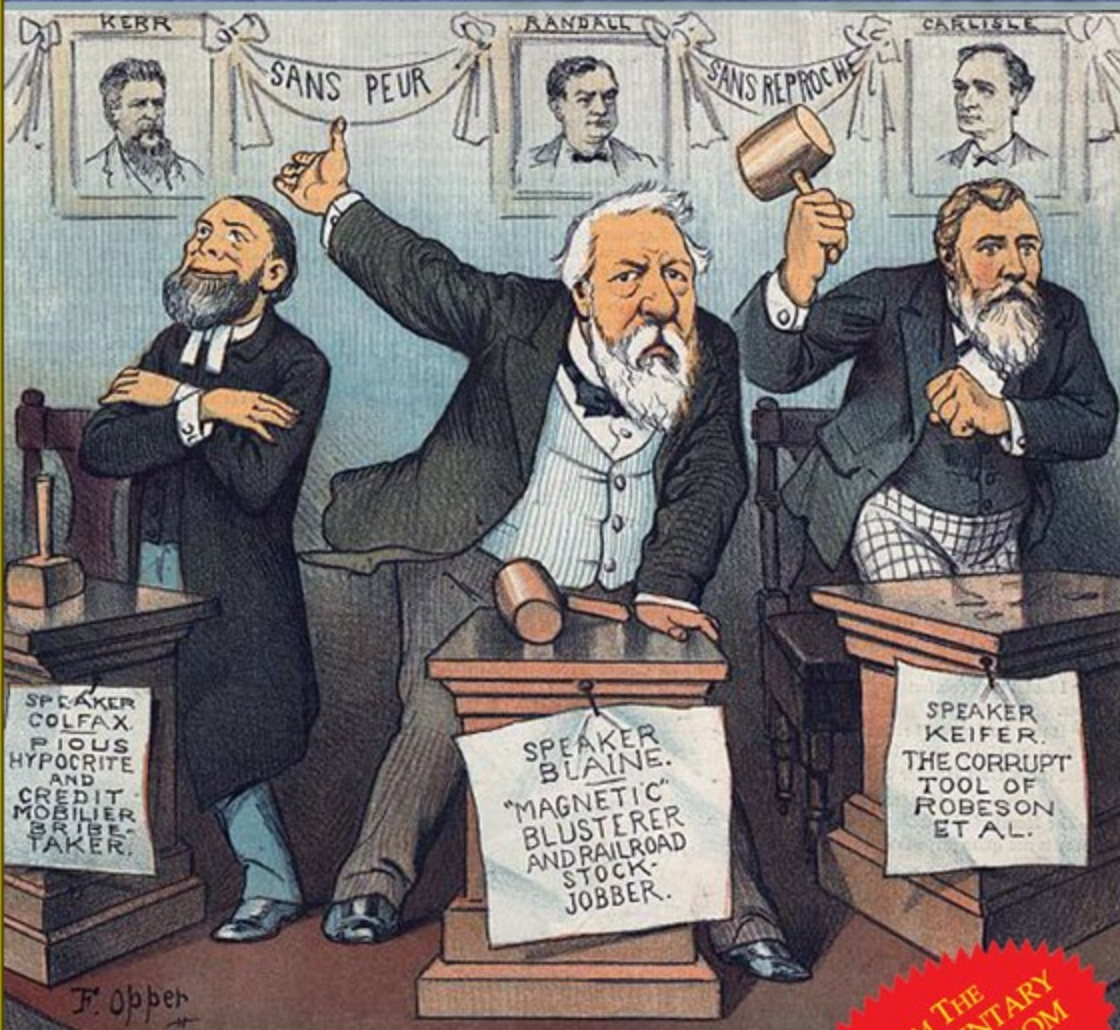


FROM THE AUTHOR OF
THE FIRST TRANSCONTINENTAL RAILROAD STORY

The

CREDIT MOBILIER

Scandal of 1872



SCOTT M. SLAUGHTER

SMS

www.scottslaughter.com

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COMPLIMENTARY
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**Thank you for
downloading *The Credit
Mobilier Scandal of 1872.***



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Printed in the U.S.A.

