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The Emergence of Edinburgh as a Financial Centre

In most undergraduate textbooks of economic history students will read about the technology of major industrial sectors and about supply and, to a lesser extent, demand factors affecting those industries. There will usually also be some useful information about economies of scale and about factors influencing the location of particular industries in a particular part of the country. Service industries, such as transport, will also receive very full treatment as will the construction industry. Yet there will be very little about financial services. Despite the importance of finance in the economic equation economic historians, especially those who write basic textbooks, tend to have very little to say about the importance of money or about the contribution of the financial sector to the process of economic growth. Most limit themselves to some carefully chosen words about the changing structure of banking and, perhaps, the stock exchange over time. Insurance, in particular, is almost always ignored.

This is disappointing for if students are to obtain a balanced view of the process of economic growth then they must be aware of the contribution to that process made by all sectors of the economy and not just by manufacturing industry. This is doubly important given the essentially service based nature of many modern economies. In the United Kingdom financial services now employ just as many people as the whole of manufacturing industry. The trend towards a service dominated economy has been evident since at least the mid-nineteenth century and has recently been the subject of some scholarly comment.[1]

In terms of contribution to economic growth, employment and the balance of payments the British insurance industry must count among the top rank of British industries. Yet students of economic history learn precisely nothing about it. It may be thought that this argument is moving towards a dangerously utilitarian view of the purpose of undergraduate teaching of economic history. Perhaps it is. But even if you do not accept that the purpose of teaching economic history is to give your students an understanding of the modern economy there must also be an argument for saying that you have a duty to them to give a balanced view of the whole process

[1] See especially W.D. Rubenstein, *Capitalism, Culture and Decline, 1750 – 1990* (London, 1993). Ch 2.

of economic development. At least in the British case it must be argued that the financial services sector has made a major contribution to growth – both as a growth industry and for the manner in which financial services contribute to growth in other sectors.

The economic development policies being pursued by many countries nowadays recognise these facts. Many countries throughout the world are currently pursuing policies aimed at creating financial centres or at enhancing centres which are already in existence. Dublin, Vancouver and Lyon fall into these categories. Large, well established, centres, such as London, are worried that their traditional business may be stolen away by these centres which are able to offer inducements to attract business from them. The major consideration in the development of these new financial centres is the creation of employment. Historically, however, the activities of financial institutions did not figure very highly on the list of development priorities. Indeed it is really only in the last twenty years that they have begun to come to prominence in programmes of economic development.

This seems somewhat strange because financial services got off to a good start in the minds of economists. The Scottish economist Adam Smith thought highly of banks.

'That the trade and industry of Scotland...have increased very considerably during this period, and that the banks have contributed a good deal to this increase, cannot be doubted.'[2]

Thereafter many economists took a passing interest in banking but concentrated their attentions on the mysteries of the supply of money. It is not surprising, therefore, that they took a greater interest in manufacturing industry and the more visible services such as transport. These things are, after all, much easier to comprehend. Moreover it is probable that the provision of financial services, notwithstanding the importance of capital in the economic equation, were not seen as generators of growth. Perhaps for this reason most twentieth century economic development programmes, at least in the United Kingdom, concentrated their efforts on manufacturing and transport infrastructure. Only very recently has the supply of financial services assumed any importance in the plans of development economists.

In these plans the place where services are provided is a major consideration and the creation, or further development, of a financial centre is at the core of these ideas. Yet the idea of a financial centre as a place where the provision of financial services is concentrated is relatively new to the disciplines of economics and economic history. In modern times a great deal of credit for stimulating thinking on this subject must go to Charles Kindleberger whose 1974 Princeton study[3] is, I believe, the key to a greater understanding of this important subject – even if it raises more questions than it answers.

Kindleberger identified that the study of the location of financial centres falls

[2] A. Smith, *The Wealth of Nations* ed A. Skinner (Harmondsworth, 1970). P 394.
[3] C.P. Kindleberger, *The Formation of Financial Centres: A Study in Comparative Economic History* (Princetown, 1974).

between two schools – financial economics and urban and regional economics. Neither have taken much interest in the 'geography of finance'. The situation, however, is improving with a number of scholars looking at the interstices between these two branches of economics and discovering that financial centre location raises a number of important questions.[4]

With some honourable exceptions historians too have tended to ignore the origins of financial centres. The exceptions are N.S.B.Gras and M.Fanno both of whom wrote in the first quarter of this century.[5] More recent writers such as M.Collins capture the factors which led to the emergence of London as a financial centre without actually addressing the issue of concentration and location.[6]

