Financial Capital and the Municipal State: The Case of Victoria, British Columbia, 1910–1936

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The study of Canadian urban history has undergone significant change over the past decade. Those who first began to write in a serious and sustained way about the history of Canadian cities adopted as their approach that of the leading Canadian historical biographers of the 1950s and 1960s. Emphasis was placed on the actions of local
boosters as the key, and even independent variable for understanding the nature of urban change. Cities, like individuals, were assumed to be unique and virtually isolated entities, best understood as products of casual interaction between local characters and haphazard circumstance. Wider environmental or structural concerns were, if mentioned at all, handled by "light touches". The centerpiece was the individual, most often a booster; the milieu was the local urban environment. Local agency determined urban success or failure.²

Even those most closely associated with this early approach have, as Chad Gaffield has pointed out, begun to emphasize the importance of geographic context and historical time for understanding the development of urban centers. A more broadly comparative focus is emerging, albeit what is being compared is often still the nature of urban elites across time and across space.³ Such as emphasis on elites or groups, as opposed to individuals, reflects in part the work of scholars interested in understanding the emergence and persistence of social structural inequality over time. Work by Michael Katz, Michael Doucet, Mark Stern and David Gagan gave a new dimension to Canadian urban historiography. Much of their research suggested that social structures were fixed features of urban society. Individuals and groups, especially at the lower levels of society, moved from city to city with great rapidity. Lateral movement across space, rather than upward movement into higher social groups, characterized this process. These findings suggested that human agency may not be the crucial variable for understanding urban development. Katz, for one, increasingly pointed to wider economic forces as key variables in determining the experience of the urban majority.⁴

In some ways complementing this approach, the work of Canadian working class historians has wrestled with the problem of depicting the dynamism of working class behaviour in urban settings while at the same time recognizing the constraining influences of the broader, general economic structures pointed to by Katz. In so doing, their work has shed significant light on the inner workings of urban politics, economy and society.⁵

Others less interested in specific aspects of urban experience have attempted to situate cities within an overarching urban system. In some ways a variant of the very protean metropolis—
hinterland perspective, the systems approach assumes that cities are far from being unique and isolated entities. Rather, cities are viewed as dependent parts of an interrelated urban whole. While, for the most part, in the Canadian context this "whole" has been limited to a national frame, the perspective itself is consistent with recent work on a more global scale by followers of Immanuel Wallerstein. Urban change, to be understood, must be linked to global economic factors.

The social structural, working class and systems perspectives have in common the tendency to emphasize processes that are supra urban in that they exist "throughout the whole society". They reflect, in fact, less a concern for understanding things specifically defined as urban, and more a desire to comprehend "basic processes and dynamics of change". In this sense, the city as a unit of analysis becomes a laboratory or geographical construct, within which the working out of these larger forces can be examined.

While in the United States this emphasis on general structural forces has led some scholars to question the validity of the term "urban history", such extreme critiques dominate neither side of the forty-ninth parallel. Rather, an increasingly conscious attempt is being made to integrate structural understanding of the general political economy with the micro environment of urban life. The central focus of this paper reflects that concern. Specifically, the paper argues that a current tendency among many scholars to link aspects of urban change to the workings of industrial/corporate capital, while revealing at a broad level, fails to distinguish between various interests of capital; and, in particular, fails to trace the interaction between specific capital interests and local political factors.

This point can be introduced more fully via a brief examination of literature which links North American and especially western Canadian urban development during the interwar years to the workings of industrial capital. In the decade or so before 1913, urban places generally experienced rapid growth. This dynamism, however, rarely extended beyond 1914. Rather, slow growth, declining autonomy and financial crises prevailed in most, and in western Canada virtually all, urban centers well into the post-World War Two era.
The reasons offered for this dramatic reversal in fortune are complex, but recent explanations point to the impact of a central trend in twentieth century North American society—the rise of corporate capitalism—as the most important single factor. While this trend had multiple effects, the one given most prominence concerns an alleged shift in allegiance on the part of local elites. Prospective boosters began to identify with corporations, rather than with local places. Since most corporations had their offices in several major cities or, increasingly, in corporate suburbs, most local entrepreneurial leaders began to tie their futures to the growth of a corporation, rather than to the growth of a city in which they might be only temporary residents. This transformation undermined the primacy of place and permitted, in Canada, provincial and federal governments to strip municipalities of accrued powers, not only without local resistance but at times with local complicity. Thus many urban centers lost both the will and the means to engage in dynamic city building programmes.\textsuperscript{15}

While persuasive at a general level, this analysis oversimplifies the process of urban change in the twentieth century by failing to consider the prior and complementary impact which financial capitalists had on the fortunes of many urban centres. While changes in the growth and structure of industrial capitalism may be critical to the pace of overall urban growth, these changes do not explain aspects of urban development which are no less important than growth itself. Specifically, structural changes in industrial capitalism do not fully explain the erosion of local power and municipal autonomy; the timing and rate of capital flow to and from municipalities; the decline of boosterism; or, the nature of relationships between governments at the municipal level and governments at the provincial level.

