientific polls or betting markets at the time, so it would seem that any later assessment of the odds must rely on inferring the state of mind of participants in and observers of the election.[10] However, to the extent that *changes* in the odds of Polk's election are reflected in *changes* in the market value of the Texas Red Backs, then changes in the odds can be inferred from the course of this value from the time of Polk's nomination in May 1844 to the election.

As table 2 shows, several state elections were held at various times during the summer–fall presidential campaign season. These elections usually involved the election of state legislators, although the exact offices to be filled varied from one state to another. The outcome of these races provided information about the relative strengths

10. There was gambling on the 1844 election. The New York Herald (November 9, 1844) complained, "The amount of betting at the recent election has been enormous." In our survey of the newspapers of the time, however, we did not come across any evidence of market making, such as the publication of the odds given in bets. Our attempts to find such information via computerized search of machine-readable newspapers yielded only five bets, all apparently appearing to be curiosities or bravado. Still, we are not satisfied that enough of the newspapers of the time have been entered into the database we accessed to permit us to make a definitive statement. For a study of betting markets on presidential elections from 1868 to 1940, see Rhode and Strumpf 2004.

Table 2
Timetable of State and Presidential Elections in 1844

	State Election	Presidential Election
New Hampshire	March 12	November 4
Connecticut	April 1	November 4
Virginia	April 18	November 4
Rhode Island	April, August	November 6
Louisiana	July 1	November 5
North Carolina	August 1	November 14
Alabama	August 5	November 11
Tennessee	August 5	November 4
Kentucky	August 5	November 4
Indiana	August 5	November 4
Illinois	August 5	November 4
Missouri	August 5	November 4
Vermont	September 3	November 12
Maine	September 9	November 4
Maryland	October 2	November 4
Delaware	October 2	November 11
Georgia	October 7	November 4
Arkansas	October 7	November 4
Ohio	October 8	November 1
New Jersey	October 8	November 5–6
South Carolina	October 14	December 1 (legislature)
Mississippi	November 4	November 4
Michigan	November 4	November 4
Pennsylvania	November 4	November 4
New York	November 5	November 5
Massachusetts	November 11	November 11

Source: *From Cincinnati Daily Gazette,* January 27, 1844, except that the general election in Ohio was corrected on July 28 to the date given in the table; the state election in Maryland was indicated by news items on October 7 and 8 to have been held on October 2; and the election in Pennsylvania was indicated by news items on November 5 and 7 to have been held on November 4.

of the two parties and enabled observers to handicap the presidential race. Louisiana conducted its state elections first, on July 1. Seven states followed with elections between August 1 and August 5. Vermont and Maine voted on September 3 and September 9, respectively. The last state elections occurred when six additional states voted from October 2 to October 8.

On July 13, the *Cincinnati Daily Gazette* (a Whig paper) reported its first receipt of news from Louisiana of that state's election held on July 1.[11] "We gave up Louisiana. Both parties here [in Ohio] considered the question as settled. But on opening the Whig papers [of New Orleans] of the 3d, we find the Old Coon [symbol of the Whig Party] erect, and the Rooster [symbol of the Democratic Party] flat. These are signs which may not be mistaken. For if Louisiana goes against Polk and Texas, where has he foothold?" Through the next several days, as additional information made its way upriver, the *Cincinnati Daily Gazette* was more specific in its reporting of the results of the Louisiana state election, increasingly convinced that these results were favorable to the Whig Party. However, it seems that the actual results—the Democrats secured control of the state Senate by one vote, and the Whigs secured control of the state House by several votes—might best be considered mixed.

During August, the *Cincinnati Daily Gazette* reported state election results from a batch of states. On August 9, it characterized the Indiana election as "promises well," Kentucky as "better comes the returns," and North Carolina as "not so bad even in the beginning." On August 14, the paper described that month's state elections positively, with Illinois and Missouri conceded to be Democratic victories, and Indiana, Kentucky, and North Carolina claimed as Whig victories. Again, however, these results might be considered mixed.

In September, the state elections in Maine and Vermont produced a decidedly split result, with the Whigs taking Vermont and the Democrats Maine. On October 1, the *Cincinnati Daily Gazette* dismissed the Democratic victory in Maine: "What does it mean? The Locos [short for *loco-focos,* a Whig nickname for the more radical wing of the Democratic Party], poor souls, feel highly about their victory, as they call it, in Maine, a State which the Whigs have never claimed." Yet the Whigs had been optimistic about Maine, as they had also been about Illinois and Missouri.

