Typical LIRR and First Division St. Paul & Pacific Railroad Book Keeping Fraud
OR
Why the LIRR Wasn't Completed Before 1837 ?

Why did it take 10 years 1834- 1844, an outrageously long period of time to complete the LIRR from Jamaica to Greenport, a distance of less than 84 miles- over some of the easiest terrain in the world?

Its usually blamed on “The Panic of 1837”. However, lets delve a little bit deeper...

It was fairly common for 19th century railroads to be operated as business frauds.

First, the railroad's Board of Directors would greatly exaggerate the capital construction costs of building the line. Then, they would take some- or all of these inflated capital costs and “misplace” them into the Operating Costs of the railroad. This “method” was rediscovered by James J. Hill when he pored over the books of the First Division St.P&P RR (owned by E.B. Litchfield and his cronies).

For example, according to the preeminent contemporary 19th century railroad expert Von Gerstner, the per mile construction cost of the LIRR was great inflated (by about 350% of Chief Engineer D.B. Douglass's estimate for the 2 track Brooklyn & Jamaica RR) to nearly $46,000 per mile for what was essentially built as single track line on extremely easy terrain (although the LIRR was graded for 2 tracks, only 1 was installed). According to Von Gerstner, half of the LIRR's original capitalization was dissipated in this way.

According to Von Gerstner, this inflated construction cost was the direct cause of the LIRR not being completed on time, prior to the Panic of 1837. See Von Gerstner *Early American Railroads*, pgs 266-267, 270. Consequently, the LIRR was not completed until 1844. In fact, the LIRR Stockholder's Report of Jan 1845 states the actual cost of completing the LIRR in 1843-44 was in fact $10,000 per mile (in line with the original D.B. Douglass estimate). The LIRR's completion to Greenport was partly funded through the assistance of $100,000 in bonds issued by NY State in 1843.

In their January 1845 Shareholder's Report, the LIRR shows a healthy profit of about $70,000 for the last five months of 1844, reflecting the opening of its two new through routes to Boston. The LIRR's total Operating Costs for all of 1844 (which also included the Capital related costs of grading the balance of the line to Greenport using their own locomotives, and of transporting construction materials and equipment over their own line, as well as other operating costs the locomotives incurred in completing the LIRR to Greenport) was given as only $83,412.69.

In 1844, the LIRR claimed it spent an additional $400,000 on “ferries and docks” (C. Vanderbilt?), bringing its total capitalization to about $1.9 million from its original $1.5 million (with $1.8 million in issued stock).

A hefty portion of this $400,000 sum then appears to get improperly “switched across” into the LIRR's Operating Costs of 1846- which were a whopping $350,000 (*Annual Railroad Report to NYS*, *Documents of the NYS Assembly*, 1847 pg 37- 38). The LIRR is then shown to be operating at a net loss. This “technique” was later used by E.B. Litchfield on the books of the First Division St. Paul & Pacific RR, see *James J. Hill* by Michael Malone, pg 57.

Why?

The railroad's so-called “contractors on paper” (straw men) would then “sub out” the construction work to the actual contractors at a much lower cost. The “paper contractors” then splitting the surplus money with the railroad's Board Members and others who were part of the scheme (kick backs).

In this way, the Board Members and other interested parties of the particular railroad could “almost legally” misappropriate large sums of money from the railroad right up front. Because the railroad showed little to zero profit on paper, no dividends would have to be paid to stock holders (the antebellum LIRR never paid a dividend, not even when they touted their respectable $70,000 profit for the last 5 months of 1844), no principle ever paid back to the bond holders (sometimes no interest either), and further, in the case of the LIRR, its annual rental charges for using the Brooklyn & Jamaica RR were substantially rolled back too.

This “method” of railroad finance finally came to the attention of the general public with the construction of the first transcontinental railroad circa 1869- the massive Credit Mobilier Scandal of the Union Pacific Railroad and the Ulysses S. Grant administration.