Many of these problems stem from a particular understanding of the workings of capital in the modern world. It is at least implicitly assumed that financial capital is inseparable from the corporate/industrial nexus, and thus it would be redundant to treat it as a distinct variable. This perception is often "proven" by pointing to the interlocking nature of modern banking and industrial/corporate directorates. Similar interlocking networks have been found for both Canada and the United States in the early years of the twentieth century.\textsuperscript{14}
Yet investment is a process rather than a unitary, institutionalized power bloc, and thus a separation of interest between financial capital and industrial capital is analytically possible. Those who own capital and lend it, either directly or through agents, perform an often complementary but distinguishable role from those who, like the corporate or industrial capitalists, employ capital. As Lawrence Harris has pointed out, "financial capital plays a significant role as a mass of capital existing outside the production process, giving the appearance of being independent of it, and yet affected by and affecting it in several ways." This separation is especially clear in the context of early urban development. City boosters sought financial capital to underwrite the development of a social and physical infrastructure which would help attract industrial and corporate producers. Streets were paved, water and sewage systems modernized and industrial parks serviced, all with support from local short-term banking accommodation and, most significantly, via longer term bonded indebtedness entered into with securities and insurance companies operating out of Toronto, Montreal, New York and London, England. By the mid 1920s, in British Columbia at least, much of the bond debt began to be successfully floated within the province, leading to the emergence of a local bond dealers lobby group. These various financial institutions provided capital, which was in an almost literal sense meant to pave the way for the introduction of industrial capital at the municipal level.

Such, at any rate, was the intent. The risk, of course, was that the industrial sector would, for whatever reason, refuse to follow. With the downturn in the economy immediately before and following World War One, industrial expansion failed to meet the expectations of local boosters and their often non-local financial backers. This undermined the fiscal base of many municipalities and threatened the interests of financial capitalists. The reaction of those capitalists and their agents to a large extent precipitated the decline of boosterism and municipal autonomy, and facilitated the accompanying and increasingly formal transferral of local power to the provincial state.

The investment process under analysis here did not operate within a vacuum, but rather took place within a fixed geographical and a pre-existing political context. Local govern-
ments played major roles in setting the contours of that environment. If cities had to conform (and they did) to certain expectations held by money lenders, the latter themselves had to work through the mediating influence of an accumulation of local customs, regulations and laws. Local characteristics led to variations in the timing and specificity of change from municipality to municipality and, especially, from province to province and country to country. The following case study of Victoria cannot therefore do justice to the reality of diversity. It does, however, point to the importance of distinguishing between different categories of capital, and of demonstrating how specific economic processes affected and were affected by local economic and political behaviour.

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Fueled by general prosperity in Western Canada, by massive regional immigration, by an escalation of American investment in local timber resources and by the anticipation of a commercial upswing following the completion of the Panama Canal (opened in 1914), a boom engulfed Victoria in the immediate pre-World War One era. For Victoria, the boom represented a second chance. During the decade of the 1880s, the city had catapulted from twenty-seventh to eleventh in size of population, and had ranked fifth out of Canada's twenty largest cities in per capita value of manufacturing production. The next decade and a half was a period of almost unmitigated industrial and financial decline. Her major industrial corporations (the Albion Iron works, for example) either closed their doors or moved elsewhere, often to Vancouver. Her major banking establishments were either taken over by eastern Canadian interests or went out of business. The seal trade, so lucrative in the 1880s, petered out even before the imposition of an international ban in 1911. Salmon canning, controlled by Victorians in the 1880s and 1890s, fell prey to larger Toronto-based firms.

Small wonder then, that the ensuing boom "astonished old timers and . . . the Province at large." Having just lived through a depressing period of deindustrialization, Victoria's local boosters blithely mortgaged the city's future in a vain attempt to reattract permanent industrial/corporate investment. Ini-
ially the British investment market responded with alacrity. Financial capital flowed in. In just two years—1911 and 1912—the city spent $7,711,056 in upgrading its facilities. This included the granting of “the largest paving contract ever awarded by a Canadian city”, covering eighty-nine streets (thirty miles) at a cost of $1,150,000. During the same period, sixty miles of concrete sidewalks were laid, a pioneering programme of boulevard development commenced, and an ambitious and costly revamping of the municipality's water system was undertaken. With provincial help, the city purchased the adjoining Songhees Indian reserve with the intent of developing it into an industrial park. As a result of these and other expenditures, the city’s debenture debt reached $18,900,000 by 1917. This did not include $2,271,000 in treasury bills issued against unsold debentures; nor did it include $1,500,000 owing various sinking funds. The city's debenture debt alone represented a per capita burden nearly twice that of Vancouver. Almost all of this had been contracted before the outbreak of World War One, and all but $5,400,000 had been borrowed after 1910.