The *New York Herald* (an independent paper) was less reserved in its assessment of the Maine vote. On September 12, 1844, it said, "[T]he result thus far, showing an extraordinary change of some kind or other, in favor of the locofocos, has utterly astounded both parties, particularly in Boston. All of the Whig papers of that metropolis speak in the calmest and most sober terms of the election in Maine." On September 17, with the Maine vote fully tabulated, the *Herald* headlined "Panic Amongst the Whigs." "Yet," the newspaper said, "Mr. Clay's cause is by no means hopeless. . . . Every state election is now watched with breathless anxiety."

11. Through the period, most newspapers were associated with a political party (Gentzkow, Glaeser, and Goldin 2004).

From the rise in the value of the Red Backs during September 1844, we may infer that the market had become convinced that Polk and the Democrats had a better chance of victory in the upcoming presidential election and that investors were using these securities to speculate on the election. An item in the *Cincinnati Daily Gazette* on September 30, headlined "Startling Facts," stated: "It is a well known fact that large companies have been formed in the United States, and elsewhere, consisting of active politicians, who hold immense amounts of Texas Lands, Texas Scrip, and Texas Bonds. And so forth."

In October 1844, another round of state elections took place, with Delaware, Georgia, Maryland, Ohio, and New Jersey going Whig, but Arkansas and Pennsylvania going Democrat.[12] On the whole, these results might be interpreted as favorable to the Whigs, and the market value of the Red Backs fell a little. Perhaps with a bit of exaggeration, on October 14, 1844, the *New York Herald* headlined "Panic in the Democratic Party." Specifically, the *Herald* noted the closeness of the vote in many states and the crucial role the abolitionists had played in some, as well as the appeal of Democrats to immigrant voters and of Whigs to native-born voters.[13] Holt writes, "By the end of October, therefore, Whig spirits, which had sagged in September and early October, soared once again. Nativist support seemed to ensure victory in New York and Pennsylvania. Hemorrhaging to the Liberty party has stopped. October triumphs in Ohio, Maryland, and New Jersey augured victory there. Newfound enthusiasm swept over Georgia, despite a narrow defeat in its October congressional elections, as well as North Carolina, Virginia, and Tennessee" (1999, 194).

The Election

On the eve of the presidential election of 1844, considerable uncertainty appears to have surrounded the outcome. Whig papers, such as the *Cincinnati Daily Gazette* (October 18, 1844), expressed the opinion that Clay would win. The *Gazette* thought that in addition to the states Clay certainly would win, Georgia, Indiana, and Louisiana were secure for him (perhaps as judged by the outcomes of their recent state elections), as was New York. Democratic papers, such as the *New Orleans Republican* (reprinted in the *Telegraph and Texas Register* of September 18, 1844), expressed the contrary opinion that Polk would win. This paper either conceded to Clay or considered uncertain all the states that Clay would actually win,

12. Delaware and Maryland were reported on October 7 and October 8; Ohio on October 11 and October 12; and Georgia, New Jersey, and Pennsylvania on October 15 and October 16 in the Cincinnati Daily Gazette.

13. On October 18, 1844, in view of the closeness of the election, the New York Herald took notice of how the U.S. Senate was shaping up. Several state legislatures would fill seventeen seats, one because of a resignation, in what was called "the joint ballot." With seventeen holdovers, seven victories in already-conducted state elections, and two certain victories in state elections to be conducted in November, the Whigs were only one additional victory short of a tie in the Senate. According to the Herald, the Whigs were thought to be competitive in three other state elections to be conducted in November and so were likely to retain a measure of control over the federal government.

along with Georgia and Indiana. It described Louisiana and New York as probable for Polk.

As shown in table 2, Ohio was the first state in the Union to conduct its presidential election in 1844, doing so on November 1. Nineteen other states, including New York, conducted their elections from November 4 to November 6. Five other states conducted their elections from November 11 to November 14. Finally, the state legislature of South Carolina selected that state's presidential electors on December 1.

On November 4, based on local and other tabulations, the *Cincinnati Daily Gazette* called the state of Ohio for Clay, projecting his winning margin to be 8,000 votes. Clay's actual margin proved to be 6,000. According to Smith, the Whigs were able to carry Ohio because of their efforts to secure the votes of the Liberty men of that state (1941, 307). Birney received only 8,000 votes from the estimated 15,000 to 20,000 Liberty Party members in Ohio.

As the votes began to be reported from the group of states voting from November 4 to November 6, results appeared mixed. On November 12, the *Cincinnati Daily Gazette* awarded Indiana, Michigan, New Hampshire, and Pennsylvania to Polk, but Connecticut, Maryland, New Jersey, and Rhode Island, in addition to Ohio, to Clay. The editor believed that New York was leaning toward Clay and that North Carolina, Tennessee, and Virginia were leaning toward Polk. The next day, the paper reversed the electoral projections by listing New York among the states likely to be carried by Polk, not Clay, and it declared Polk to be the apparent winner of the election.

