Texas Treasury Notes after the Compromise of 1850

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The Republic of Texas issued substantial quantities of debt, including Treasury Notes, bonds, and special loans, from the time of its independence to its annexation and statehood (1837–45). In 1842, Texas repudiated its debt, including its "Red Back" currency (Pecquet and Thies 2007). In the United States, a debate over annexation and the assumption of the Texas debt weighed heavily in the presidential election of 1844 (Pecquet and Thies 2006). Following James K. Polk's election, Congress agreed to annexation provided that the state of Texas agreed to assume the debt of the Republic of Texas and to pledge its vast public lands against this debt. By 1850, however, the state of Texas had redeemed only an insignificant amount of the debt (via exchange for land scrip). By then, the republic's debt was approximately $10 million. It can be divided into two categories: first, a total of $8.5 million of notes, bonds, and other securities, plus the interest on all of these promises to pay, almost all of which were held by Americans outside of Texas;[1] and, second, a remainder that consisted of liabilities that had been in the process of being recognized at the time of the debt's first repudiation, such as pay vouchers, almost all of which was held by Texans.

At about this time, Texas repudiated these debts again, this time in two steps. In

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1. This portion of the debt was sometimes referred to as the *revenue debt*. This term points to the securing of this debt in part by tariffs, which, owing to the annexation, were no longer available to Texas, but only to the federal government. Because the federal government had taken control of a stream of tax revenue that in part secured the debt, that government was arguably responsible, at least in part, for the satisfaction of this portion of the debt.

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1848, the state scaled (wrote down) the debt held outside of Texas to an average of 44 percent of its face value. Then, in 1849, the state proposed to swap land scrip that was selling for as little as 15 percent of its face value for the republic's debts at their scaled values (Pecquet and Thies 2006).

In this article, we present a time series of the market value of the republic's liabilities to track the progress of political events in Texas and in the U.S. Congress from the liabilities' second revival in conjunction with the Compromise of 1850 to their ultimate redemption in 1856. By tracking market value, we can precisely identify the events considered at the time to be most informative with regard to redemption. Our research builds on the work of William A. Gouge ([1852] 1969), an economic journalist sympathetic to the holders of the Texas Republic's debt, and is informed by the work of several historians, most notably Holman Hamilton (1957, 1964) and Mark J. Stegmaier (1996). A more recent writer, Richard Burdekin (2006), deals primarily with the prospects of a federal bailout of the Texas debt through the Compromise of 1850. We examine the political climate within Texas and extend the overall analysis to the final redemption in 1856.

An extensive economic literature focuses on "sovereign debt." Does a sovereign state's "reputation for repayment" provide sufficient motivation for it to repay its debts? Jeremy Bulow and Kenneth Rogoff (1989a, 1989b) maintain that debtor nations often fail to repay their debts and that sanctions, such as trade embargoes, are sometimes necessary to enforce creditors' rights against sovereigns. Indeed, debtor nations hardly ever "repay" their debts. In "good years," net capital flow is to debtor nations, and individual loans are "repaid" in the contracting of new loans. In "crisis years," new loans are not extended, and old loans almost always go unpaid (Eichengreen and Lindert 1989, 5). During the debt crisis of the 1980s, for example, "very few debtor nations—perhaps only three . . . out of 47 nations—have made net repayments . . . , as in the global crisis of the 1930s" (6).

Throughout the nineteenth century, creditor nations frequently enforced their claims on debtor nations by gunboat diplomacy. In this context, defaulting U.S. state governments provide a unique setting for an examination of the "sovereign debt" issue. Under the Constitution, the individual states retained their sovereignty with respect to their own debts, yet they were effectively defended from foreign sanction. Accordingly, only reputation could motivate states to repay their debts. During the 1840s, eight states and one territory subsequently granted statehood defaulted. Five of these states repudiated all or part of their debt (McGrane 1935; Ratchford 1941). William B. English has demonstrated that defaulting and repudiating states tended to have higher debt burdens than the states that did not default. He argues that reputation may be sufficient to motivate repayment if the burden of repayment is small relative to the potential gain from future access to foreign capital. Texas provides the ninth case of a U.S. state that defaulted during this period.

The state of Texas assumed the responsibility for the republic's debt in conjunction with the annexation agreement. As part of the Compromise of 1850, the federal government provided Texas with sufficient funds to repay the republic's debt in exchange for setting the state's western border considerably to the east of the location the state claimed. Some argued that using the funds provided by the federal government to repay the debt would encourage foreign financiers to develop the Texas interior—for example, by constructing railroads. Nonetheless, inducing the state of Texas to settle its debt proved difficult. Ultimately, the federal government itself settled the debt directly.

We use public-choice theory to explain certain political events during this period—in particular, the effectiveness of lobbying in the ultimate resolution of the debt of the Republic of Texas. Mancur Olson (1965) famously explored the endogenous formation of interest groups for the purpose of lobbying, and Gordon Tullock (1980) as well as Kyung Hwan Baik and Sangheck Lee (2001), among others, have revisited the subject. Successful lobbying groups must overcome a free-rider problem, and getting organized takes time. George Stigler developed a model showing that when coalitions are small, the likelihood increases that an individual member will help to bear the necessary common lobbying expenses (1974, 360–62).