The illustration "Strange, but true" on the cover is from Frederick Burr Opper (1857-1937). It first appeared on the cover of the July 16, 1884, issue of Puck.

Opper's illustration shows Schuyler Colfax standing at the "Speaker Colfax - Pious Hypocrite and Credit Mobilier Bribe-Taker" lectern. James Blaine stands at the "Speaker Blaine - 'Magnetic' Blusterer and Railroad Stock-Jobber" lectern and Joseph Keifer stands at the "Speaker Keifer - The Corrupt Tool of Robeson et al." lectern,

Blaine gestures toward three portraits hanging on the wall in the background, of former Democratic Speakers of the House, labeled "Kerr, Randall, [and] Carlisle". (Courtesy U.S. Library of Congress)

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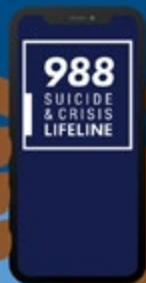
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• Introduction •

The Credit Mobilier Scandal of 1872 involved the Union Pacific Railroad and the Credit Mobilier of America (which had no connection with the French Credit Mobilier) construction company in the building of the western portion of the First Transcontinental Railroad across the United States.

In 1868 Congressman Oakes Ames had distributed Credit Mobilier shares of stock to other congressmen, in addition to making cash bribes, during the Andrew Johnson presidency.

The New York newspaper called *The Sun* broke the story during the 1872 presidential campaign when Ulysses S. Grant was running for re-election. The origins for the scandal, however, began a few years earlier during Abraham Lincoln's presidency when the Union Pacific Railroad was chartered in 1864 by the federal government and the associated Credit Mobilier was established.



• Background Of A True Scandal •

The United States government authorized and chartered the Union Pacific Railroad in 1864-1868 with \$100,000,000 capital to complete a transcontinental line west from the Missouri River to the Pacific Coast. The government offered to assist it by loaning \$16,000 to \$48,000 per mile (depending on location) for more than \$60,000,000 in all as well as a land grant of 20,000,000 acres that was worth from \$50,000,000 to \$100,000,000.

The offer at first attracted little interest mostly because the conditions for building a 1,750 mile long railroad through deserts and mountains were too intimidating. In addition to the extremely high freight costs for supplies, there was the likely risk of armed conflict with hostile tribes of Indians, who occupied many territories in the interior. Also, perhaps even more important some who were putting up the money, no probable early business to pay dividends.

The creation of Credit Mobilier of America was a deliberate attempt to falsely present to the United States government and the general public the appearance that a corporate enterprise that wasn't connected with the Union Pacific Railroad and its principal officers had been impartially selected by the Union Pacific Railroad's officers and directors to be the principal construction contractor and construction management firm for the Union Pacific Railroad project.

Credit Mobilier was created by Thomas Durant and the officers of the Union Pacific to garner profits from railroad construction, guaranteeing he and other insiders would realize a fortune from the railroad without exposing themselves to the project's high-stake risks.

They believed that profits couldn't be generated from the operation of the railroad. So, they created a fake company to charge the U.S. Government outrageous fees and expenses during construction of the line.



• How The Scam Worked •

For Union Pacific executive Thomas Durant, it was an almost perfect money-making machine. One reason it was such so successful for Durant and the others was that it wasn't illegal at the time — although it, of course, should have

been. It was a revolutionary business model previously unknown in the United States. It was secretive and utterly opaque to the reporters who eventually tried to discover its workings.

Durant chartered a company named Credit Mobilier of America to garner profits from railroad construction, guaranteeing he and other insiders would realize a fortune from the railroad without exposing themselves to the project's high-stake risks.