What did this civic expenditure attract? Between 1907 and the end of 1913, the city issued just over $23,000,000 worth of building permits. Forty-three percent of that money was used to construct private residences. Twenty-five to thirty percent related to commercial ventures, and ten to fifteen percent to government buildings. Industrial pursuits amounted to only fourteen percent of the total outlay on construction. In fact the gross value of manufacturing production in Victoria in 1911 fell short of the amount produced in 1891, and per capita value of production did not reach the 1881 figure.

If industrial or corporate capital stayed away, prospective industrial workers (attracted in part by booster-generated advertisements extolling Victoria's glowing industrial future) flocked to the city. Even at the height of the boom, local observers lamented that “there never have been as many idle and unemployed men in Victoria as at the present time.” The local office of the British Columbia Federation of Labour wrote to a London, England newspaper to warn prospective immigrants that now “is not a favourable time to go to” the island port. A “congested” labour market, high rents, high cost of living and inadequate wages awaited the foolhardy. The Vic-
Victoria Daily Times advised that no jobs in commerce or general manufacturing existed in the city.\textsuperscript{25}

While the city succeeded in attracting financial capital and fashioning a modern infrastructure for corporate and industrial use, few took advantage of it. Since orderly repayment of civic debt had been predicated on the full utilization of the new infrastructure, the city soon found itself in dire financial straits. Far from unique, Victoria's situation in fact reflected a larger regional imbalance in the distribution of financial and industrial capital. This suggests that financial and industrial capital did not always act as an integrated power bloc. Rather, capital circulation was a process characterized, despite the best efforts of money managers, by often uneven ebbs and flows; by, as David Harvey commented, "perpetual shifts in the power relations between industrial and banking capital."\textsuperscript{24} Clearly those who directed money to western cities for infrastructural development did so anticipating further investment of an industrial and productive sort. A proper balance was the ideal. In Victoria and most other western urban centers, such a balance did not exist in the period under review.\textsuperscript{29} Cities such as Victoria struggled to survive in a context of disequilibrium. In this context, money lenders or financial capitalists also had to struggle to ensure, at as rapid a rate as possible, the repayment of funds already advanced. This mutual struggle helped to shape western city development in the early twentieth century.

The complexity of local regulations and expectations renders any recourse to simple control theories totally inappropriate. From the first, the control achieved by the money lenders was a constrained and, from their point of view, imperfect sort. Provincial laws concerning local improvements went far towards fixing the rules of the game. These laws acted as one-way filters, providing capital great ease of entry and a rather uncertain mode of exit. Local development could be initiated in one of three ways. Ratepayers could petition council for money to upgrade neighbourhood roads, sidewalks, sewers etc. The ratepayers in the affected locality would then pay off a stipulated percentage of the bonded debt via taxes over a ten year period. The city council could itself initiate local improvements, and unless a majority of the affected owners owing more than one-half the value of the area's
property petitioned against the proposal, construction took place under the normal repayment schedule. Finally, and of great significance, if three-quarters of the city council voted in favour of a particular local improvement, the affected residents could not overturn it and were liable for the regular repayments.26

By spreading responsibility for both initiation and repayment of local improvements over a wide spectrum of interests, the system facilitated speculation at two levels. Under provincial legislation the city at large had to pay only about twenty-five percent of local improvement borrowings; seventy-five percent of the cost became the responsibility of the affected property owners. Because of the division of repayment responsibility, local improvement bonds were not counted as part of the city's legal borrowing limit, that being twenty percent of its assessed tax value. Not surprisingly, the city council took full advantage of this loophole, and between 1910 and 1916 it initiated seventy percent of all street paving and expropriation bylaws.27 The seeming separation of responsibility and accountability underlay the council's booster-like programme of infrastructural development. By the end of 1917 local improvement bonds comprised forty-five percent of the city's total debenture outlay. By comparison Vancouver's local improvement issues only reached twenty-eight percent of its total bonded indebtedness.28 The fact that over fifty percent of the city council members for whom occupations could be found were, in 1911 and 1912, contractors or realtors makes it even easier to understand the council's positive attitude towards local improvements.29

In addition to strengthening a booster spirit amongst the city's elected leaders, the system facilitated speculation outside of the council's chambers. An exhaustive report into the city's finances compiled by a respected Queen's University economist, Adam Shortt, concluded:

In some of the most heavily burdened portions of the City, so anxious were the speculative subdividers to get their attractively improved property on the market, that they were quite willing to saddle their prospective customers with the whole cost of the local improvements, the amount of which was not revealed to the new owners until some considerable time after the lots had passed into their possession. The civic authorities, on their part, some of them being considerably interested in the sale of the newly improved properties, had little hesitation in incurring very heavy obligations, the repayment of which, it was claimed, would not fall upon the City, which was acting merely as agent of the property owners in expending the money and collecting from individual owners their assigned proportions.30
In other words, this system of financing local improvements was a speculator's dream. Land developers would "vote" for upgrading in the expectation that they would have sold the affected property before any improvement costs became due. Since no assessment bond could be issued before the completion and final cost accounting of the upgrading had occurred, the odds were strongly in the favour of the experienced speculator/land developer.