The Texas securities were initially held widely. The Republic of Texas expended its notes and bonds to pay employees and purchase supplies. These notes and bonds could be used to pay Texas customs duties and were actively traded in New Orleans (Gouge [1859] 1969, 79). Texas securities were occasionally quoted elsewhere in the country (for example, $10,000 Texas bonds wanted at fair prices, *Cincinnati Gazette,* April 20, 1841). After 1843, trading activity gradually shifted from New Orleans to New York and Philadelphia, and by 1850 Texas securities were traded only in Philadelphia. Along with this shift in trading location, ownership of the Texas debt became concentrated. Judging by those who exchanged their securities for certificates around 1850, Hamilton found "many" to be "individuals with small sums at stake" (1957, 582). By the time of final redemption in 1856, however, only a few investors and bankers held the overwhelming amount of the Texas debt (590).

Hamilton (1957, 1964), Stegmaier (1996), and Burdekin (2006) have noted the second revival of Texas securities, during 1850, but the evolution of the securities' value from 1850 to their redemption and the role of lobbying in their final settlement (that is, in the passage of the Texas Debt Act of 1855 and the parallel action by the state legislature of Texas) have not been examined closely. Furthermore, prior discussion of the related lobbying has focused almost exclusively on bribery and political corruption, so the possibility that special-interest groups can influence legislature through other means has not been considered.

The Compromise of 1850

In 1849, a diplomatic crisis erupted between Texas and the United States over the state's western boundary. Governor Peter Bell threatened war in assertion of the state's claim to New Mexico and part of present-day Colorado. In his message to the state, he claimed the rights of Texas "over soil, which is ours by conquest," asked the state legislature for authorization to raise an army to subdue eastern New Mexico, and declared, "[I]f the employment of the necessary force to enable her [Texas] to exercise that right over a refractory population [the New Mexicans] should produce a collision with the federal authorities, the fault will not be hers" (*Texas State Gazette,* December 26, 1849).[2] In 1850, a bill was introduced in the state legislature to authorize the governor to raise an army to march on Santa Fe during the next spring if the federal government had not yet resolved the Texas–New Mexico border in a manner acceptable to the state (*Bicknell's Reporter,* September 10, 1850; *Philadelphia North American,* September 14, 1850).

In Washington, D.C., responsibility for dealing with the Texas border crisis lay with the president. Following the death of President Zachary Taylor in 1850, Vice President Millard Fillmore became president. Both presidents defended the federal government's claim to New Mexico and the western territories claimed by Texas. During the Mexican War, federal troops, not Texans, conquered the disputed territories. Moreover, the Treaty of Guadeloupe Hidalgo contained a clause in which the United States promised to defend the rights and property of the people residing in the vast territory ceded by Mexico. Texas politicians were not likely to respect the New Mexicans' rights. To assert the federal claim to the western territories, President Fillmore threatened to call on the armed forces. Hoping to resolve the dispute peaceably, however, he asked Congress to establish the border between Texas and New Mexico and indicated that Congress could compensate Texas for surrendering its claims (*Charleston Courier,* August 9 and 10, 1850).

Even before Fillmore became president, Senator Henry Clay of Kentucky had attempted to resolve the border crisis by attaching a settlement of that issue to an omnibus bill, which also dealt with funding the Texas debt and other divisive regional issues, such as the organization of the New Mexico and Utah territories, the admission of California as a state, the slave trade in Washington, D.C., and the Fugitive Slave Law. Clay's omnibus bill narrowly failed, but some of the terms were revised, and Senator Stephan A. Douglas of Illinois unbundled the omnibus package and successfully guided the basic provisions of the compromise through the Senate through passage of a series of independent bills.[3] With respect to Texas, the Texas

2. In fact, Texas's attempts to conquer New Mexico during and after its war of independence were repulsed by the New Mexican militia. The governor of Texas admitted as much in a letter to the U.S. secretary of state in 1850, announcing his state's intention to subdue New Mexico, when he said that Texas "*would soon have conquered* her boundary to the whole extent." He also said, "In any conflict with the Federal Government, which is not anticipated, and which all would deprecate, Texas is totally sensible of its powers, dignity and greatness, and of her own weakness," indicating that the talk of invading New Mexico may have been merely for domestic consumption (*Charleston Courier,* August 8, 1850).

3. Historians have sometimes attributed Douglas's success to his use of a series of bills and to his ability with these individual bills to persuade certain senators to abstain on other somewhat objectionable bills (for example, see Hamilton 1964). More recent historians, such as William Freehling (1990), Michael Holt (1978), and Mark Stegmaier (1996), have pointed to the adjustments made in the bills relative to the omnibus bill, including in particular how the Texas Boundary Act differed from its counterpart provisions

Boundary Act fixed the Texas–New Mexico border in a way that preserved Santa Fe for New Mexico and El Paso for Texas.[4] The act also provided for two payments of $5 million in 5 percent bonds from the federal government to Texas: the first installment would be made as soon as Texas accepted the Boundary Act, and the second would be withheld until Texas provided the federal government with evidence of satisfaction of the "revenue debt." Even though a few Texas debt holders actively lobbied for the bill, Stegmaier doubts that they played an important role (1996, 280).

Responses to the Boundary Act

Texans initially embraced the Boundary Act. In late 1850, the voters overwhelmingly approved a referendum on the act, which the state legislature subsequently ratified. However, during the gubernatorial campaign of 1851, Bell and others argued against repayment of the "revenue" debt (also known as the "foreign" debt) at its face value. (Throughout this article, the term *"foreign" debt* refers to debts held by individuals and institutions, overwhelmingly American, outside of Texas.)

