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Credit Mobilier

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Four years ago I wrote of the Credit Mobilier scandal and the administration of President Ulysses S. Grant. As this case was part of the legacy of the Transcontinental Railroad, I thought it was a good time to take another look. I've added additional material from new sources.

By the end of the American Civil War, no man was more admired, next to Abraham Lincoln, than Ulysses Grant. His efforts on behalf of the Union made him so. And in the South, they respected the magnanimous side of the war leader, for it was Grant who told his men at Appomattox that there would be no cheering after General Lee's surrender. "The war is over - the rebels are our countrymen again."

And so it was that in 1868, with zero prior political experience, Republicans made him their choice to be president and Grant won in convincing fashion in the electoral vote, 214-80, over the Democrat Horatio Seymour.

The post-war era was known as the "Gilded Age" in America. Business leaders certainly didn't want the government meddling in their affairs; unless, of course, it was the building of the railroads, whereupon the robber barons were more than willing to receive federal grants of free public land.

To the moneyed folk, President Grant was like a "chairman of the board," someone who would defer to them on matters of business. For his part, Grant didn't believe in an activist presidency either. Let the peoples' elected officials pass the laws and he'll administer them.

An example of this laissez-faire attitude was contained in Grant's first annual message. "The appropriations estimated for river and harbor improvements and for fortifications are submitted. Whatever amount Congress may deem appropriate for these purposes will be expended."

Patronage was the name of the game back then (actually, it still is today) and the practice would enmesh the Grant administration in all manner of scandals, one of which was Credit Mobilier of America. As historian Charles Morris notes, the name is the bane of history students, for the company had nothing to do with the French bank of the same name. And the story would get more confusing when in 1867 the French Credit Mobilier collapsed, meaning that for a time a "Credit Mobilier scandal" was being investigated in both countries.

Back in 1859, businessman George Francis Train noticed that there was a little Pennsylvania corporation called the Pennsylvania Fiscal Agency, which wasn't doing any business to speak of yet offered something in its charter that Train and future associates like the legendary Will Durant wanted; a provision that limited liability for company stockholders. In other words, investors would not be liable for the corporation's debts to the full extent of the individual's personal worth. Instead, owner liability would go only as far as each had invested. So in March 1864, Train offered \$25,000 for the charter, Will Durant was named

president and the name was changed to Credit Mobilier of America.

Meanwhile, the Union Pacific Railroad had been formally chartered by the federal government in 1865 to build out one of the links in the transcontinental line. In return for constructing the railroad, and the costs (and dangers) were huge, the government would then grant the operators millions of acres along the route, land that would become much more valuable once it was accessible by the railroad.

The owners of Union Pacific then turned to Credit Mobilier to be the construction company. Credit Mobilier even had an office next to UP's headquarters (not exactly legal). Credit Mobilier then raised capital in its name to finance the railroad's construction, but charged exorbitant fees along the way, knowing it would be repaid (with healthy interest, of course) from the loan proceeds that Union Pacific received.

Through this scam, the stockholders of Credit Mobilier made millions as a result of the wild overcharging, while Union Pacific and its stockholders were bled dry. In one of my earlier pieces I wrote of chief engineer Dey initially estimating the cost of a large section of track to be \$30,000 a mile. But Credit Mobilier asked for, and received, \$60,000. [That's when Dey, a man of principle, resigned.]

As for the shareholders, John Steele Gordon writes in "An Empire of Wealth":

"In 1867 Credit Mobilier paid its first dividend to its stockholders, amounting to 76 percent of their investment. Future dividends ranged up to 350 percent. In the second dividend of 1868 alone, a person holding \$10,000 par value in Credit Mobilier stock received \$9,000 in cash, \$7,500 in Union Pacific bonds then selling at par, and forty shares of Union Pacific stock worth \$1,600, a return on capital of 181 percent."

And who were the Credit Mobilier stockholders that profited so nicely? Many members of Congress, 13 to be exact, though it took a number of years for the activity to be made public.

The ringleader was Congressman Oakes Ames, himself a shareholder. Since the owners of Credit Mobilier had to make sure there was no interference from Washington, they enlisted the help of Congress as well as members of the Grant administration, who were then given stock in Credit Mobilier. As for the Union Pacific executives, they received sweetheart deals which enabled them to buy CM stock, financing this through UP's huge dividends. Among those receiving shares was Schuyler Colfax, who would become President Grant's first vice president.

Finally, in 1872 the scam began to unravel. While the list of CM stockholders was to be kept confidential, Oakes released them. The 13 congressmen, plus Colfax, were implicated. Ames and one other pled guilty to bribery, while the other congressmen and Colfax were found innocent of receiving bribes after a lengthy trial, because, in the words of Charles Morris, "they did not understand his nefarious purpose." Morris goes on, "The notion that congressmen as a class were entitled to a defense of diminished responsibility delighted the nation's editorial writers."

The news of the scandal was trumpeted as "the most damaging exhibition of official and private villainy and corruption ever laid bare to the gaze of the world." Two vice presidents (Colfax was Grant's first term veep, Henry Wilson the second), the Speaker of the House, a future president (James Garfield) and almost every important committee chairman were involved. As a Philadelphia paper wrote, "All of them are proven, by irrefutable evidence, to have been bribed." The correspondent then goes on to say that "the public has long known, in a vague sort of way, that the Union Pacific Railroad was a gigantic steal:" the federal bond subsidies had been enough to build and equip the

road, he said, but the public had been bilked when the Union Pacific was allowed to issue first-mortgage bonds ahead of the government's. On top of that were the tens of millions of acres of the public domain. [Source: David H. Bain]

While much of the activity took place before Ulysses Grant's election, and while he had no direct involvement whatsoever, it certainly hurt his legacy.

In 1873, Mark Twain co-wrote "The Gilded Age" with friend Charles Dudley Warner, an instant best-seller whose title literally defined the era for future generations. Historian Steve Fraser notes in "Every Man a Speculator":

"Twain captured the ridiculousness, the cant, and the pretentiousness of a post-Civil War America where 'the air is full of money, nothing but money, money floating through the air.' Who today can fail to hear the risibly familiar in the following contemplation: 'Beautiful credit! The foundation of modern society? That is a peculiar condition of society which enables a whole nation to instantly recognize point and meaning in a familiar newspaper anecdote, which puts into the mouth of a distinguished speculator in lands and mines this remark - "I wasn't worth a cent two years ago, and now I owe two million dollars." ""

Sources:

- "Empire Express," David H. Bain
- "American Heritage: The Presidents," Michael Beschloss
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