Nor did Victoria's "settled" population—even those who were not speculators—raise any objection to this rampant expansion. Since most of them already lived in improved areas, they believed that they would never have to pay much for the development of other people's property. As a result, within Victoria there was no wider, entrenched interest willing to oppose the system.51

The fact that the bondholder's agents were headquartered in eastern Canada helps to account for their initial failure to understand all the implications of the province's local improvement legislation. At one level, it seemed to be the duplicate of Ontario's legislation.52 In fact there were two basic differences. The ratio of repayments was more heavily weighted in the direction of the local ratepayer in British Columbia than was the case in Ontario.53 As we have seen, this fact encouraged booster-like promotion by the city council. Of even more significance, the context within which the legislation operated in British Columbia was fundamentally different from that of Ontario. The legislation "is doubtless a reasonable working measure" in a settled province with relatively little vacant land, the solicitor for the Union of British Columbia Municipalities explained,

but to take an Act from such a setting and place it here, in a new country, where speculation in real estate is rife, where either unbounded optimism, or bland depression, is the order of the day, where our titles are not fixed; where land is worth and can sell for one thousand dollars per front foot one year and is sold for taxes two years after because no one thinks enough of the value of the land to pay the taxes; where half the properties affected are usually vacant lands. To take such an Act and adopt it here, I say, seems to me to have been the height of folly from any practical standpoint.54

This "folly" was compounded by a second set of local regulations concerning municipal financing. In common with many other Western communities, and consistent with the Province's Municipal Act, in 1911 Victoria opted for the im-
position of the single tax on land. Under this revenue raising system, only the assessed value of land, not of improvements, would be taxed. Since land was to be taxed at its market value, this of course encouraged the development of vacant lots in advance of tangible demand. By making the property in some way remunerative, the owner could then pay the single tax. In Victoria’s case, during the period of greatest speculation—from 1909 to the middle of 1912—assessed value of land was, however, well below the land’s actual market price. When the land boom began to collapse, the assessed value belatedly began to increase, peaking in 1914, by which time most experienced speculators had already unloaded their land onto prospective homeowners and unsuccessful speculators. Those who profitted most were therefore taxed least. Those who paid the highest price were also taxed at the highest rate. Even longterm residents who had not participated in the development mania saw their property values rise to inflated levels and were liable for higher general tax costs.

Put simply, the laws governing the expenditure and raising of revenues at the local level facilitated significant capital input, but in the process helped to undermine the possibility of ease of repayment. When the bubble burst, as it did on the eve of World War One, municipal ratepayers found themselves burdened with varying but often onerous local improvement taxes, as well as being subject to an increasingly heavy general mill rate levied on an artificially high assessment value. By 1918 tax arrears reached $3,400,000, and began to decline in 1919 only because the city repossessed property which it could not dispose of at tax sales. Since municipally-owned land could not be taxed, the city’s revenue base suffered further erosion. Failure to collect anticipated revenue put bondholder payments in jeopardy. The resultant attempts by bondholders and their agents to protect their investments and ensure regular repayment precipitated the decline of city autonomy in British Columbia and beyond.

Faced with a local system which permitted the diffusion of responsibility, the bondholders began to press for clarity in accountability. Initially they looked to city councils for ultimate guarantees covering the repayment of the total cost of local improvements. This forced municipal governments to be more wary concerning cost estimates, overruns, repayment capabil-
cities and the sanctity of sinking funds. As the municipal clerk for Oak Bay explained in 1912:

The difficulty we have had in satisfying financial houses in the East had led us to get these various points out. The debenture market is getting more and more restricted in the East. Mr. Alexander Bruce [solicitor for Dominion Securities of Toronto, Ontario] has sent me one of their debenture forms which shows how extremely particular they are about debentures. It is getting worse and worse and you cannot sell anything without swearing out a declaration.⁵⁷

Bondholders soon realized that for many municipalities such guarantees were at best suspect. By 1912, the British bond market was almost saturated with Canadian securities. In this context, Victoria and other western Canadian cities reached a financial crisis. Victoria had run up an overdraft at its local bank of $3,000,000, due to the interim financing of unfinished local improvements, and its agents for the sale of bonds in London informed Mayor Beckwith that “it would be absolutely impossible to dispose of any City of Victoria bonds [in London] except at a sacrifice price...” One informed local financier reported that, “Beck[with] and Council at wits’ end over financial position... Their account is being peddled at two if not more banks... Situation is disastrous.” In this case, the city’s financial agent, the Toronto-based Dominion Securities Corporation, sold enough treasury bills in the American market to stave off the “disaster”.⁵⁸