During this campaign, public opinion in Texas began to crystallize. Most Texans in the port city of Galveston wanted to resolve the debt in ways that upheld the state's honor and reputation with foreign creditors (see, for example, "Our State Debt Again," *Galveston News,* July 16, 1851). Outside of Galveston, however, Texans tended to resent foreign creditors. In the state's interior, the commonly held view regarded foreign creditors as unworthy speculators with no just claim on the state (see, for example, "The Galveston News and Our Public Debt," *Texas State Gazette,* April 19, 1851). Editorial writers in Austin ridiculed any connection between settlement of the republic's debt and the state's need to attract foreign investment. As the *Texas State Gazette* (March 15, 1851) put it, "To induce the state to pay out the whole $10,000,000 to her creditors, dazzling offers of investments from abroad in works of internal improvement will be held up before her; every man will be flattered with the idea that a railroad will be run through her league of land, and its value increased an hundred fold."[5] On balance, Texans turned against foreign capital. In 1851, for example, a bill was introduced in the state legislature to limit recovery of debts from residents by nonresidents in state courts (S. Summers 1996, 213). News that "the spirit of repudiation . . . is rapidly spreading in Texas" reached the markets in Philadelphia (*Bicknell's Reporter,* May 6, 1851).

During this time, various foreign holders of the republic's debt and their representatives organized a "creditors committee." They hoped to agree on terms that would constitute an acceptable resolution of the debt from their point of view.

in the omnibus bill. See Theriault and Weingast 2002 for a definitive consideration of this matter.

4. Senator Clay's omnibus bill originally left the determination of the Texas border to a commission.

5. After the republic's debt was paid off, and with the aid of land grants and subsidy bonds, Texas enjoyed a burst of railroad construction, with mileage in operation increasing from zero in 1853 to 392 in 1861 (Poor 1871, ix; see also Reed 1941).

Although they did not establish a unified bargaining position, their discussions nonetheless provide information about their minimum expectations: something around seventy cents on the dollar in cash or fifty cents on the dollar in cash plus another fifty cents in land scrip (recognized to be worth less than its face value) (*Bicknell's Reporter,* August 12, 1851; *Philadelphia North American,* September 16, 1851). These terms substantially exceeded the maximum payoffs that Texas voters seemed willing to pay (see, for example, *Texas State Gazette,* May 17, 1851).

Following his reelection, Governor Bell announced his plans for the first $5 million installment payoff for the Texas border resolution. He wanted to earmark $1 million to satisfy the portion of the debt held by Texas residents, at or nearly at face value, and use the remaining $4 million to underwrite internal improvements.[6] He also suggested that the federal government might use the second $5 million installment to settle with the foreign debt holders (*Texas State Gazette,* November 15, 1851).

The state legislature thereupon codified into law the "scaling," or writing down, of the republic's debt that the state's auditor and controller had proposed previously. This scaling supposedly reflected the specie value of the republic's expenditures during the time its money was fast depreciating, so that forms of indebtedness issued later (such as the Red Backs) were reduced to lesser values. Yet the scaling was applied in a way that discriminated against foreign creditors.[7]

Table 1 shows the various portions of the republic's outstanding debt and the scaling adopted by the legislature. The first-class debt, almost all held by foreigners, was scaled to an average of 44 percent of its face value, whereas the portions of the debt held by Texans was hardly scaled at all. Even among foreign creditors, the scaling was not applied evenly.[8] In view of the obvious inequities in the scaling, Bell vetoed the bill, saying, "In adopting the principle of reducing the debt to its par value [specie value when issued], the state of Texas incurred the hazard of denunciation and reproach—these she might have confronted without a blush and borne without embarrassment, if in the application of the principle, she had acted with fairness and justice" (*Texas State Gazette,* February 7, 1852). As Bell anticipated, his veto was overridden.

At this point, the Texas legislature devised a plan to obtain the evidence that the federal government required for release of the second $5 million, giving foreign

6. Somewhat more than $1 million would eventually be paid out to Texans who had claims against the republic or who were given awards by the state legislature; somewhat less than $2 million was advanced to finance railroad construction; and the remainder was variously appropriated.

7. Consistent with this discrimination against foreign creditors, Texas paid out two dollars in land scrip to domestic holders of the debt per one dollar of debt, but only one dollar in land scrip to foreign holders of the debt per one dollar in debt (*Bicknell's Reporter,* April 9, 1850).

8. In particular, the amount owed the Bank of the United States of Pennsylvania was shaved only a few percentage points, perhaps because it was the only creditor in 1848 that could represent itself well before the U.S. Congress. By 1851, however, this bank had fallen onto hard times because of defaults by many of its debtors and the continuing burdens of its several receiverships.

Table 1
Debt of the Republic of Texas and the Scaled Values Adopted by the Texas Legislature

	Face Value ($)	Scale	Scaled Value ($)
10% Consolidated Fund of June 7, 1837	632,527	70%	442,769
ditto for relief of Swartwout and others	7,970	100%	7,970
10% Funded Debt of February 5, 1840	754,000	30%	226,200
8% Funded Debt of February 5, 1840	24,280	30%	7,284
8% Treasury Bonds of February 5, 1840	766,800	20%	153,360
10% Treasury Notes of June 9, 1837, 1st issue (“printed”)	41,630	100%	41,630
10% Treasury Notes of June 9, 1837, 2d issue (“engraved”)	331,371	50%	165,686
Treasury Notes of June 9, 1837, 3rd issue (“Red Backs”)	1,828,192	25%	457,048
Audited Paper	74,441	93%	69,452
Misc. Liabilities	42,387	100%	42,388
BUS Loan (issued per 10% Consolidated Fund)	457,380	87%	400,000
Steamer Zavalla Loan (ditto)	195,907	50%	97,954
Other Naval Vessels Loan (ditto)	280,000	50%	140,000
Interest	3,166,503	50%	1,581,850
Less amount redeemed by land scrip	16,258		16,258
TOTAL First-Class Debt	8,587,130	44%	3,817,333
Amt on file and recognized as Second-Class Debt	755,218	90%	682,673
Amt on file since recognized as Second-Class Debt	16,468	100%	16,468
Amt audited by legislature as Second-Class Debt	72,077	100%	72,077
Amt on file and recognized as Third-Class Debt	47,675	100%	47,675
Amt on file not acted on (estimate)	175,000	100%	175,000
less amount redeemed by land scrip	6,318		3,450
TOTAL Second- and Third-Class Debt	1,060,120	93%	990,443
GRAND TOTAL	9,647,250		4,807,776