In New Orleans, a similar picture emerged. The *New Orleans Bee* (November 9, 1844), which supported Clay, was initially encouraged by the tabulation of the votes in Louisiana and projected a Whig victory in that state. However, by November 12, Polk had moved ahead in the tabulation. From the vantage point of New Orleans, Clay carried Ohio, and Polk carried Louisiana.

By November 15, with reports from other states that voted between November 4 and November 6 reaching New Orleans, the *Bee* expressed confidence that Clay would be elected president because he had been awarded Connecticut, Kentucky, Maryland, and Rhode Island, in addition to Ohio, whereas Polk had been awarded only Pennsylvania, in addition to Louisiana. Then, on November 18, the paper conceded New York and the election to Polk.

In New York, the initial returns—from New York City—were very favorable for Polk, so much so that the *New York Herald* called the election for Polk on November 6, 1844, running the headline "Great Democratic Victory—The Native and Whig Coalition Smashed to Pieces—Polk Is President." However, as votes were reported from the Genesee region, where abolitionist sentiments ran strong, Clay appeared to have gained enough antislavery votes to win the state. On November 7, the *Herald* headlines ran "Unprecedented Excitement—Both Parties Claiming New York—Chances of Mr. Clay Increasing." "Birney," said the *Herald,* "has, most likely, been deserted by a portion of his party who have gone over to Clay. If this runs through the western counties in the same way, Clay has certainly carried the state."

Then, on November 8, the *Herald* called New York (for a second time) for Polk. The abolitionist voters of the western counties, it stated, "have, probably, voted largely for Birney. . . that alone can account for the diminution of Clay's vote from Harrison's." The Liberty Party had indeed polled a large vote (16,000) compared to Polk's margin over Clay of 5,000. This third-party vote enabled the Democrats to carry the state in the presidential race, 48.9 (Polk) to 47.9 (Clay) to 3.3 (Birney) percent.[14] New York, with its thirty-six electoral votes, proved to be the deciding state in the election. If Clay had carried New York, then he, not Polk, would have won the election.

As shown in figure 1, as the votes were being tabulated in New York, the value of the Red Backs rose both in New York and in Philadelphia. Also as shown in figure 1, upon the arrival of the news of the election in New Orleans, the value of the Red Backs rose in that place. On November 15, the *New Orleans Daily Picayune* reported incomplete results from New York—from New York City, some nearby counties, and some river towns. The results were inconclusive. "A day or two will decide the question in this state, and put us all out of our misery," the paper claimed. Then, on November 17, with additional returns from New York, it said, "The long agony is now over. James K. Polk, of Tennessee, has been elected President of the United States."[15] (See table 3 for final tabulation of the results.)

Annexation

Even though Polk was elected president, the annexation of Texas was not certain. Indeed, securing a two-thirds majority vote in the U.S. Senate to effect annexation through a treaty appeared improbable, and recourse was made to do so through a joint resolution of Congress that would admit Texas into the Union as a state, which would require only simple majorities in the House of Representatives and the Senate.[16]

Approval of a joint resolution was not a problem in the House, where the Democrats enjoyed a substantial majority. On January 25, 1845, the House passed a joint resolution by a vote of 120 to 98. Of the 78 Whigs who voted, only 8 voted "aye" (all being Whigs from slave states), whereas 70 voted "nay" (52 from free states and 18 from slave states). Of 140 Democrats who voted, only 28 voted "nay" (all being Democrats from free states), whereas 112 voted "aye" (59 from slave states and 28 from free states).

14. The nationwide popular vote was similar: 49.5 (Polk) to 48.1 (Clay) to 2.3 (Birney) percent.

15. Actually, the agony was not over completely until it was learned a couple days later that the Democrats had won all three state elections crucial to their gaining control of the U.S. Senate.

16. Roback Morse (1997) discusses some of the implications for conflict between the United States and Mexico and between the North and South within the United States regarding the annexation of Texas by admission as a state (requiring only simple majorities in both houses) instead of by treaty (requiring a two-thirds majority in the Senate).

Table 3
The Presidential Election
(138 Electoral Votes Required to Win)

Clay States		Popular Vote (%)[a]			Polk States		Popular Vote (%)[a]		
		Clay	Polk	Birney			Clay	Polk	Birney
R.I.	4	60.1	39.9	—	Ark.	3	37.0	63.0	—
Vt.	6	54.9	37.0	8.1	Ala.	9	41.0	59.0	—
Ky.	12	54.1	45.9	—	N.H.	6	36.3	55.2	8.5
Mass.	12	50.8	40.2	8.2	Mo.	7	43.0	57.0	—
Conn.	6	50.8	46.2	3.0	Miss.	6	42.6	57.4	—
Md.	8	52.4	47.6	—	Ill.	9	42.1	53.9	3.2
N.C.	11	52.4	47.6	—	Maine	9	40.5	53.8	5.7
Del.	3	51.2	48.8	—	Va.	17	47.0	53.1	—
Ohio	23	49.7	47.8	2.6	Ga.	10	48.8	51.2	—
N.J.	7	50.5	49.4	0.2	La.	6	48.7	51.3	—
Tenn.	13	50.1	50.0	—	Mich.	5	43.5	49.9	6.6
					Pa.	26	48.6	50.5	1.0
					Ind.	12	48.4	50.1	1.5
					N.Y.	36	47.9	48.9	3.3
					S.C.[b]	9	—	—	—
TOTAL	105				TOTAL	170			

[a] Percentages may not add to 100 because of rounding and, in Illinois and Massachusetts, write-in votes.