This is a revealing incident and requires some extended comment. It suggests that the finance capital sector did not itself always operate as a monolithic bloc. Individual institutions within that sector competed for a finite amount of business. And such competition proceeded, as David Harvey has pointed out, at various hierarchically defined levels. Thus in Victoria’s case, the bondholders, through the Dominion Securities Corporation, repeatedly warned the city to curtail its local improvement programme.⁵⁹ The city boosters on the council ignored these warnings, and could do so thanks to the liberal lending policies of their local banking institution. The threat of foreclosure endangered already existing bondholder investments, and forced a reluctant and indeed angry Dominion Securities Corporation to take rather extraordinary measures to protect its interests.

While it is probably true that the Dominion Securities made little money by the sale of these treasury bills, it is certainly not true that, as the company claimed, it agreed to market
them solely out of feelings of loyalty to the city. This is, rather, an example of what Harvey has termed a "higher-order" institution guaranteeing "the quality of money at a lower order in the hierarchy." And in fact Dominion Securities had little real option. The bondholders had been forced into a corner by the liberal actions of Victoria's local bankers. Nor was this an isolated incident. Throughout the period under review, the bondholder sector lobbied to restrict the "extraordinary liberality of Bank advances." Clearly tensions existed, both at an individual institutional level and at a bloc or hierarchical level within the finance capital sector. These tensions served to limit that sector's ability to control the fate of its investments. Such tensions contributed to the progression of speculation at the municipal level.

In this context, the bondholders pressed the city council to seek provincial guarantees for their bonded debt. Since this would take pressure from its shoulders, the council willingly acquiesced. Strongly worded letters and telegrams from the city, and from the bondholders, led the premier to appoint a Royal Commission to examine the state of municipal government in the province. Testimony from a wide range of municipalities indicated that those who financed their local improvements (i.e., the financial capital sector) desired a centralized, provincially controlled Bureau of Inspection, which would oversee and audit the financial affairs of local municipalities. As J.B. McKilligan, the province's Surveyor of Taxes, put it: "The idea was to give some authority and weight in the investment in municipal debentures."

Despite the accumulating pressure, the provincial government proceeded reluctantly and with great deliberation. By 1913, its own financial affairs were none too healthy. For this reason, it resisted granting an unequivocal guarantee. Yet to do nothing was to court the possible foreclosure of debts and ensuing bankruptcy of some prominent British Columbian municipalities. In fact one tiny town, Sandon, had already entered into receivership. Should others follow, the provincial government's own credit would be severely damaged. Bondholder doubts had to be assuaged.

This was the prime reason for the revision of the Municipal Act in 1914. The Attorney General, W.J. Bowser, felt that the act was "one of the most important" of the year; and the
"phase of the act" which was of the most significance, he stated over and over again in a long speech to the legislature, was that which showed "those people investing in municipal bonds that the security had the hallmark of the government upon it." The act set up what Bowser called a "municipal department" (in reality it was an Inspector of Municipalities responsible to the Attorney General) which had the responsibility for examining money bylaws before they were sent to potential bond buyers. The Inspector also had the power to "examine municipal accounts at any time of the year" and to oversee the investment of local sinking funds.49

These steps to satisfy the demands of financial capitalists initiated a process of long-term decline in urban autonomy. The fact that the structure set up to implement financial administration was insufficient for the task is beside the point. The fact that most municipalities welcomed provincial presence in this area is also of secondary importance. The point is that municipalities had proven themselves to be incapable of managing the most important aspect of their local affairs—their finances. Granted, the provincial government had always been reluctant to give local councils as much revenue-raising power as they demanded. The legacy of the boom period, however, only strengthened the provincial government's resolve to keep revenue as much as possible under its own control.

Of equal long-term significance, the province took this opportunity to enter into other areas of traditional municipal control—police and licensing boards—and to pass an omnibus clause which provided that the Lieutenant Governor in Council could, "notwithstanding any law to the contrary", enact regulations in almost any conceivable matter of municipal interest.50 From that point onwards, the municipalities were fighting a rear-guard action. A memorandum from the Union of British Columbia Municipalities, sent to the Attorney General in 1915, suggests that the municipalities were well aware of the significance of this legislation. In that memo, the union regretted "the seeming tendency in the Municipal Act . . . to centralize a large amount of power, authority and supervision in the Lieutenant Governor in Council", and wished the government to modify "any invasion of the rights of Municipalities to manage their own affairs."51
Far from doing so, the government a scant three years later attempted to revise the act, giving even more specific and enumerated powers to the province. Although ultimately withdrawn in the face of determined municipal opposition, the so-called Home Rule Bill symbolized the long-term trend. Municipalities could not afford to concentrate on recouping lost powers, it was all they could do to marshall their forces to prevent further erosion.