Because Durant was convinced building a railroad would be more profitable than running one, he had to first get into the construction business.

Durant and George Francis Train along with other partners formed the Credit Mobilier in 1864. They purchased an idle fiscal agency called the Pennsylvania Fiscal Agency and altered its structure to mirror a French company, hence the French-sounding name, but as I mentioned, the two companies were definitely not related.

In simple terms, the new company welcomed a select group of investors while limiting their liability. Prior to Credit Mobilier, corporate law held investors liable for their entire personal holdings. In contrast, Credit Mobilier investors were only responsible for the extent of their investment. Durant paid crony Herbert M. Hoxie to submit a construction bid to the Union Pacific. No one else got the call to bid, and as the only bid received, Hoxie's offer was unanimously approved. Hoxie signed the contract over to his benefactor -- and Durant transferred it into the name of Credit Mobilier.

All the Pay But With None Of The Risk

Durant basically got all the pay with none of the risk because he hired himself to construct the railroad. He paid Credit Mobilier with money given to the Union Pacific by government bonds and risk-taking investors. He subcontracted railroad work to real construction crews while using inflated estimates to ensure significant profit. There was no liability so it was irrelevant whether the railroad actually got built.

Durant wouldn't lose the profit he had already earned even in the event of a forfeiture. With a crazily bent, ox-bow-shaped line out of Omaha that added nine unnecessary but profit-generating miles to construction, the money-making machine got off to a roaring start.

Power Struggle

It's probably not too surprising considering the money rolling in that there eventually would be a power struggle at the top.

Conflict in the Credit Mobilier boardroom brought construction to a standstill in 1867. Credit Mobilier replaced Thomas Durant as its head with the Congressman Oakes Ames. This move infuriated Durant, who filed an injunction forbidding Credit Mobilier from assigning new construction contracts to replace the expiring Hoxie agreement.

Oliver and his Congressman brother Oakes Ames managed to oust Durant from the Credit Mobilier board, which then split into two factions. More injunctions followed, as did months of bitter impasse. Exasperated crews waited for work at the end of the tracks. The Ames brothers eventually set them working without a contract, which meant each completed mile equaled unrealized profit. That resolved the issue, if not tensions.

“We Should Not Be Interfered With”

On the strength of renewed profits and a declared dividend, Credit Mobilier boomed. Ames, who found himself overwhelmed with legislators demanding a piece of the action, offered shares of stock in Credit Mobilier to his fellow members of Congress at its discounted value rather than the market value, which was much higher. He distributed stock to two senators and nine representatives in 1867.

The high market value of the stock was due to the superb performance of Credit Mobilier of America as a corporation; which was in turn due to its major contract with the Union Pacific. Credit Mobilier was the exclusive construction and management agent for the building of the Pacific Railroad. The Union Pacific “suspected” nothing, and they “paid” Credit Mobilier (actually themselves) whatever “they” were asked to pay. Credit Mobilier’s corporate balance sheet regularly showed high earnings in excess of its expenses, and very high net profits in every quarter that it was engaged in the construction of the railroad. It also declared substantial quarterly dividends on its stock.

A few of the representatives returned the gift. Ames recorded his transactions in a ledger. For discretion’s sake, Ames often kept the stock in his name and dispensed earnings where necessary. By virtue of their posts, all the recipients held influence over railroad legislation, but none seemed to sense any conflict of interest in their purchases. Ames, furthermore, was intent on gaining and keeping their support. “We want more friends in this Congress,” Ames wrote, “and if a man will look into the law (and it is difficult to get them to do it unless they have an interest to do so), he can not help being convinced that we should not be interfered with.”

In October 1867, Oliver and Oakes Ames grudgingly reinstated Durant; he in turn endorsed an Ames construction contract that sent money from those miles flowing retroactively into their pockets.