[b] Presidential electors selected by the state legislature, not by popular vote.

Source: From http://www.uselectionatlas.org/USPRESIDENT/.

A key vote in the House was a motion to amend the joint resolution with regard to the public lands and the liabilities of the Republic of Texas. The joint resolution provided, as had the treaty negotiated by Tyler, for the U.S. government's assumption of the public lands and the liabilities of the Republic of Texas. The amendment would have provided instead that Texas retain the public lands and the responsibility for the liabilities of the Republic of Texas, securing the republic's liabilities with the public lands thereof and absolving the federal government from responsibility for the republic's debts. This amendment failed by only 11 votes, 96 "aye" to 107 "nay."

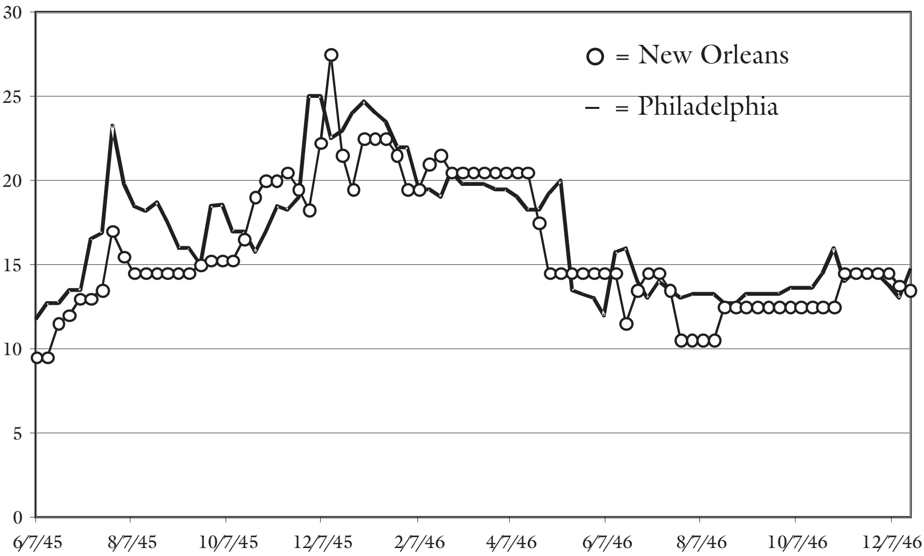
In the Senate, agreement could not be reached on the terms of annexation. As the session neared its conclusion, the prospects of passage appeared to wane. If Senator James A. Pearce of Maryland were present, the joint resolution in the House would apparently be amended so as to make the state of Texas responsible for the debt of the Republic of Texas, and it would be passed.[17] Finally, on February 27, 1845, by a 27 to 25 vote, the Senate approved a joint resolution that allowed the president to decide the terms of annexation, including the disposition of the liabilities of the Republic of Texas. The next day, the House agreed to the joint resolution proposed by the Senate, and two days later the joint resolution was signed into law. Polk subsequently proposed that Texas be accepted into the union as a state, retaining its public lands but also responsibility for the liabilities of the Republic of Texas (Gouge [1852] 1969, 130). As shown in figure 1, the trend of the market value of the Red Backs was downward following the election of 1844 and then spiked following the breakthrough in the U.S. Senate.

Following the offer of admission as a state by the United States, Texas organized a constitutional convention to be held in July 1845 to consider the proposal as well as an alternative proposal from Mexico, the Smith-Cuevas Treaty, which offered peace to Texas provided it remained independent.[18] The convention accepted the U.S. offer, including specifically the provision regarding the public lands and liabilities of the Republic of Texas (Gouge [1852] 1969, 131). The vote in the convention was overwhelming and may have been signaled by the unanimous approval of annexation by the Texas Congress on June 19 and the rejection of the Smith-Cuevas Treaty by the Texas Senate by a vote of zero to fourteen on June 21. The issues of annexation and a new constitution were then submitted to the people for a popular vote in October 1845, when they were approved overwhelmingly. In December 1845, the U.S. Congress accepted Texas into the Union. As shown in figure 2, the market value of the Red Backs rose through this period, with a spike following the rejection of the Smith-Cuevas Treaty.