In Victoria's case (and one suspects in the case of many other similarly indebted western Canadian cities) much of city council's energy went to devising strategies for raising sufficient monies to cover current expenses and interest charges on their large bonded debt. Bondholder requirements led to a series of unprecedented "experiments" in municipal legislation. All pending bills were sent to the city's and the bondholders' agent in Toronto, and all suggested amendments were adhered to closely. The legislation tended to favour the bondholders, often at the expense of the city's citizens; and often too, over the protests of the province's Municipal Inspector. At a time when the provincial government had embarked on what from Victoria's point of view seemed to be a concerted effort "to strip the municipalities of their revenue and at the same time cast upon them additional burdens", representatives of the financial capital sector began to exercise significant control over the city's financial manoeuvrability. Under the weight of this double pressure, city autonomy withered away.

In 1918 the bondholders, or as one angry local ratepayer called them, "those Napoleons of Finance", pressured for legislation which would create a Local Improvement Commission with the power to readjust local improvement assessments to the city as a whole. This manoeuvre immediately widened the responsibility for payment by spreading the burden over all the city's taxpayers, and thus immensely simplified the accountability process. According to the provincial Inspector of Municipalities, "very large sums were then converted from local to general charges", without ratepayer sanction. This measure was followed by a similar consolidation, or as the Municipal Inspector complained, a "scrambling" of all local improvement sinking funds, once again without ratepayer sanction. While this was obviously in the bondholders' interest,
it ignored the principle that ratepayers were entitled to the fruits of their own improvement investments. The merging of the funds allowed good money to protect those areas "which have not proved so much of a success." The attempt to consolidate these funds, however, brought to light the fact that the city, without legal sanction, had been using this money for the past several years to meet general expenses. As a result the city, once again ignoring the ratepayers, had to apply to the legislature for authorization to borrow $3,000,000 to cover the shortfall.

Probably in a futile attempt to attract industry, Victoria refused to broaden its tax base—i.e., to tax improvements as well as land—until 1922. This forced the city to pass legislation which kept its land assessment rate at an artificially high level. It was pegged at $45,000,000 in 1918. To allow it to slip much below that level would have led to the following consequences. In the first place, the city could only legally borrow twenty percent of its assessed tax value plus the worth of local improvement debentures and water works bonds. If it allowed property to be assessed at its market value (in 1920 this was one-quarter the assessed value) it would have exceeded its legal borrowing limit. Secondly, to have lowered the assessment rates would have necessitated a corresponding rise in the mill rate which, it was argued, would frighten local tax payers and non-local bondholders. While agents for the bondholders doubtless understood that the assessments were hopelessly inflated, they probably reasoned that the bondholders in England and the United States would not be as aware; and in that context, seemingly high property values were much more comforting than high mill rates and lower property values. Probably for these reasons, the financial agents did not record any protest concerning this stratagem. The loser in all this was, of course, the local property owner.

Three further incidents illustrate the role exercised by bondholders and/or their agents. In the early 1920s, the city attempted to take advantage of changing exchange rates in the repayment of loans contracted for during the pre-war boom. Arguing that the city had not legally sanctioned any fixed exchange rate, the city council, since the rate had moved in their favour, forwarded a correspondingly reduced payment. Bondholder representatives went swiftly to the offensive.
Claiming that the failure to ratify the fixed rate “was undoubtedly somebody’s blunder at City Hall”, and thus nicely ignoring the principle of *caveat emptor*, the financial agents warned of punitive repercussions should the city persist in this “most serious mistake [which] will undoubtedly reflect in the future credit of the City.” They warned that eastern insurance companies, currently large holders of Victoria’s 1912-13 bonds, would demand a public investigation and Victoria’s shaky financial situation could not stand that. “The large insurance companies are like the large chartered banks,” warned one agent, “in that on questions of policy they co-operate together, and there can be no doubt that the City of Victoria will suffer incalculable injury....”60 The message could hardly be clearer. Victoria, despite its strong legal position, fell into line.

Throughout the era of financial stringency, Victoria’s local elite continued whenever possible to engage in booster-like activities. During the 1920s the city council granted bonuses, in the form of land, tax freedoms and debt guarantees, to tourist-related enterprises, the moving pictures industry, a woolen mill, a grain elevator and a cold storage plant. While few were particularly successful, the latter two were markedly unsuccessful and left the city liable for some $200,000 in payments. This propensity on the part of Victoria and other municipalities to guarantee “in any manner obligations of Industrial enterprises” raised the ire of the financial capital sector. By the late 1920s, the financiers believed that these strategies for attracting industry represented an unwarranted and uncontrollable danger to the health of their own investments. Accordingly, the British Columbia Bond Dealers Association pressured the Minister of Finance to enact, “at the earliest possible date”, legislation which would “curb” such activity in the future. The government acquiesced, and the right to bonus industries was “wiped out” of the Municipal Act in 1932.61

This incident suggests the degree to which financial and industrial capital could operate for what can only be termed antagonistic ends. It underlines the value of looking at capital circulation as a process, rather than as a fixed, interlocking structure. It also points to the continuing power exercised by the financial capital sector over the activities of local municipalities in British Columbia. The erosion of local power and
autonomy can not be simply attributed to changes in corporate structures. In British Columbia at least, municipal elites curtailed their booster activities not because of allegiance to a distant head office, but rather because of the direct and forceful intervention of financial capitalists.

