

SNAPSHOT

Republic of Texas Dollar Slumped when Public Doubted Its Worth

The saying “cash is king” is based on the assumption that as the most liquid form of exchange, money in hand is superior to, say, the debt obligations of private companies. The independent Republic of Texas tested that proposition during its existence, from 1836 to 1845.

The period coincided with a severe depression in the U.S. that lasted from 1837 to 1845 and influenced events in the republic, whose constitution gave lawmakers “the power to coin money,” provided it was gold or silver. Metal coins of any type were scarce in the U.S. and more so in Texas, which never issued them.

In January 1839, during the administration of Mirabeau B. Lamar, a new type of promissory note called the “red back” was authorized. As James Michener observes in his 1,000-plus-page historical narrative *Texas*, a fictional work grounded in fact, the currency didn’t garner wide acceptance during its three years of circulation:

“But always the limiting factor was this strangling lack of currency, and when the distressed nation, swamped with debt, tried to salvage itself by printing two million dollars’

worth of ‘red-back bills’ supported by no collateral except the government’s word and faith, citizens evaluated the situation realistically,” Michener writes.

“On the first day it was issued, a dollar bill was worth fifty cents, a few days later thirty cents, then ten cents and four cents, until it bottomed out at an appalling two cents.”

By February 1842, not even the republic’s government had any faith in its currency. The Texas dollar was no longer acceptable for payment of taxes. In its place, obligations issued by state banks were legal tender, along with “shinplasters,” company-issued notes in denominations of less than a dollar that first appeared in fall 1837. The Texas Congress had previously moved to restrict such currency to ensure the primacy of its own money.

—Adapted from the *Journal of Political Economy* (April 2013) and *Handbook of Texas*



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