17. On February 28, 1845, the New York Herald contained the following report from its correspondent in Washington: "I am confident, now, that they [the Texas resolutions] will not [pass], in a full Senate [meaning with Mr. Pearce of Maryland], without an addition amendment, somewhat similar to Mr. Benton's. . . . Mr. Pearce, the absent Senator, is in his seat." For the complete story, see this same correspondent's reports in the Herald from February 26 to March 1.

18. Anson Jones, president of Texas at the time, favored continued independence. Accordingly, he secretly dispatched his secretary of state, Ashbel Smith, to Mexico, to use the U.S. offer of annexation to gain Mexico's offer to recognize the independence of Texas. In this regard, Jones acted similarly to Houston, who attempted to use public entreaties to Britain to support secret negotiations with Tyler involving U.S. annexation.

Figure 2
Market Value of Texas Treasury Notes in New Orleans and Philadelphia per $100 par Value, June 7, 1845, to December 19, 1846



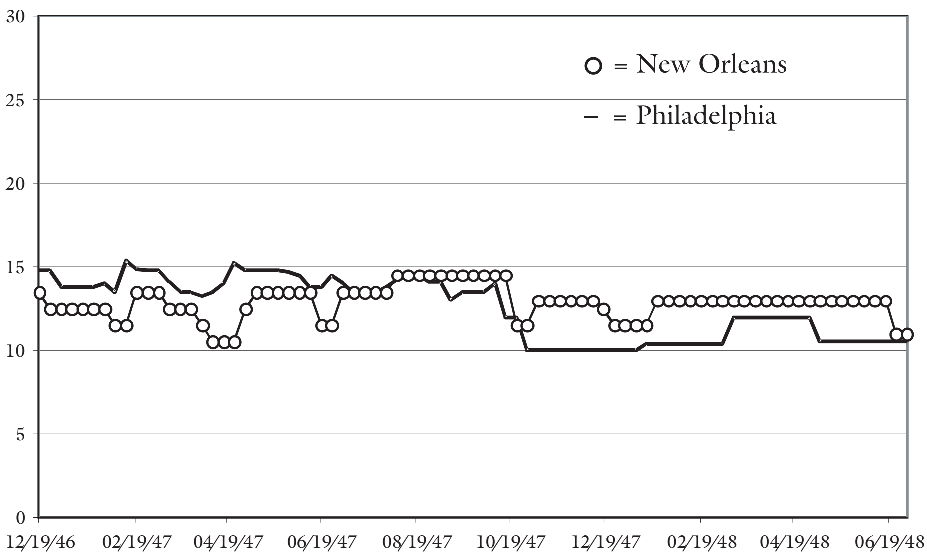
The Mexican War and Re-repudiation

Shortly after annexation, the Mexican War broke out, precipitated in April 1846 by clashes between U.S. and Mexican forces in Texas, in the area between the Rio Grande and the Nueces River. On May 12, 1846, a declaration of war with Mexico was approved in the Senate. U.S. forces subsequently achieved a complete victory over Mexican forces, winning key battles in the Rio Grande campaign at Palo Alto and de la Palma on May 8–9, 1846, at Monterrey on September 24, 1846, and at Buena Vista on February 22–23, 1847, and in the Mexican campaign at Vera Cruz on March 27, 1847, at Contreras and Chusenbusco on August 20, 1847, at Molino del Rey on September 8, 1847, and at Chapultepec on September 12–13, 1847.

In figures 2 and 3, three price movements can be associated with the war. First, in July 1845, Polk ordered General Zachary Taylor to enter Texas, and price spikes followed in both Philadelphia and New Orleans. Second, following the border clashes in the area between the Rio Grande and the Nueces River, prices plunged first in New Orleans and then in Philadelphia. Third, following the vote in the Senate to declare war, prices rose first in Philadelphia and then in New Orleans.

While the annexation was being accomplished, the Texas commissioner of the General Land Office issued a report on August 5, 1845, indicating that except for land, little would be available to extinguish the public debt. Moreover, because of a

Figure 3
Market Value of Texas Treasury Notes in New Orleans and Philadelphia per $100 par Value, December 19, 1846, to July 1, 1848