In the United Kingdom there is a perfectly natural tendency to regard London as the financial centre of the country. It is, after all, one of the three largest centres in the world. Yet this is not the whole story as far as the provision of financial services is concerned. Nor is London the only financial centre in the country. By some measures Edinburgh ranks alongside the largest European centres and other cities, such as Manchester, have aspirations to be regarded as financial centres in their own right. In the nineteenth century, when the whole of Ireland was part of the United Kingdom, Dublin was certainly the locus of financial provision and that city has recently revived its claim to financial centre status. Although there is no universal agreement on the definition of a financial centre the term may be taken to mean a city where many head-quarters of financial institutions are located. The minority view is that it is the number of financial transactions in a city which define its status, rather than the number of head offices. This difference of opinion has not yet achieved the level of historical debate but it is important. In the late nineteenth century, for example, the Scottish financial centre was in Edinburgh, judged by the number of head offices but in Glasgow judged by the number of financial transactions.

The United Kingdom in the nineteenth century can provide several case studies of emerging financial centres – London, Edinburgh and Dublin as major centres and other cities such as Manchester, Birmingham, Belfast and Glasgow as less important but still significant centres. The purpose of this paper is to examine the development of Edinburgh as a financial centre but with sideways glances at some of the other cities of finance. In particular attention will be given to the rivalry between Edinburgh and Glasgow in the nineteenth century and to the Glasgow challenge to Edinburgh's hegemony.

[4] See Royal Dutch Academy of Arts and Sciences, May 1991 Conference on Financial Centre Development.
[5] N.S.B. Gras, *An Introduction to Economic History* (New York, 1922) and M.Fanno, *La Banche e il Mercato Monetario* (Rome, 1913).
[6] M. Collins, *Banks and Industrial Finance in Britain* (London, 1991). P 62.

I

One of the most interesting, but perhaps inconclusive, aspects of Kindleberger's paper was his view of world financial centres in terms of which of them were capital cities and which were not. Although politics were identified as a major contributory influence they were not, in themselves, a guarantee that a financial centre would emerge, if one was going to emerge, in the capital of a country. Yet in the United Kingdom, which is an unusual historical amalgam of countries, financial centres emerged in the three capital cities of London, Edinburgh and Dublin, but not Cardiff.

If it is assumed that there will be a close correlation between the emergence of industry and the emergence of banks and other institutions then the experience of Scotland, Ireland and England is all the more curious. In each case the centre of industry emerged in a city or region separate from the financial centre Glasgow in Scotland, Belfast in Ireland and Lancashire in England. Inevitably this has given rise to questions about whether the financial organisations, banks in particular, have been sufficiently in tune with the needs of industry, given their geographical separation from the industrial centres.[7] It will be argued that, given the organisational form of banks in Scotland, this was not a problem.

By the end of the eighteenth century Scotland had developed a three tier system of banking. The three largest banks, Bank of Scotland (1695), Royal Bank of Scotland (1727) and British Linen Company (1746) were based in Edinburgh. They were joint-stock companies, constituted by Act of Parliament or by Royal Charter. These were what Checkland described as the 'Public Banks'.[8] All were deposit taking, note issuing banks and all had developed a branch banking system, although the Royal Bank had confined itself to a single branch – in Glasgow, opened in 1783. It was said of this branch that it was the busiest bank office in the UK other than the Bank of England.[9]

Secondly there was a number of Edinburgh based private banks which tended to act as retailers of credit from the public banks. These banks accepted deposits and borrowed large sums of money from the public banks which they then lent to their own customers. This was a very early variety of what has since been called – round-tripping. No archives for these banks have survived so it is impossible to be precise about their activities. Only the largest of these private banks, Sir William Forbes, James Hunter and Company, issued bank notes and none of them had branches.[10] These were, therefore, very much a part of the Edinburgh financial scene and their partners often served on the boards of directors of the public banks.

The third element in the system was the provincial banking companies. These began to be formed after the Jacobite rebellion in the 1740s. They were to be found

[7] W.P. Kennedy, 'Institutional Response to Economic Growth: Capital markets in Britain to 1914', in L. Hannah (ed.) *Management Strategy and Business Development* (London, 1976).
[8] S.G. Checkland, *Scottish Banking: A History 1695 – 1973* (Glasgow, 1975). P 103 – 4.
[9] Checkland, 1975. P 146.
[10] Checkland, 1975. P 201.

first of all in the major provincial cities, but particularly in Glasgow, where the pace of economic development was quickest. By 1770 provincial banks were to be found in Glasgow, Aberdeen, Dundee, Ayr and Perth and from there the system spread to encompass most towns of any size. One of the responses of the public banks to the formation of the provincials was to force them to join a note exchange, and thus to bring stability to the Scottish monetary system. The second response was to establish branches in direct competition with these local banks. By the 1780s most of these banks faced competition from a branch of one or more of the public banks. The Edinburgh system was, therefore, already reaching out into the provinces just as the industrial revolution was getting under way. Edinburgh bankers were determined to meet any competition head on but they also saw themselves as guardians of the system and it was their responsibility not to allow it to be de-stabilised by reckless banking. The note exchange became the main means by which they controlled the threat, real or imagined, from the provincial banks.[11]