Source: Adapted from the Report of the Auditor and Comptroller of the Public Debt of Texas of November 12, 1851 (*Texas State Gazette,* November 29, 1851).

creditors a deadline to execute affidavits for their claims against the Republic of Texas and promising to pay off the creditors at *the scaled value* of their claims after receiving the second $5 million payment from Congress (*Texas State Gazette,* February 7, 1852).

Congress Returns to the Matter

In 1852, the U.S. Congress revisited the matter of the Texas debt. In a September report, the Senate Finance Committee accepted partial responsibility for the debt of the Republic of Texas insofar as the debt was secured by tariffs no longer available to Texas. The report also suggested that the $5 million reserved for the second installment would be a fair amount to settle the Texas debt (*Bicknell's Reporter,* December 28, 1852; *Texas State Gazette,* September 18, 1852).[9]

Many of Texas's foreign creditors were represented by General James A. Hamilton, who had served the Republic of Texas as a special loan negotiator sent to Europe to secure funds for the young nation from 1837 to 1842. Following annexation, Hamilton served as a spokesman for foreign creditors.[10] He lobbied Congress to pass a bill authorizing direct resolution of the Texas debt, but his pleas fell on deaf ears. Texas senator Sam Houston, a longtime political opponent of Hamilton, surprised his colleagues by denouncing the debt settlement in a Senate speech on February 11, 1853 (Sibley 1985, 178). Congress adjourned without acting on the matter (*Texas State Gazette,* March 5, 1853). Following this defeat, Hamilton advised debt holders to accept Texas's scaled-down offer (*Bicknell's Reporter,* July 27, 1852).

In January 1853, the Texas state legislature authorized the award of land grants to railroads at the rate of eight sections per mile (*Texas State Gazette,* March 12, 1853).[11] In May, foreign creditors initiated a suit in federal court to enjoin the state from making such land grants on the grounds that the state's public lands were pledged against the republic's debts by the terms of annexation (*Bicknell's Reporter,* June 7, 1853; *Texas State Gazette,* June 18, 1853). The court subsequently rejected intervention on behalf of the foreign creditors, and the state made its first railroad land grant later that year (*Texas State Gazette,* December 6, 1853).

Also in 1853, a bill was introduced in the state legislature to set a deadline of July 1, 1855, by which any of the republic's debts still not settled on the terms the state offered would be voided. It was thought that "these compulsory measures to bring the creditors to a final settlement speedily are likely to pass both houses" (*Bicknell's Reporter,* December 20, 1853) The governor said in his annual message that although some of the foreign creditors had accepted the state's offer, "others refuse to acknowledge the right of the state to ascertain and fix the amount of her indebtedness to them" (*Texas State Gazette,* December 27, 1853).

In late 1854, the U.S. Congress again returned to the matter of the Texas debt (*Galveston News,* October 3, 1854; *Texas State Gazette,* August 5, 1854). In December, the Senate authorized the federal government, with Texas's consent, to pay off

9. The federal government held special bonds earmarked for the second installment with a face value of $8.5 million and scheduled to pay 3 percent per annum. The bonds had a market value of $5 million, approximately enough to redeem the remaining Texas creditors.

10. James Hamilton (1786–1857) had been governor of South Carolina, where he opposed Andrew Jackson during the nullification controversy, before he immigrated to Texas. After receiving the title "general," he served as a foreign loan negotiator for the Republic of Texas during Mirabeau Lamar's administration. When Sam Houston returned to the presidency of Texas, the republic's debt was repudiated (Tinkler 2004).

11. Later increased to sixteen sections per mile (*Texas State Gazette,* February 21, 1854).

the debt of the Republic of Texas directly (*Bicknell's Reporter,* December 26, 1854). In January 1855, the House Ways and Means Committee reported out a substantially similar bill (*New York Herald,* January 17, 1855; *Texas State Gazette,* February 10, 1855). Then, in February, the bill was amended on the House floor to provide for a cash settlement of 76.9 cents per dollar, approximately equal, pro rata, to the market value of the reserved $5 million in bonds and their accrued interest (*New York Herald,* February 8, 1855). In March, the Senate acceded to the House measure (*Bicknell's Reporter,* March 6, 1855).

Whether Texas would agree to the congressional payoff plan remained in doubt.[12] In June, the Texas governor called a referendum (*Texas State Gazette,* June 30, 1855). The small number of voters who turned out for the referendum vote narrowly rejected the proposal (*Texas State Gazette,* August 18, 1855, October 13, 1855). Because of the small turnout, the governor rejected the outcome and recommended that the state legislature approve the proposal (*Texas State Gazette,* November 10, 1855).