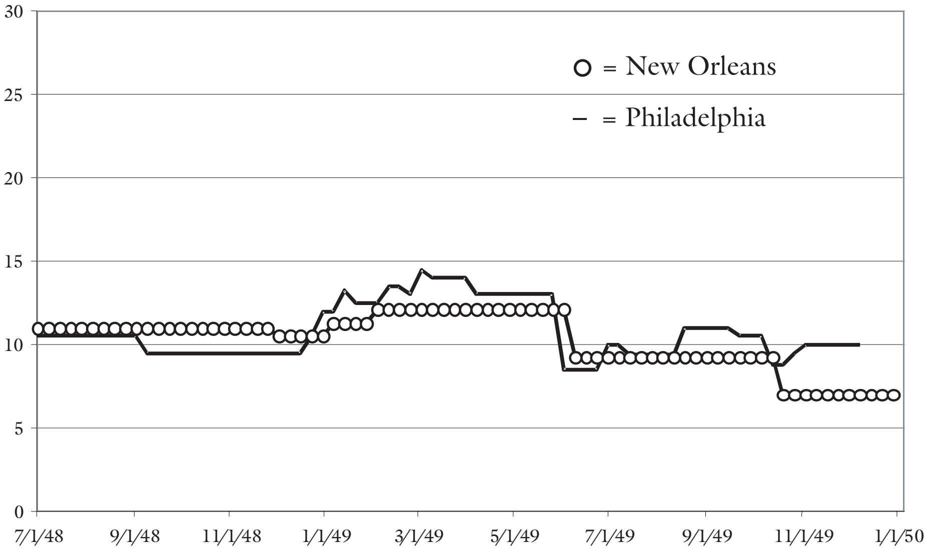


glut of outstanding land grants, the report thought that it might not be until 1882 that the public lands could be sold at a price approaching $1.25 per acre (Gouge [1852] 1969, 133). Perhaps reflecting such realities, the market value of Red Backs rose to a range of only $20 to $25 per $100 face value upon annexation. This range of values arguably reflected the reality that a long time would be needed for the glut of Texas land scrip to be sopped up and for the market value of the land scrip and therefore the market value of the republic's liabilities to approach face value.

On March 1, 1846, the lower House of the Texas state legislature reported that the state could not meet its liabilities from general revenue and that only the public lands were available for this purpose. It proposed that public lands be ceded to the United States in return for the funds to pay off the liabilities of the Republic of Texas and, furthermore, that the state should pay only the specie value of what the republic obtained for its liabilities—or, as the politicians put it, that the debt should be "scaled" (Gouge [1852] 1969, 147). On March 24, the Texas Senate expressed an opinion that the state should discriminate between the original holders of the republic's liabilities and those who had acquired them for "not more than twenty cents on the dollar" (Gouge [1852] 1969, 153).

Through the next several years, the Texas legislature made several reports similar in character to those of March 1846. Then, on March 20, 1848, the legislature voted to scale the republic's liabilities to one-half for those "audited or otherwise ascertained," to one-fourth for those "sufficiently authenticated," and to one-fifth for those "known

Figure 4
Market Value of Texas Treasury Notes in New Orleans, Philadelphia, and New York per $100 par Value, July 1, 1848, to January 5, 1850



to exist but not sufficiently authenticated" (Gouge [1852] 1969, 158–59). Later, following another act of the state legislature, the state's auditor and controller scaled the debt, in part, as follows: 100 percent for Star Money (the first promissory notes issued by the Republic of Texas), 50 percent for the engraved 10 percents (the second), 30 percent for the 8 and 10 percent bonds issued by the Republic of Texas, and 25 percent for the Red Backs (*Bicknel's Reporter,* July 17, 1849). In addition, interest was to accrue on the Star Money and engraved 10 percents until 1841 and on the bonds until 1849. For the Red Backs, this scaling was twice as severe as had been discussed previously.

On November 5, 1849, the Texas governor proposed to exchange the debt as scaled for land scrip, which at the time was trading for fifteen cents on the dollar because of the glut of outstanding land grants (*Bicknel's Reporter,* December 4, 1849; Gouge [1852] 1969, 161). Soon afterward, the state set a deadline of the first Monday of September 1851 for holders of the liabilities of the Republic of Texas to exchange them, at their scaled values, for land scrip (*Bicknel's Reporter,* April 9, 1850).[19] As shown in figure 4, the market value of Texas Red Backs fell to about seven and one-

19. For discussion of the sovereign-debt issue, see Eaton and Gersovitz (1981), who argue that reputation alone would be sufficient to motivate sovereign debtors to repay, and Rogoff (1999), who argues the contrary position. During the period considered in this article, several states of the United States effected structured settlements with their creditors in which the state assumed responsibility for only the principal and interest arrears on the amounts actually tendered to the state. Something similar was ordered by the Supreme Court of Mississippi in the case of the bonds issued in support of the Mississippi Union Bank; there was never any controversy concerning the bonds issued in support of the Planters Bank, but the state repudiated all of its debt (McGrane 1935, chapters 6-8 and 10).

half cents per dollar of par value in the New Orleans market and to about ten cents per dollar of face value in the Philadelphia market. At this point, speculation focused on the possibility that the federal government might pay off the republic's liabilities, so few holders of the liabilities turned them over to the state of Texas.