Glasgow was, in the third quarter of the eighteenth century, the centre of the British tobacco industry and conducted a large entrepot trade between the American colonies and France.[12] The problem which faced the tobacco merchants was that few of them were well known in Edinburgh, a city some 45 miles distant, where the public banks were to be found. This meant that it was difficult, if not impossible, for them to obtain bank credit prior to the setting up of public bank branch networks in the 1770s and 1780s. Only the larger, and better known, merchants had credits with the Edinburgh banks. Many had no access to bank credit and even those who had access doubtless found it difficult to operate these accounts in an easy manner. There is also evidence to suggest that there were concerns about the profits from banking being earned by Edinburgh institutions, with a consequent loss of resources in Glasgow. Very few Glasgow merchants were shareholders in the public banks.

Their solution was to set up their own banks.[13] This is a classic case of the people at the centre not appreciating the needs of people on the periphery and the people on the periphery taking the matter into their own hands and producing their own response. What is remarkable in this case is the relatively small size of the country in which this happened. Nevertheless this was the pre-railway, and pre-canal, age and transport and communications problems undoubtedly contributed to the difficulties experienced by Glasgow, and other, merchants.

The provincial banking companies were, on the whole, a highly successful part of the Scottish banking system.[14] Nevertheless they were viewed with some suspicion by the Edinburgh bankers who tried to control them via the note exchange and then to court them by offering correspondent banking relationships. There was thus an ambivalence in the attitude of the public banks to the existence of the provincials. However, what was emerging in Scotland by the late eighteenth century

[11] C.W. Munn, *The Scottish Provincial Banking Companies 1747 – 1863* (Edinburgh, 1981). Ch 1.
[12] T.M. Devine, *The Tobacco Lords* (Edinburgh, 1975). Passim.
[13] Munn, 1981. Ch 1.
[14] Munn, 1981. Conclusion.

was an efficient and price competitive banking system which was able to meet the growth requirements of its customer base. Leadership of the system was clearly with Edinburgh although there were elements in the system which would allow Glasgow banks to grow and to try to threaten the ascendancy of the Edinburgh banks.

One of the factors which made the banks so successful was the highly developed education system in Scotland where commercial subjects such as book-keeping were part of the curriculum. This ensured a ready supply of good quality clerks. Perhaps more important than this was the Scottish legal system, in many ways different from the English system, in which partnerships were recognised as separate legal entities. This brought some of the benefits, and responsibilities, of legal incorporation. All of the private and provincial banks were organised on this basis and this enabled some of them to grow into quite sizeable businesses.

There was also one accident of law which greatly benefited the Scottish banking system. In 1708 the English banking system was encumbered with a piece of legislation which ensured that England was deprived of a banking system 'commensurate with a period of rapid economic growth'.[15] This legislation, which was designed to preserve the monopoly of the Bank of England, had the effect of limiting the number of partners in English country banks to six. It became apparent in the crisis of 1825 – 26 that the English banking system was weak by comparison with the Scottish where the 1708 legislation did not apply. The result was that many of the provincial banks were multi-partnered organisations. Some of them had as many as 50 – 60 partners and this made them the fore-runners of joint-stock banks.[16] It was the fully developed joint-stock form of organisation adopted from the 1820s that finally gave Glasgow banks the size to threaten the public banks in Edinburgh.

As a sidelight on this matter it is noteworthy that when the Bank of Ireland was established in Dublin in 1783 it was given powers and protections similar to those enjoyed by the Bank of England. This did not produce stability. Indeed most of the Irish private and country banks failed in a crisis of 1820 and it was not until the monopoly powers of the Bank of Ireland were whittled away and the Irish erected a banking system based on the Scottish model that they were able to enjoy a measure of stability and growth in their banking system and their economy. It is also significant that much of the new growth in banking came from organisations in the industrialising north, around Belfast, although none of these new banks were able to rival the Bank of Ireland in the nineteenth century.[17] As we shall see it was not just the Irish who adopted the Scottish system of banking.