Through February 1856, the state legislature forestalled approval (*Texas State Gazette,* February 2, 1855). Then it obtusely approved the measure in conjunction with a bill making an unrelated claim on the federal government (*New York Herald,* February 7, 1855; *Bicknell's Reporter,* February 26, 1856). The U.S. Treasury thereafter began to redeem the republic's debt (*Bicknell's Reporter*, July 1, 1856).[13]

Tracking the Market Value of Texas Treasury Notes

The Republic of Texas debt included three tenors of Treasury Notes and several issues of bonds. The third tenor of Treasury Notes (known as "Red Backs" because of the red ink used on their reverse ride), the bonds, and to a lesser extent the so-called engraved Treasury Notes were actively traded in the New Orleans market from their issue until their first repudiation (Pecquet and Thies 2007). From their revival in conjunction with the annexation of Texas until their second repudiation, these securities were actively traded in both the New Orleans market and in the North, at first in the New York market and then in the Philadelphia market (Pecquet and Thies 2006). From their second revival in conjunction with the Compromise of 1850 until their redemption by the federal government in 1856, these securities were traded in the Philadelphia market.

During the period from 1843 to 1849, the market activity for Texas securities tended to shift from New Orleans to Philadelphia. We can infer the decline of the market in New Orleans from that city's newspapers. During the late 1840s, the New

12. Compare the *Galveston News* (April 3, 1855) to the *Texas State Gazette* (March 10, 1855) and the *New York Herald* (February 21, 1855).

13. In 1881, the federal government turned over to Texas the balance ($45,000) of the funds allocated to redemption of the republic's debt.

Orleans papers indicated less-frequent price changes and commented on them less often. Toward the end of the period, the New Orleans papers barely quoted Texas note and bond prices at all, and after 1850 did not report them.[14] Conversely, in Philadelphia, where the papers frequently reported trading volume, the market for Texas securities picked up. Philadelphia trading volume was heavy from 1850 to 1853 and light thereafter. Trading activity through 1853 was correlated with developments relevant to the securities' market value (Burdekin 2006).

The broker quotations published by *Bicknell's Reporter* provide a nearly complete weekly time series of the market value of Texas Treasury Notes in the Philadelphia market from 1850 to 1856. These quotations for the most part accord well with other broker quotations, when available, in the *Philadelphia Public Ledger* and the *United States Gazette,* and with the sales prices reported in Philadelphia newspapers.[15] We filled most of the gaps in the data from *Bicknell's Reporter* with data from alternate sources[16] and by interpolation. The resulting time series is shown in figure 1.

Figure 1 displays the appreciation of Texas Treasury Notes during 1850, a reflection of the introduction of the Compromise of 1850 and the later movement of the Texas boundary bill through Congress. Texas note prices declined, however, as the public sentiment in Texas turned against foreign creditors. In 1851, the Texas legislature scaled the debt and discriminated against foreign creditors. The value of Texas notes rebounded in 1852 when Congress seriously considered a proposal to resolve the Texas debt, but collapsed again when Houston spoke against the proposed bailout and the Senate adjourned without having acted on the matter. During 1853, the market value of Red Backs temporarily rose on the hopes that the federal courts might enjoin the state of Texas from disposing of its public lands without a satisfactory offer to the creditors, but later that year their value collapsed again with the failure of the legal action and the introduction of a bill in the Texas state legislature effectively to force creditors to accept the state's scaling offer. In 1854 and later, the market value of the Red Backs rose when the Congress again returned to the matter of the republic's debt, this time in a way that finally settled the matter.

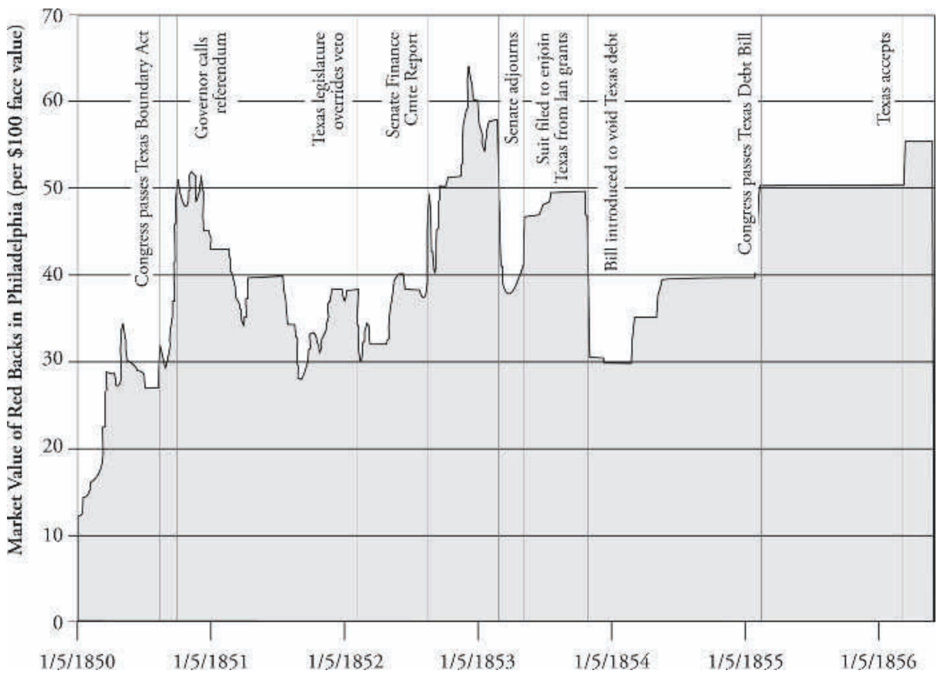
Statistical analysis can augment the apparent findings shown in our figure. We estimated a regression equation with week-to-week changes in the natural logarithm of the market value of the Texas Treasury Notes as the dependent variable and with

14. Toward the end of this period, price changes in New Orleans lagged those in Philadelphia, even in response to events in Texas (Pecquet and Thies 2006).