Econometric Analysis

The semistrong form of market efficiency implies that the prices of speculative assets reflect all publicly available information. This implication makes market data potentially useful for historical research—provided, first, that the researcher distinguishes truly informative events from those that merely confirm opinions already formed on the basis of prior information; and, second, that the researcher allows for the possibility that market prices may also, at least from time to time, reflect private information (that is, that the strong form of market efficiency might hold). In practice, it is often difficult to identify relevant events a priori, so researchers sometimes allow the data to identify the most probable time when an event occurred. For the most part, we take the a priori approach; in cases where we could identify from contemporaneous sources when information arrived in a market or could infer timing from our knowledge of history and the speed of communication, we have done so, sometimes fixing the exact date so as to best fit the data (we discuss the exceptions we make to this approach).

Table 4 presents our regression analysis of changes in the natural logarithm of the market value of Texas Treasury Notes in the New Orleans and the Philadelphia markets during the period under study. If these markets were even weak-form efficient, there would be no serial correlation in these changes, nor should there be any in the residuals, and none is indicated by Ljung-Box Q statistics (for up to twelve orders of serial correlation). The R^2 and σ_e statistics are merely descriptive, indicating only that we have "explained" about half of the variation in the value of Texas Treasury Notes by reference to certain events, with the remainder owing to unidentified events, noise, and mismeasurement.

With regard to events connected with the election of 1844, it is clear that the value of Texas Treasury Notes rose sharply when the state elections of September indicated an increase in the likelihood of a Polk victory. These odds declined somewhat following the state elections of October and then rose sharply upon the tabulation of the vote from New York. That the price rose first in Philadelphia and then in New Orleans with a lag of two weeks following the tabulation of the vote from New York is consistent with the speed of communication at the time.[20]

20. Prior to the extension of the telegraph to New Orleans, it normally took nine or ten days for information to be communicated between the Northeast and New Orleans, judging by the lag in the publication of "intelligence."

Table 4
Regression Analysis of Changes in the Natural Logarithm of the Market Value of Texas Treasury Notes in New Orleans and Philadelphia

Independent Variables	Date(s) in New Orleans[a]	Coefficient (t-statistic)	Date(s) in Philadelphia[b]	Coefficient (t-statistic)
Tyler's Call	12/30/44	51.9% (7.96)	NA	NA
Annexation Rumor	2/17/44	18.2% (3.96)	NA	NA
Tyler's Treaty	3/9–30/44	58.8% (4.51)	NA	NA
Clay's Opposition	5/4/44	–35.1% (5.40)	NA	NA
Louisiana Election	7/6/44	–16.0% (2.46)	NA	NA
September Elections	9/28/44	24.0% (3.68)	NA	NA
October Elections	11/2/44	–11.1% (1.71)	NA	NA
Presidential Election	11/23/44	51.7% (7.93)	11/9/44	28.7% (5.01)
Senate Annexation	3/8/45	38.9% (5.97)	3/8–15/44	28.1% (3.46)
Texas Rejects Mexico	6/21/45	19.1% (2.93)	7/12/45	20.1% (3.49)
Taylor Ordered to Texas	7/26/45	23.1% (3.54)	7/26/45	32.0% (5.58)
Texas Accepts Annexation	10/25/45	14.1% (2.16)	11/1–8/45	16.1% (1.98)
Senate Admits	12/13/45	19.8% (3.04)	11/29/45	27.4% (4.78)
Border Clashes	4/25/46–5/2/46	–34.6% (3.76)	5/16/46	–39.3% (6.84)
Senate Declaration of War	6/27/46	16.0% (2.46)	6/13/46	27.2% (4.73)
Texas Scales Debt	6/24/48	–16.7% (2.57)	5/6/48	–13.4% (2.32)
Congress Takes Up	1/6/49	14.4% (0.99)	12/23–30/48	23.4% (2.87)
Land Scrip Swap	10/20/49	–27.9% (4.28)	10/13/49	–18.2% (3.17)
R^2		52.6%		44.0%
σ_e		6.5%		5.7%
Q(12) [significance level]		14.6 [0.263]		11.0 [0.527]

[a] New Orleans = columns 2 and 3; 316 weeks; December 16, 1843, to December 29, 1849

[b] Philadelphia = columns 4 and 5; 266 weeks; November 9, 1844, to December 8, 1849

Note: All of the independent variables are dummy or quasi-dummy variables, equal to 1 on the date shown and otherwise equal to zero, or, if more than one date is shown, equal to $1/n$ for each of the n weeks shown, or, in the case of the variable "Annexation Rumor," equal to 1 on the date shown and to –1 on the following week.