There were a number of features which characterised the Scottish system of banking. Freedom from central (political) control, branch banking, note-issuing and joint-stock type organisation were the major structural elements. The ways in

[15] L.S. Pressnell, *Country Banking in the Industrial Revolution* (Oxford, 1956). P 6.
[16] Munn, 1981. Ch 7.
[17] G.W.S. Barrow, *The Emergence of the Irish Banking System 1820 – 45* (Dublin, 1975). and P.G. Ollerenshaw, *Banking in Nineteenth Century Ireland: The Belfast Banks 1825 – 1914* (Manchester, 1987).

which Scottish bankers went about their business were also quite distinctive. The Scots pioneered lending by overdraft – a system whereby customers received an agreed borrowing limit and could borrow up to that limit, but with the flexibility of being able to repay any amount at any time, and to borrow again for as long as the account was in operation. Interest was charged only on the daily balance basis. This cash account, as it was called, was repayable on demand and was therefore a short-term credit instrument but in practice these accounts remained in operation for many years and became, in effect, long term loans. Customers could also accumulate credit balances on these accounts for which interest was credited at a rate only 1% below the lending rate.[18]

It is significant that notwithstanding the fact that there were three fairly distinct types of bank in Scotland they were quite homogeneous in terms of the lending services which they offered. Where there was a difference was in the other services normally associated with modern banking.

The Scots were very early into the paying of interest for deposits and it was not just on cash account balances. Deposit receipts were also highly popular devices. It is noteworthy that the practice of accepting deposits, and paying interest for them, began in the area of greatest economic growth in the eighteenth century, in Glasgow, but eventually spread throughout the country. Deposit banking was therefore general in Scotland before it became common in England.[19]

Significantly there is evidence to show that deposit gathering activity was more intensive in the rapidly growing industrial west of the country than in the capital city of Edinburgh. In 1827 the Edinburgh based National Bank of Scotland had to pay higher rates on deposit interest at its west of Scotland branches than it did at its other branches or at head office. The reason for this was quite simply to compete with the rates paid by Glasgow banks.[20] Some Edinburgh banks kept out of Glasgow for many years but eventually bowed to the inevitable. In 1844 the Edinburgh based Commercial Bank of Scotland decided to open branches in several west of Scotland towns because it was in that 'district the principal banking business is done'.[21] This point highlights the definition of a financial centre stressed earlier. The head offices of the major financial organisations were in Edinburgh but the bulk of the business was in the West.

The same type of thing happened in Ireland and when the Dublin based Provincial Bank of Ireland opened an office in the industrial city of Belfast in 1826 it had to pay a higher rate of interest for deposits there than at its other branches.[22] It is not clear from the available evidence, however, how long these differential rates of interest survived between the capital cities and the industrial cities in Scotland and Ireland.

[18] Munn, 1981. Pp 115 – 21.
[19] Munn, 1981. Pp 145 – 48.
[20] C.W. Munn, 'The Development of Joint-Stock Banking in Scotland 1810 – 45' in A. Slaven and D.H. Aldcroft (eds.) *Business, Banking and Urban History*, (Edinburgh, 1982). P 120.
[21] Commercial Bank of Scotland, Board minutes. 29th may 1844.
[22] Ollerenshaw, 1987. P 20.

By the time of the commercial crisis of 1825 – 26 the Scottish banking system had developed a level of sophistication which was not apparent anywhere else in the United Kingdom. The Parliamentary enquiries which were published in May 1826 began to make public the virtues of the Scottish system.[23] Indeed the pamphleteer and company promoter, Thomas Joplin, had begun the process of informing the public about Scottish banking in 1822 and there was soon a substantial pamphlet literature on the subject.[24] Legislation in Ireland and then England was brought in to reduce the monopoly powers of the Bank of Ireland and the Bank of England and to allow these countries to develop banking systems which were more in keeping with the needs of customers. In short it was clear that the banking system which had evolved in Scotland was much more closely the result of customer demand than the banking systems of Ireland or England.

Yet it too was changing. As the economy entered the railway age in the 1830s and other industries were growing apace the private and provincial banking companies found that they were too small to meet the needs of their customers. Within a few years they were gone, mostly by a process of mergers but there were a few failures. In their place there grew a series of large scale joint-stock banks some of whom, like the Glasgow based Union Bank [25] bought up a number of the smaller banks. The effect of this was that by 1845 Scotland had a structurally homogeneous banking system.[26] The same could almost be said for Ireland although the great size of the Bank of Ireland dwarfed the other organisations. The English banking system had begun to develop joint-stock banks but the process was slow.[27]

II

The years between 1830 and 1850 were, therefore, a period of great change in British banking. Scotland, closely followed by Ireland, achieved a substantial change in its banking structure. England was some years behind.[28] It remains to be seen, however, where this change was taking place and from where these new initiatives were coming.