A changing pattern of investment in British Columbia municipal bonds may have added to the strength of the financial capital sector. Commencing in the 1920s, a local provincial market “consumed” all new issues of municipal bonds. The local bond houses never tired of pointing out that “investors, many, many of whom as you know holding small amounts the results of years of savings are concerned and anxious” about the state of municipal affairs. The bond dealers did not have to remind the Attorney General of what he already knew: most of those investors lived and voted in British Columbia. The changing character of municipal investment, coupled with the very difficult financial problems experienced by all municipalities during the depression, led to further centralization of provincial control over municipal affairs. For political and financial reasons, the provincial government could no longer afford to deal with municipalities through a part-time ministry. In 1936, the government created a full-fledged Department of Municipal Affairs, headed by its own minister.

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The erosion of Victoria’s local power in the years between 1910 and 1936, suggests three general conclusions. The first is that further detailed studies of other cities in Canada and the United States are necessary to confirm the role played by financial capital. Certainly the general outline of city development in Western Canada suggests that similar forces were at work in constricting and eroding municipal powers. But at this stage of research, we do not know just how local arrangements—laws, regulations, expectations—interacted with the dynamics of capital flow in the respective localities. Until we do, an ultimate assessment of the impact of financial capital on the structuring of modern cities must be held in abeyance.

This case study does, however, suggest the importance of paying close attention to the mediating influences of local structures. Local initiative on the part of Victoria boosters led
to the infusion of outside capital. The particular structure of local laws concerning, in this case, taxation and indebtedness, provided the shaping contours within which both municipal boosters and non-local financial capitalists had to operate. To recoup their investments, bondholders looked to the local political arena for legislative change. The provincial government’s response resulted in the increase of its power over municipal governments and, in the process, contributed to the emergence of a powerful “state” at the provincial level in British Columbia. Quite probably, a similar process had comparable consequences in many other Canadian provinces.65

Finally, this study suggests that a more refined depiction of general political-economic processes is necessary in order to comprehend how such processes interact with, change and are changed by local structures. One approach is to hold certain variables at the structural level as constants—to, as it were, put them in brackets—while exploring at a detailed level the impact of other variables.66 This is the approach that has been adopted in this paper. In order to unravel the importance of financial capital on the shaping of cities in the twentieth century, the impact of industrial capital has been held relatively constant. The findings suggest that, contrary to much entrenched theory, financial capital can not be simply defined as the fusion of banks and large industry. By viewing investment as a process composed of separable parts, the analysis of the impact of such a process on, in this case, urban change can be more sharply focused. The conclusion that financial capital had a profound role to play does not detract from the role of industrial capital, but rather adds to our understanding of the complexity of the investment process and of political-economic change at the local level.

Notes
The author would like to thank Eric Sager, Pat Roy and the reviewers selected by this journal for their helpful comments.

1. Useful overviews of this change include: Gilbert A. Stelter, “A Sense of Time and Place: The Historian’s Approach to Canada’s Urban Past,” in The Canadian City: Essays in Urban History, eds. Stelter and Alan Artibise, (Toronto, 1977); John Weaver, “Urban Canada: Recent Historical Writings,” Queen’s Quarterly 86 (1979), pp. 75–97; and, most comprehensively, Alan Artibise and Paul-André Linteau, The Evolution of Urban Canada: An Analysis of Approaches and Interpretations, The Institute of Urban Studies,
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6. For an excellent critique of this perspective see, Davis, "The Metropolitan 'Thesis' ".


12. This paper is part of an ongoing study of capital investment in late nineteenth and early twentieth century British Columbia. Research was in part facilitated by a SSHRC Leave Fellowship.


19. National Archives and Records Service (Washington, DC) [hereafter NARS], RG 84; Consular Post Files, [hereafter Consul Papers], “Victoria Consul to Department of State, 8 February 1910” (Victoria BC).

20. Adam Shortt, Report of Dr. Adam Shortt Investigating The Financial Condition of the City of Victoria, BC (Victoria, 1922), p. 4. [hereafter Shortt, Report]; NARS, Consul Papers, “Consul to Department of State, 6 May 1911”.

22. Victoria City Archives [hereafter VCA], Building Inspector Reports, 1907–1913; Census of Canada, 1911, Vol. 3, p. XII. Due to changing category definitions in the 1921 and 1931 censuses, direct comparisons cannot be made. However, general evidence suggests a continuing decline in industry in these decades. See Baskerville, City on a Rim.