Scandal erupted in election season 1872, as president and UP friend Ulysses S. Grant came up for his second term. Testimony from a lawsuit against the Credit Mobilier contained a partial list of Oakes Ames's stock contacts of half a decade earlier. Mistaken for a listing of stock recipients, the itemized names included incumbent Vice President Schuyler Colfax, Vice Presidential nominee Henry Wilson, Speaker of the House James Blaine, and ten others (among them future president James Garfield). The anti-Grant press seized upon the revelation as "the most damaging exhibition of official and private villainy and corruption ever laid bare to the gaze of the world." A blizzard of controversy overwhelmed the public -- but had little ultimate effect upon the elections.

Press Claims "WHITEWASH!"

Although Speaker Blaine had never accepted Credit Mobilier stock, nevertheless saw his name tainted in the scandal, moved that Congress investigate the charges.

When Oakes Ames was called before a Capitol Hill committee, he steadfastly maintained that nothing illegal had transpired and was, therefore, willing to talk. This naturally outraged his colleagues who then turned on Ames. Ames, in response, produced the ledger book, which was the proverbial smoking gun in the investigation. The ledger ultimately cleared both Speaker Blaine and Henry Wilson, but incriminated Colfax and thirteen other legislators.

The public became captivated with the Committee proceedings and the press eagerly and closely followed every move of the Committee. The Committee decided against taking measures against those Ames fingered but did decide to punish Ames and New York Democrat James Brooks with congressional censure. No criminal or even civil charges were filed against any of the Credit Mobilier's miscreants. The press was outraged and their headlines displayed "WHITEWASH!"

The Department of Justice (DOJ) also began its own investigation with Aaron Perry, a former U.S. Representative from Ohio, serving as chief counsel. The government found during the DOJ investigation that the company had given shares to more than thirty representatives of both parties, including James Garfield, Schuyler Colfax, James Patterson and Henry Wilson.

Garfield vehemently denied the charges, but the scandal apparently didn't hurt him too much because he won the 1880 presidential election. The Republicans replaced Colfax on the ticket, who was being renominated for Vice President, with Henry Wilson, even though he was also implicated in the Credit Mobilier Scandal.

No Happy Ending This Time

A young muckraker named Charles Francis Adams Jr., brother of journalist and historian Henry Adams and descendant of the two U.S. presidents named Adams, wrote in January 1869 of the scheme's complexity. "What this Credit Mobilier is seems to be as much shrouded in mystery as is the fate of the missing \$180,000,000 of capital stock of these roads."

He also pointed out that the financial improprieties would result in higher taxes on the trade carried by the railroad in the future, meaning that, as Durant had planned, someone else would have to pay for cleaning up the Credit Mobilier mess.

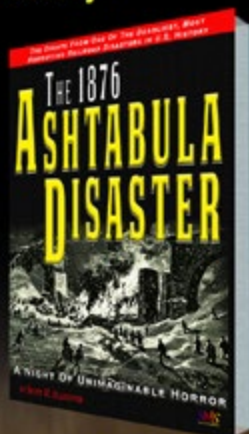
The Credit Mobilier schemers were never fully punished

The Events Recounting One Of The
**DEADLIEST, MOST
 HORRIFYING RAILROAD
 DISASTERS**
 in U.S. History

The holiday season of 1876 should have been a joyous time for the passengers aboard the Lake Shore & Michigan Southern Railroad *Pacific Express* train.

However, the moment the train crossed the bridge over the Ashtabula River, the bridge collapsed and all the passenger cars and the trailing locomotive fell about 80 feet before smashing down onto the hard ice of the frozen Ashtabula River.

Many of the 92 passengers and crew who perished were killed during the fall or crushed under falling cars. However dozens of trapped passengers died in a night of unimaginable horror in the out-of-control fires started by the overturned coal-fired stoves and oil lamps.



**A NIGHT OF
 UNIMAGINABLE
 HORROR**

The 1876 Ashtabula Disaster

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