Throughout the nineteenth century there was a great and intense rivalry between the cities of Glasgow and Edinburgh. It is a rivalry which continues to the present day. It took many forms. On the banking scene the Edinburgh banks, especially the older public ones, the Bank of Scotland and Royal Bank of Scotland, took a superior view of the system and regarded themselves as its supervisors. They

[23] Munn, 1981. Pp 80 – 85.
[24] T. Joplin, *An Essay on Banking in England and Scotland*, (London, 1822).
[25] N. Tamaki, *The Life Cycle of the Union Bank of Scotland 1830 – 1954*, (Aberdeen, 1983). P 19 – 34.
[26] Munn, 1982 and 'The Coming of Joint-Stock Banking in Scotland and Ireland 1820 – 45' in T.M. Devine and D. Dickson (eds) *Ireland and Scotland: 1600 – 1850*, (Edinburgh, 1983).
[27] P.L. Cottrell, *Industrial Finance 1830 – 1914*, (London, 1980). P 195.
[28] C.W. Munn, 'The Emergence of Joint-Stock Banking in the British Isles-A Comparative Approach' in R.T.P. Davenport-Hines and G. Jones (eds) *The End of Insularity: Essays in Comparative Business History*, (London, 1988).

tended to view the Glasgow bankers as somewhat reckless and in 1832, when they had good reason to believe that the Glasgow based Western Bank of Scotland was engaging in business which was likely to de-stabilise it, they excluded it from the note exchange.[29] It is incidents like this which call the adoption of Scotland as a model by the 'Free Banking School' into question.[30]

There was therefore a clear difference of tone in the minds of bankers in the two cities. The reluctance of the National Bank to operate in the west of Scotland, mentioned above, is another example of the guarded and suspicious way in which Edinburgh bankers regarded the west.

When, in 1845, the Bank Act was passed which prevented the creation of new note-issuing banks the Scottish banks were allowed to have an 'authorised circulation' based on the average circulation in 1844. The figures which were published at that time give some indication of the strength of banking in the two cities.

These figures clearly show what a commanding position Edinburgh had established in the banking world by this stage. Nevertheless the struggle was not over and note issues are not the only measure by which to gauge a banking system. The Scottish bankers themselves thought of their strengths not only in terms of figures on their balance sheets but in terms of the number of branches which each bank maintained. These figures tell a somewhat different story.

In 1857 there were 607 branches of Scottish banks. Of these 228 were operated by banks with their headquarters in Edinburgh (average 45) but the Glasgow banks operated 281 branches (average 70). Other Scottish cities had banks with 84 branches (average 12). These figures clearly establish Glasgow in the ascendancy. Furthermore, in terms of note issues, the Glasgow banks were moving to close the gap with £ 1,454,000 against Edinburgh's £ 1,840,000 in 1857.[31] It must be remembered, however, that by this stage of their development note issues were becoming less important to the circulation of Scotland and cheques were being used increasingly in business.

Any ascendancy over Edinburgh which the Glasgow banks had been able to establish at this time was short lived. For in the commercial crisis of 1857 the Western Bank of Scotland failed. The shock was severe, for the Western had the largest number of branches and the second largest note circulation of the Scottish banks. In 1865 the Scottish banks began to publish modest balance sheets and these show that, by that date, any claim which Glasgow might have had to be a rival financial centre to Edinburgh had evaporated. The figures show that, in that year, the Edinburgh based banks controlled 61.5% of bank liabilities to the public (notes and deposits) while the Glasgow banks had only 30.31%.[32] In 1878 the City of Glasgow of Glasgow Bank failed and the Glasgow bank's share of total liabilities went down to 22.15% in 1880 against Edinburgh's 70.72%. The eclipse of Glasgow was complete

[29] C.W. Munn, 'The Origins of the Scottish Note Exchange', *Three Banks Review*, 1975 and (Checkland, 1975). Pp 328 – 9.
[30] L. White, *Free Banking in Britain: Theory, Experience and Debate 1800 – 45*, (Cambridge, 1984).
[31] C.W. Boase, *A Century of Banking in Dundee*, (Dundee, 1867). P 503.
[32] Checkland, 1975. Table 48, p 751.

Table 1. Authorised Note Circulations of Scottish Banks 1845. (all figures in £ 000s).

Bank		Total
Edinburgh		
Bank of Scotland	300	
Royal Bank of Scotland	183	
British Linen	438	
Commercial Bank of Scotland	375	
National Bank of Scotland	297	
Edinburgh and Glasgow Bank (50%)	68	
		1695
Glasgow		
Union Bank of Scotland	327	
Western Bank of Scotland	338	
Clydesdale Bank	104	
City of Glasgow	73	
Edinburgh and Glasgow Bank (50%)	68	
		910
Other Cities and Towns		
Dundee Banking Company	33	
East of Scotland Bank (Dundee)	34	
Aberdeen Town and County Bank	70	
Aberdeen Banking Company	88	
North of Scotland Bank (Aberdeen)	154	
Perth Banking Company	39	
Central Bank of Scotland (Perth)	43	
Caledonian Bank (Inverness)	53	
		514
Total		3119

Source: C.W. Boase, A Century of Banking in Dundee (Dundee, 1867) 432.

and the industrial city never again rivalled the capital city of Edinburgh as a banking centre.