With regard to annexation, it appears that the price moved sooner in New Orleans than in Philadelphia and before the news of the breakthrough in the U.S. Senate could have been communicated to Louisiana. This anomaly is explained by an item in the *New Orleans Jeffersonian-Republican* for March 5, 1845, reporting that British agents in Texas had received advanced word of annexation.[21] News of the Senate vote was published in this paper on March 10, consistent with the speed of communication, but, by this time, the price of Texas Treasury Notes in New Orleans had already changed.

Although the price sometimes moved on rumors that later proved to be correct, it also moved on rumors that later proved to be incorrect. An example of this phenomenon pertains to a false report concerning annexation published in the *New Orleans Bee* on February 14, 1844.[22]

With regard to the republic's acceptance of the U.S. offer of annexation (and its rejection of Mexico's offer), it appears that the New Orleans market reacted to the actions of the Texas Congress, whereas the Philadelphia market reacted to the actions of the Texas Convention. News of the convention reached Philadelphia by the time of the price movement there (*Philadelphia North American,* July 14, 1845), whereas the price movement in New Orleans preceded the convention.

Although the regression analysis performs quite well, some problems must be admitted with regard to the last three events listed in table 4. First, the market reaction to the scaling of the Texas debt (if this is indeed what we are seeing) appears to be slow. As mentioned earlier, the act to scale the debt was passed on March 20, 1848. We have not found this item reported in New Orleans or in Philadelphia, but, in Houston, it was reported by the *Telegraph and Texas Register* on April 20, 1848. If this information was relayed from Houston to Philadelphia only by ship, such transmission would explain the slow price reaction in that place, but the problem remains of explaining why the price reaction was even slower in New Orleans.

Likewise with regard to the apparent reaction of the price to the Texas governor's 1849 proposal to swap depreciated land scrip for the liabilities of Texas at their already-scaled values, we have the problem that New Orleans was slower to react than Philadelphia (although both reacted prior to the proposal, presumably on the basis of intelligence). Also, with regard to the possibility that the U.S. Congress might take up the matter of Texas debts, following the election of 1848, why was the price reaction in New Orleans insignificant?

A sufficient answer to all three of these anomalies may be that by 1848 the locus of trading in Texas securities had shifted away from New Orleans to Philadelphia, as

21. This report may have expressed a misinterpretation of a British assessment of the likely outcome in the U.S. Senate, which later turned out to be "correct."

22. Similarly, Burdekin (forthcoming) finds a price reaction in Philadelphia to a false rumor concerning a federal assumption of the Texas debt, published in the Philadelphia Public Ledger for September 12, 1845.

the focus of speculation on their ultimate redemption shifted from Texas to the U.S. Congress, so that the New Orleans market was no longer efficient.

Summary and Conclusions

From late 1843 to early 1850, the value of the liabilities of the Republic of Texas reflected developments related to their ultimate redemption, including the possibility that they would be revived by U.S. annexation of Texas and, later, when annexation involved the assumption of these liabilities by the state of Texas, that the state would honor its obligations. Through most of this period, this value reflected reasonable probabilities of the political events antecedent to annexation and the presumption that the liabilities could be redeemed only by the eventual sale of the public lands of Texas. Accordingly, upon annexation, this value rose not to face value, but to a range commensurate with the present value, in view of expectations about when the market value of Texas land scrip and of these liabilities would approach par.

Following the annexation and the securing of the Texas border by the Mexican War, the state of Texas signaled that it had little interest in honoring its obligations under the terms of the annexation because almost all of its financial liabilities were held outside of Texas. The state eventually re-repudiated these liabilities by "scaling" them to the specie value that their issue had brought the republic and then offering for them (at their scaled values) land scrip worth only fifteen cents specie value per dollar of face value.

Like a growing number of analysts, we have found a vintage financial market to have been a rational pricing mechanism. Accordingly, providing that care is taken in the collection and analysis of the data, vintage financial markets can be used to infer market assessments of the developments of the day. In particular, in this study, we find that the market considered Clay to be the favorite going into the election of 1844, but then, following the state elections of September and October, thought that the outcome was uncertain.

Also like others, we have found problems with repayment by a sovereign debtor in default. Specifically, we have found that in spite of a specific provision regarding repayment, coupled with the pledge of certain assets in the terms of annexation accepted by both the people of Texas and their representatives, once annexation was accomplished and the potential threat to its secession (from Mexico) vanquished, the state was soon able to justify to itself a second repudiation.

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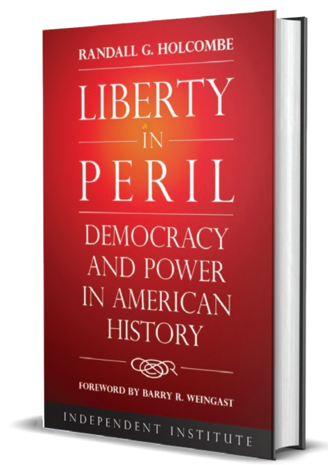

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