15. Except for the period from September 22, 1850, to May 19, 1851, when broker quotes from *Bicknell's Reporter* appear to lag those of the *Philadelphia Public Ledger* and sales prices, we use broker quotes from the *Philadelphia Public Ledger*. We supplemented the sales price and volume data from the *Philadelphia Public Ledger,* generously provided in Burdekin 2006, by scouring four other Philadelphia newspapers *(Bicknell's Reporter, Commercial List and Philadelphia Price Current, Philadelphia North American,* and *United States Gazette),* in the process of which numerous additions and corrections were made.

16. Sales prices from September 24 to October 1, 1851, and from August 1 to August 9, 1852; broker quotes from the *Philadelphia Public Ledger* from September 13 to September 15, 1852; sales prices from September 16 to September 20, 1852.

Figure 1
Market Value of Texas Treasury Notes in Philadelphia



dummy variables and quasi-dummy variables denoting key dates and periods of time as the independent variables.[17] The results are reported in the first column of table 2. Of the key dates selected as dummy variables, Clay's proposal of the omnibus bill, the passage of the Texas Boundary Act, the governor's call of a referendum to accept or reject the Texas Boundary Act, the Senate Finance Committee's report, the filing of the lawsuit, the passage of the Texas debt bill, and (marginally) the acceptance of the Texas debt bill positively affected the notes' market value, whereas the legislative override of the governor's veto, the temporary withdrawal of the Texas debt bill, the Senate's adjournment, and the introduction of a bill to void the Texas debt negatively affected the notes' value.

In addition to these key dates, three periods of time are identified. During these periods, the market value of Texas Treasury Notes trended up or down, but not in a way that can be explained a priori by reference to exact dates. During these periods, it might be supposed that information flowed to the market more or less continuously through publicly available information or the leaking of private information. The first of these three periods is from Clay's proposal of the omnibus bill to the passage of the

17. In a second specification, the contemporaneous change in the market value of the U.S. 6 percent bonds redeemable as of 1867 in the Philadelphia market is added to the list of explanatory variables. This variable has marginal statistical significance, and its inclusion has little effect on the other parameters of the estimated equation.

Table 2
Regression Analysis of Changes in the Natural Logarithm of the Market Value of Texas Treasury Notes in the Philadelphia Market, 334 Weekly Observations, January 12, 1850, to June 7, 1856

Independent Variable	Definition	Coef. (|t-stat.|) A Priori Model	Coef. (|t-stat.|) Hybrid Model
Constant		0.0035 (1.26)	0.0032 (1.46)
Clay proposes omnibus bill	Jan. 19, 1850	0.2196 (5.15)	0.2200 (6.27)
Omnibus bill with ad hoc committee, etc.	Jan. 26 to Aug. 10, 1850	0.4670 (1.92)	
Ditto	Mar. 23, 1850		0.3386 (9.65)
Ditto	May 4, 1850		0.2218 (6.32)
Texas Boundary Act passes	Aug. 17, 1850	0.1693 (3.97)	0.1697 (4.83)
Governor calls referendum	Sept. 28, 1850	0.3215 (7.54)	0.3219 (9.17)
Texas gubernatorial campaign	Jan. 4 to Aug. 30, 1851	–0.5977 (2.21)	–0.3393 (1.79)
Ditto	Aug. 30, 1851		–0.1859 (5.23)
Texas legislature overrides veto	Feb. 14, 1852	–0.2399 (5.62)	–0.2396 (6.83)
Report of U.S. Senate Finance Committee	Aug. 21 to 28, 1852	0.2941 (4.86)	0.2948 (5.93)
Bill temporarily withdrawn	Sept. 4, 1852 (+1), Sept. 18, 1852(–1)	–0.2231 (7.47)	–0.2231 (9.01)
Sam Houston opposes bill, and Senate adjourns without acting on it	Mar. 5 to 12, 1853	–0.4082 (6.75)	–0.4075 (8.19)
Lawsuit filed	May 14, 1853	0.1238 (2.90)	0.1242 (3.54)
Bill introduced in Texas to void debt	Nov. 5, 1853	–0.5073 (11.89)	–0.5140 (14.64)
Hope that Congress will renew interest	Feb. 17 to May 27, 1854	0.3546 (1.65)	0.3632 (2.06)
Texas debt bill passes	Feb. 17, 1855	0.2322 (5.44)	0.2326 (6.63)
Texas accepts	Mar. 22 to 29, 1856	0.0883 (1.46)	0.0890 (1.79)
R^2		58.3%	72.2%

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 "Bill temporarily withdrawn," equal to +1 on the first date shown and to –1 on the second.

Texas Boundary Act. During the first part of this period, the proposal was in committee. In July, the full Senate picked up the bill, only to see support of it fall apart late in the month. Then, in early August, Douglas and Senator James A. Pearce of Maryland devised a new proposal to resolve the Texas–New Mexico border dispute, which was enacted into law. Given the way the quasi-dummy variable is constructed, its estimated coefficient indicates that price rose by a total of about 50 percent during the period.