In Ireland the Bank of Ireland continued to dominate the system and the Belfast banks never looked like threatening the Dublin based banks[33] in the way that the Glasgow banks had threatened those in Edinburgh. In 1850 the three Belfast banks had 49 of the 174 Irish bank offices (28.2%). By 1880 they had 138 out of 415 offices (33.3%).[34]

The number of branches and the amounts of notes issued are, of course, not the whole story. Advances to customers are probably even more important but it is more difficult to obtain reliable data. S.G.Checkland ranked the Scottish banks at five yearly intervals between 1865 and 1972 based on published balance sheet

[33] Ollerenshaw, 1987. Table 37, p 184.
[34] Ollerenshaw, 1987. Table 29, p 124.

information. In 1870 the five Edinburgh banks ranked 1,2,3,5,and 6 with the three Glasgow banks ranked 4,7,and 8. In 1880, after the failure of the City of Glasgow Bank, the Edinburgh banks ranked 1,2,3,4 and 5 with the remaining Glasgow banks ranked 6 and 7.[35]

Mention of bank lending raises the question of where the money was being lent. It is certainly clear from the above that the bulk of Scottish banking was controlled from Edinburgh. Yet it seems likely that most lending took place in Glasgow and the west of Scotland. This was, after all, the industrial centre of Scotland where the highest densities of population were to be found. In the last quarter of the nineteenth-century Scotland, particularly the west of Scotland, maintained a disproportionately large part of Britain's heavy industry and the demand for credit must have been very high. What is not clear is where the lending decisions took place. Branch managers certainly had some discretion especially where discounting of bills took place. It is much less likely that they had discretion in the granting of cash credits.[36] In these cases decisions were made either at head office or by one of the regional boards or committees which some banks operated.

The Glasgow based Union Bank of Scotland operated a regional committee system. Its historian, Norio Tamaki, discovered that in the regions of Perth, Aberdeen and Edinburgh, between 1860 and 1865, deposits exceeded advances – sometimes by a large margin. But in Glasgow the reverse was the case; advances were continually ahead of deposits.[37] The conclusion to be drawn is the obvious one that branches were not just used to gather deposits and channel them in to head office but that was their main function. It is also noteworthy that the west of Scotland branches produced the largest volume of deposits. Unfortunately none of the Edinburgh banks has attracted the same degree of careful examination from an historian so that it is not possible to see how this system operated from Edinburgh. However, the notes made by S.G.Checkland and his researchers, using board of directors' minute books, show that Edinburgh bankers made many loans to west of Scotland businesses. These would be operated via accounts in Glasgow and other west of Scotland branches. It is tempting to assume that the Edinburgh banks did the bulk of their lending in the west but there is no hard evidence to support this. The quotation from the National Bank that Glasgow was where 'the principal banking business is done' lends weight to this supposition but there is clearly a need for more research in the archives of the Edinburgh banks.

Given the dominance of the Edinburgh banks in the last quarter of the nineteenth century and the preponderance of industrial developments on the other side of Scotland it might be tempting to assume that this led to questions about the quality of the banking service which customers received. It is often claimed of England, although without much substantiation, that the physical separation of banking head offices in London from industrial head offices in the north of England led to an inferior quality of banking service. This is usually related to lending,

[35] Checkland, 1975. Table 47, p 750.
[36] C.W. Munn, *The Clydesdale Bank: The First 150 Years*, (Glasgow, 1988). P 54.
[37] Tamaki, 1983. Table 27, p 89.

in particular, and the argument, in its more extreme form, is that the banks turned their backs on industry. Given that there was this same physical separation of banking head offices from industry in both Scotland and Ireland might it not be argued that these countries suffered an inferior quality of banking service, especially in lending?

The evidence for such an argument is non-existent. It is possible to find a few examples of applications for loans being turned down but this is not the same as saying that the banks were blind to the needs of industry. It is just that they knew a poor lending proposal when they saw one. The branch banking system and the operation of regional boards ensured that banks, wherever their head office, were well attuned to the needs of industry. Moreover the German banking system of having bankers on the boards of industrial customers is sometimes held up as a system well worthy of imitation. Yet the Scottish and Irish practice, perhaps also the English, was to have businessmen on the boards of banks. There is an abundance of evidence to show that all Scottish banks were responsive to the needs of industry and commerce and that it was not just large well established companies who received credit from their banks.[38] Many newly formed companies, some of which were in new industries, were able to prove themselves sufficiently credit worthy to justify the faith of their bankers in lending them money.