23. NARS, Consul Papers, “Consul to Department of State, 4 November 1911”. Organized labour went even further and advised prospective migrants to avoid the whole of British Columbia.

24. Harvey, Limits, p. 320.


27. Shortt, Report, p. 34; C.T. Cross, President of Victoria Real Estate Exchange, in British Colonist, 13 December 1916.


29. Occupations for two-thirds of the Councillors were found.

30. Shorttt, Report, p. 34.


32. Compare the British Columbia legislation with the Ontario model, in Revised Statutes, Ontario, 1914, Chapter 193.

33. Shortt, Report, p. 34.

34. Provincial Archives of British Columbia [hereafter PABC], Attorney General’s Papers, GR 1323, Reel B2133, file 5190-12-16, F.A. McDiarmid, Solicitor, Union of British Columbia Municipalities, speech, 11 October 1916.


38. VCA, Solicitor’s Papers, Raymur file, H.A. Ross, Victoria agent for Dominion Securities Corporation to Dominion Securities, telegram, 30 May 1912, and R.P. Butchart to Mayor Hayward, 24 January 1924.

39. VCA, Solicitor’s Papers, file 731, A.L. Fullerton, Secretary Dominion Securities to R.W. Steele, 2 February 1912; Steele to Mayor A.J. Morley, 11 June 1913; ibid., Raymur file, Fullerton to Ross, 1 June 1912.

40. Ibid., Raymur file, R.P. Butchart to Mayor Hayward, 24 January 1924; E. Tomlin to Hayward, 22 February 1924; H.A. Ross to Hayward, 25 February 1924.

41. Harvey, Limits, p. 249.

42. PABC, Attorney General’s Papers, GR 1323, reel 2329, file m179–2, Dominion Mortgage and Investment Association to Attorney General, 9 April 1932.

43. VCA, Solicitor’s Papers, file 731, January–February 1912 correspondence.

44. RC: Evidence, p. 69. For similar comments by others see, pp. 54–8, 61–5, 105, 145, 199, 214 and 225.
45. This frustrated the Dominion Securities Corporation. See VCA, Solicitor’s files 731, January–February, 1912 correspondence.


47. PABC, Attorney General's Papers, GR 1323, Reel B 2110, file 231-12-14, H.A. MacLean, Commissioner, Royal Commission on Municipal Government to Attorney General, 8 August 1913.

48. Sandon entered receivership in March, 1913.


51. PABC, Attorney General's Papers, GR 1323, reel 2124, p. 94, UBCM to AG, 1915. See also ibid., reel 2133, file 5190-12-16, McDiarmid speech, 11 October 1916; VCA, Solicitor's Papers, file 634, Legislative Committee Report to Victoria City Council, 2 December 1918.

52. For the proposed act see, PABC, Attorney General's Papers, GR 1323, reel 2150, file 3102-12-18, pp. 1–43. For an attack on its centralizing trend see, VCA, Solicitor's Papers, file 634, R.W. Hannington to E.C. Mayers, 10 March 1919 (and enclosure).


54. VCA, Solicitor's Papers, file, 120A, p. 634 and 731, passim.

55. Ibid., file 634, Legislative Committee Report to Victoria City Council, 2 December 1918.

56. VCA, City Council Papers, Vol. 19, file 5, John Dean to City Council, 22 March 1918.

57. PABC, Attorney General's Papers, GR 1323, reel 2207, file M170, Baird to A.G., 6 April 1923 and 13 December 1922.

58. Ibid. See also VCA, City Council Papers, Box 21, file 4, Report of Special Committee Appointed to Enquire into Alleged Diversion of Sinking Funds in 1919, 31 October 1921.

59. Shortt, Report, p. 14, 19. Given the fact that the city had a large sum outstanding in Treasury Bills, a current bank loan and debts to the sinking funds, Victoria had probably exceeded the limit even with the inflated assessment.

60. VCA, Solicitor's Papers, Raymur file, E. Tomlin to Mayor Hayward, 22 February 1924; H.A. Ross to Mayor Hayward, 25 February 1924; and Dominion Securities Corporation to Mayor Hayward, 2 October 1924, telegram.

61. PABC, Attorney General's Papers, GR 1323, reel 2329, file M179-2, BC Bond Dealers Association to the Minister of Finance, 19 February 1932; R. Baird to Attorney General 22 February 1932; An Act to Amend the Municipal Act, Chapter 39 section 2, p. 175.

62. Ibid., file M179-2, R. Baird to Attorney General, 8 August 1927.

63. Ibid., M179-2, BC Bond Dealers Association to Attorney General, 1 April 1932.

64. See especially Artibise, “Continuity and Change”.

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65. Certainly, as Taylor, in "Urban Autonomy in Canada", makes clear, the transferral of power under discussion here occurred throughout Canada at about this time.