The second period of price change runs from the beginning to the end of the 1851 Texas gubernatorial campaign. During this campaign, sentiment was revealed to be more antagonistic to foreign creditors than had been supposed previously. To illustrate, at the beginning of the campaign, the *Texas State Gazette* would have been counted as among those antagonistic to foreign creditors. In the campaign period, however, the *Texas State Gazette* (May 3, 1851) found itself defending repayment at the scaled values:

> We will take occasion to notice a feeling which is said to prevail in some portions of the state, averse to the payment of our debt in any manner except with land [scrip] [which had a market value less than its face value]. Before we received the ten millions, there presented no other mode of discharging our debt except in this manner, and as an only recourse, we were then in favor of this mode of payment; but another state of things having arisen, and the state having the means of paying in a manner more fair and satisfactory, we are disposed to . . . it.

During the campaign, one of Bell's several opponents, John A. Greer, a "western" candidate, proposed paying the foreign (outside Texas) creditors at the scaled values in 3 percent state bonds or in land scrip (*Texas State Gazette,* April 15, 1851), the market values of both of which were or would have been considerably below their face values. Although Bell, an "eastern" candidate, was reelected, he won with less than a majority vote (*Texas State Gazette,* September 6, 1851), and he then had to deal with a state legislature dominated by "western" interests.[18] The estimated coefficient of the quasi-dummy variable denoting the 1851 Texas gubernatorial campaign indicates that the price of Red Backs fell by about 60 percent during the campaign.

The third of the quasi-dummy variables denoting a period of time refers to the rise in price during early 1854, which preceded that year's Senate report, essentially a repeat of the Senate Finance Committee's report of two years earlier. Its estimated coefficient indicates that the market value of Texas Treasury Notes rose by about 35 percent during the period.

Both figure 1 and the regression equation show that from 1850 to 1856 price

18. The less-populated western counties had been overrepresented in the Texas legislature since the early days of the Republic of Texas (Spaw 1990, 21).

changes were well aligned with events affecting value, some of which, such as the passage of the Texas Boundary Act of 1850, were exactly identified, and others, such as the revelation during the Texas gubernatorial campaign of 1851 that sentiment in Texas was more antagonistic to foreign creditors than had previously been thought, were difficult to pin down. During the period, prices rose four times: (1) on the hope that Texas, in accepting the Texas Boundary Act, would make an offer acceptable to the foreign creditors, (2) on the hope in 1852 that Congress would act directly to settle the foreign debt, (3) on the hope that the federal courts, by enjoining Texas from making railroad land grants, would motivate the state to settle the foreign debt in a way acceptable to the foreign creditors, and (4) on the hope in 1854 that Congress would act to settle the foreign debt directly.

Possible "breakpoints" in the time series of prices were identified using an empirical approach.[19] The most probable breakpoint or change in price was first identified based on an F test, and then additional breakpoints were identified, one by one, subject to the set already identified, until breakpoints that appeared to be random dates started to be identified. A total of fifteen breakpoints were identified, corresponding to all but two of the dates identified by the a priori method. These breakpoints are reported in table 3.

This exercise reveals several interesting things, the most obvious of which is the high correlation between the empirically determined breakpoints and those determined a priori. Second, two weeks are indicated, during the time that Clay's omnibus bill was in committee, as possibly being when the committee's supposedly confidential proceedings were leaked to the market. If such leaks had been reported by the press, we probably would have uncovered them; but, a priori, we had no reason to identify the communication of committee developments to the market. These two weeks account statistically for the apparent run-up of price during the time the omnibus bill was in committee. Third, it appears that much but not all of all the information of the growing animus in Texas against foreign debt holders was revealed in the counting of the vote for governor in the election of 1851. Finally, the filing of a lawsuit in New Orleans and the acceptance of the Texas debt bill are not strongly supported by the empirical method as affecting the market value of Texas Treasury Notes. Identification of these dates by a priori information would have to be invoked. Considering the empirically determined breakpoints, the second column of table 2 reports the results of a hybrid model. The *t* statistics and R^2 of this regression can only be considered to be heuristic.

Conclusions

On three occasions, Texas repudiated the republic's debt. The first time was in 1842, when the republic under Sam Houston repudiated after a previous profligate admin-

19. As suggested by an anonymous referee of this essay and informed by the method Richard Burdekin (2006) uses.

Table 3
"Breakpoints" Identified by Empirical Method from Changes in the Natural Logarithm of the Market Value of Texas Treasury Notes in the Philadelphia Market, 334 Weekly Observations, January 12, 1850, to June 7, 1856

Empirical Breakpoint	Rank	Correspondence with a Priori Event	Comment
Jan. 19, 1850	8	Clay proposes omnibus bill	
Mar. 23, 1850	2	In committee (Jan. 26 to Aug. 10, 1850)	possible leak of committee developments
May 4, 1850	7	In committee (Jan. 26 to Aug. 10, 1850)	possible leak of committee developments
Aug. 17, 1850	15	Texas Boundary Act passes	
Sept. 28, 1850	3	Texas governor calls referendum	
Aug. 30, 1851	11	Texas governor campaign (Jan. 4 to Aug. 30, 1851)	indicates much information in election itself
Feb. 14, 1852	4	Texas legislature overrides veto	
Aug. 21, 1852	13	Report of U.S. Senate Finance Committee (Aug. 21 to 28, 1852)	
Sept. 4, 1852	6	1st half of bill temporarily withdrawn	
Sept. 18, 1852	9	2nd half of bill temporarily withdrawn	
Mar. 5, 1853	12	Sam Houston opposes bill, Senate adjourns (Mar. 5 to 12, 1853)	
Mar. 12, 1853	10	Houston opposes bill, Senate adjourns (Mar. 5 to 12, 1853)	
Nov. 5, 1853	1	Bill introduced in Texas to void debt	
Mar. 11, 1854	14	Hope Congress will renew interest (Feb. 17 to May 27, 1854)	
Feb. 17, 1855	5	Texas debt bill passes	
		Lawsuit (May 14, 1853)	not identified prior to seemingly random dates
		Texas Accepts Texas Debt Bill [3/22–29/56]	not identified prior to seemingly random dates