III

The existence of a banking system is always the main element in a financial system and it is usually the most visible, especially when branch banking is part of the structure. Yet banks are by no means the whole story. In Scotland the life assurance industry has, for many years been a major element of Scottish financial enterprise. Unfortunately, despite its importance, it has received very little attention from historians.[39] Public sources of information about the industry are scarce and they are often unreliable.

Nevertheless a few figures will suffice to create the impression that Edinburgh's dominance over Glasgow in the banking industry was even more marked in the life assurance business. There do not seem to have been any permanent developments in the life assurance industry in the eighteenth century. Most of the nineteenth century companies were organised as mutual companies (without shareholders,

[38] Tamaki, 1983. Ch 5; and Munn, 1988 'Emergence...'. Pp 114 – 139.

[39] The notable exceptions are Messrs Butt and Treble. See J Treble 'The Performance of the Standard Life Assurance Company in the Ordinary Life Market in Scotland 1850 – 75', in J. Butt and J.T. Ward, *Scottish Themes*, Edinburgh, 1976. Pp 124 – 40; and 'The Performance of the Standard Life Assurance Company in the Ordinary Market for Life Assurance 1825 – 50', *Scottish Economic and Social History*, Vol 5, 1985. Pp 57 – 77; and J. Treble, 'The Record of the Standard Life Assurance Company in the Life Assurance Market of the United Kingdom, 1850 – 64' and J Butt' Life Assurance in War and Depression: The Standard Life Assurance Company and its Environment, 1914 – 39' in O. Westall (ed.) *The Historian and the Business of Insurance*, (Manchester, 1984). Pp 95 – 113 and Pp 155 – 172.

Table 2. Total Life Funds of Scottish Assurance Companies (all figures in £ 000,s).

Name of company	Year of formation	Edinburgh head office	Glasgow head office	Other head office	
Caledonian	1805	773			
City of Glasgow			1435		
Edinburgh		2119		899	Perth
General	1885	3081			
Life Assn of Scot	1838	3645		1960	Abdn
North Brit	1809		2775		
Scot. Amicable	1827				
Scot. Provident	1837	5738			
Scot. Union and Nat	1878	2655			
Scot. Widows	1814	9228			
Standard life	1825	6482			
total		33721	4210	2859	

although some were set up as companies and then converted to mutual status)[40] whose sole business was life assurance. There were a few composite companies who transacted all branches of insurance but the business was dominated by the mutuals.

A list in the Scottish Banking and Insurance Magazine of 1887 gives a view of the size of the industry and of the extent to which it was dominated by Edinburgh based companies (See table 2). Significantly the three largest Scottish companies – Scottish Widows, Standard Life and Scottish Provident were also the three largest British companies and several of the other Scottish companies were also significant in UK terms. The table indicates that the formative period for the industry was between 1815 and 1840. This was also the period when banking transformed itself from its eighteenth century mode into a more modern structure.

What is a little surprising is that Glasgow did not provide a greater response to the opportunities which were available. Yet whereas the development of large scale joint-stock banking was slower to be seen in Glasgow than in Edinburgh the life assurance business barely developed at all. This is not to be explained by regional demand factors for most of the Edinburgh life offices had branches in Glasgow. In the absence of primary research we must assume therefore that there was a healthy demand for life policies in the west of Scotland.

IV

The dominance of Edinburgh over Glasgow as Scotland's financial centre was evident in the eighteenth century and with the arrival of the life assurance industry

[40] E.g. The Scottish Mutual Assurance Society which began life in 1883 as the Scottish Temperance Assurance Society Ltd. See M. Magnusson, *A Length of Days: The Scottish Mutual Assurance Society*, (London, 1983).

in the early 19th century it was confirmed. This was re-affirmed by later developments, for Scotland came to be the home of the investment trust movement. Many of the principles on which investment trusts were established and run were developed in Scotland by people like Robert Fleming and W.J Menzies.[41] Most of these developments were based in Edinburgh but it was Dundee, rather than Glasgow, which provided the competition.

Research on the history of investment trusts and other financial organisations is in an even less developed state than that on insurance companies. Of the investment trust companies formed between 1873 and 1900 (and still in existence in 1932) twelve were in Edinburgh and six in Dundee. There were none in Glasgow.[42] If the investment trusts are added to the general category of financial, land and investment companies used by the Stock Exchange Yearbook then the same picture of Edinburgh dominance emerges. Of the companies formed in the nineteenth century and still in existence in 1900 some 22 were in Edinburgh, 8 in Dundee, 6 in Glasgow and 4 in Aberdeen. These figures simply confirm what we have already observed.