Note: Rank = order of identification based on F test.

istration. Following the U.S. annexation of Texas (and the new state's acceptance of the republic's debt), Texas repudiated for a second time by scaling down the debt in two steps (1848 and 1849). Shortly thereafter, as part of the Compromise of 1850, the terms of the Texas Boundary Act revived the republic's debt again, but in 1853 Texas repudiated for a third time and directed that the funds provided by Congress be used for other purposes.

Reputation did not motivate Texans to repay the republic's debt. The magnitude of the debt might have swamped consideration of the state's creditworthiness in tapping foreign capital. The Texas Boundary Act provided funds arguably sufficient to settle the debt, and upon its settlement, an equal amount of money would have been released to the state. Therefore, the state's burden of repayment was not heavy. Yet the growing animus against foreign creditors hindered attempts to induce the state to settle with its creditors on terms that, at least in the opinion of the Congress, would have been fair.

Although reputation did not motivate the Texans to redeem the debt, it does seem to have influenced the federal government's actions to secure redemption. Some argued that annexation of Texas by the United States entailed the assumption of some of the former's debts by the latter.[20] The United States subsequently attempted, twice, to have Texas settle this debt. In a third effort to settle the matter, the federal government asked for and received the state's acquiescence to the federal government's paying off the debt directly, using the reserved $5 million. In this third effort, private interest may also have been influential via lobbying.

As public-choice theory indicates, interest-group formation and lobbying are limited by free riding and subject to economies of scale. As long as ownership of the republic's foreign debt remained scattered, lobbying efforts were most likely weak and had little effect on Congress. It is unlikely that debt-holder lobbying had much to do with passage of the Texas Boundary Act in 1850. Over the next six years, however, ownership of the Texas debt became concentrated in the hands of a relatively few investors and their bankers (*New York Herald*, February 12, 1856). When the debt was redeemed, only 647 parties received payment (Hamilton 1957, 590). More than half of the money was disbursed to exactly sixteen persons, banks, and estates in amounts of at least $100,000, and most of the remainder went to 158 others in amounts of at least $5,000. The sixteen largest creditors included individuals and banking houses that had substantial influence in Congress and the Democratic Party.

Three historians have previously examined the payoff to Texas debt holders to

20. This obligation may not have been a matter of international law (in the sense of customary law, as designated in contemporary language) because, as decided by the umpire in a commission settling British claims against the United States, the republic's debt did not substantially involve foreign creditors (outside United States) and involved securities issued by Texas before it joined the United States (see Feilchenfeld 1931). The debt might therefore have been only domestic debt—that is, internal to the United States, for the United States to resolve—and the U.S. obligation regarding the Texas revenue debts only a matter of equity informed by international law. Burdekin (2006) thinks it might not be simply a coincidence that Congress finally resolved the Texas debt soon after the aforementioned findings.

uncover traces of corruption or direct bribery. Although Hamilton found no "absolute proof that Texas bondholders influenced the vote of a single congressman" (1964, 132), contemporary "witnesses" felt certain that the lobby bribed Southerners in and out of Congress. Stegmaier contends that "Southern and Northern 'ultras' believed that bondholders plied congressmen with Texas scrip at bargain prices with the assurance that the value would rise dramatically if the Pearce bill passed. Allegations abounded in the letters and newspapers of the time, but no substantiation has ever been produced to support the charge that the House votes were actually bought through Texas bonds" (1996, 280). Similarly, Mark Summers (1987), who focuses specifically on political corruption, uncovers no corroborating evidence that votes were bought with Texas bonds.

Unlike the previous analysts, we consider the role of lobbying broadly defined, in both Texas and the U.S. Congress. For example, in Texas a special committee was appointed in the state legislature's lower chamber to investigate accusations of bribery and corruption in conjunction with the legislature's acceptance of the terms of the 1856 Texas debt bill (*Texas State Gazette,* August 9, 1856). Later that year, the *Texas State Gazette* itself attributed the debt's redemption to "an intrigue among the five and ten percent speculators in Texas scrip, and those harpies who infest the lobbies of Congress and public officers of Washington" (September 9, 1856).

Pecuniary interests can influence legislation without any resort to illegal bribery. Other means may be available. We expect special-interest groups to influence legislation effectively if the legislation's benefits are sufficiently concentrated and its costs sufficiently diffuse. In such a situation, a special-interest group can influence some legislators without any countervailing influence being exerted on others. In the present case, the initial, diffuse ownership of Texas's foreign debt debilitated an effective lobbying effort. However, with the subsequent concentration of ownership, lobbying Congress might have become effective by communicating to individual congressmen the gains to be enjoyed by fellow party members even if not by those congressmen themselves. Hamilton identifies many influential Democrats and some former Whigs who joined with the Democrats in 1856 as beneficiaries of the Texas debt's redemption and as helpful in James Buchanan's election as president later that year (1957, 592). Given the Whigs' disposition toward debt repayment, gaining support from enough Democratic congressmen would have been sufficient to push the settlement over the congressional hump.

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