It should be remembered too that, earlier in the century, a great deal of Glasgow and the west of Scotland's energies were being channelled into railways and iron companies, with banking a poor third and life assurance barely visible. Edinburgh energies on the other hand were being channelled into commerce, especially banking and life assurance, with comparatively little being devoted to heavy industry. Regional specialisation may provide a framework for describing what was happening but it does not adequately explain why the economic development process in the two cities was so different.

The geography of central Scotland was certainly a contributory factor in this. The cities are only 45 miles apart and they were connected by railway in 1841. Prior to this the canal boats had done a good trade in passenger traffic – linking the two cities in 10 hours. Stagecoaches were even more important. Nevertheless the pattern of development which has been described was set before the arrival of the railways. Although railways are vitally important to later developments in many parts of the world they certainly do not form part of the explanation for regional specialisation in central Scotland before the 1840s.

Clearly the development of a predominantly commercial city on one side of the country and a predominantly industrial one on the other side is not to be explained by a mono-causal argument. Industrial development in Scotland, as in Ireland and England, can certainly be attributed to such factors as access to raw materials, shipping facilities and a supply of labour. These ingredients are not so important in financial services which can be supplied anywhere with small amounts of labour. The branch system saw to that. The question to be posed therefore is why so many financial institutions were head-quartered in Edinburgh rather than Glasgow.

Of course, exactly the same question can be asked of Ireland and England.

[41] A. Slaven and S.G. Checkland (eds.), *Dictionary of Scottish Business Biography, Vol 2* , Aberdeen, 1990. Entry by C.W. Munn on Robert Fleming pp 401 – 2 and R.B. Weir on W.J. Menzies pp 414 – 5.
[42] G. Glasgow, *The Scottish Investment Trust Movement*, (London, 1932).

Kindleberger defined a series of factors which were important in the establishment of financial centres and to his list I have added some of my own. These include legal stability, currency stability, location on trade route, political centre, local demand, external economies of scale, culture, tradition, skills, savings accumulation, information network, government policy and education.[43] Edinburgh possessed all of these attributes, with the exception of government policy. Yet Glasgow had nearly as many attributes. The only major difference between itself and Edinburgh was that it was not a political centre.

Ultimately the answer may be found in the eighteenth century rather than the nineteenth. The establishment of the Royal Bank's branch in Glasgow in 1783 under the management of R. Scott-Moncrieff and David Dale was extremely successful and came just at the time when Glasgow was beginning to emerge from the loss of most of its tobacco trade and to find other things to do with its energies. The Royal Bank branch soon established itself as the dominant force in Glasgow banking.[44] The fact that it was controlled from Edinburgh did not seem to matter to the Glasgow merchants who were its customers. Encouraged by this the Bank of Scotland opened a branch in 1787. The British Linen Company had a presence in Glasgow from an even earlier date. It is reasonably clear that these offices of the Edinburgh banks did excellent business and the Royal Bank in particular soon came to dominate the city's banking despite the existence of several native banks and the branches of numerous other provincial banks. Moreover the shareholdings in the Edinburgh public banks appear to have been more widely spread so that the argument about profits from Glasgow banking going to Edinburgh were no longer so valid as they had been in the 1750s.

This issue was addressed by Professor Tamaki in his history of the Union Bank. He questions why it was that in 1830 Edinburgh had five large scale banks when Glasgow had four relatively small scale organisations of its own. The answer seems to be that most of Glasgow's banking needs were being met by branches of Edinburgh banks and there was no perceived need for Glasgow to develop its own larger scale banks. What changed this situation was the sudden arrival of the railway and iron age in the 1830s. Demand for credit and other banking services grew dramatically and Glasgow, at last, produced some large scale banking initiatives of its own.[45] For a time these highly active and aggressive organisations posed a serious challenge to the Edinburgh banks but they over-reached themselves and their challenge soon faded. It may be speculated that if Glasgow business people were, on the whole, content to look to Edinburgh for their banking needs they would be equally content to look there for their life assurance and other financial requirements.

The branch and agency systems of distributing financial services proved to be a highly efficient and reliable means of collecting deposits, lending money, selling insurance policies and gathering premia. The management tasks involved in run-

[43] Kindleberger, 1974. Passim.
[44] Checkland, 1975. Pp 146 – 7.
[45] Tamaki, 1983. Intro. and ch.1.

ning a branch system were quite straight-forward. Basically it was sufficient to ensure that agents or managers knew their business and that there were controls on their freedom of action to ensure quality and reasonable conformity to head-office practice. These enabled the Scottish life offices to grow to be world class financial institutions and to operate on a world scale. The banks never sought to extend their branches overseas and when they sought to move into England they were soon rebuffed by the growing confidence of English joint-stock banks.