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The Equivalent Societies of Edinburgh and London, the Formation of the Royal Bank of Scotland, and the Nature of the Scottish Financial Revolution

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Abstract The historiography of the Financial Revolution in Scotland remains underdeveloped. This article addresses that gap by rounding out the rough sketch that currently represents our understanding of Scotland's Financial Revolution by focusing on the formation of the Royal Bank of Scotland, Scotland's first new financial institution in more than thirty years when it emerged in 1727. The case is made that the Scottish Financial Revolution was a complex movement, very often separated from the state and driven by the agency of Scotsmen at home and abroad, and that 1727 denoted a phase of the revolution in which financially innovative projects returned to the country after a period of absence. The article demonstrates how the progress of the Financial Revolution ebbed and flowed in the country, contingent upon political circumstances, from the nascent economic developments of the 1690s and on to the political upheaval of the early eighteenth century.

Taking root in the aftermath of the Glorious Revolution of 1688–89, the Financial Revolution extended well into the middle of the next century. It was a movement that impacted England, Scotland, and Ireland and developed in ways that were contingent upon the political and financial landscapes of the three kingdoms. Despite the revolution's British nature, the associated literature, while plentiful and including canonical works by P. G. M. Dickson and John Brewer, has for a long time been characterized by a largely anglocentric outlook.[1] Dickson acknowledged in 1967 that this was an issue when he stated that "English historians' perennial ignorance of Irish and Scottish developments, and of the reaction of these developments on English ones, cannot, respectably, be redeemed by substituting 'British' for 'English' and then continuing to ignore Ireland and Scotland."[2] Anglocentric, perhaps even Londoncentric, works on the Financial

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[1] P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688–1756* (London, 1967); J. Brewer, *The Sinews of Power: War, Money and the English State, 1688–1783* (New York, 1989).

[2] Dickson, *Financial Revolution in England*, xvii.

Revolution have continued to emerge.[3] In recent years, however, a number of scholars have also sought to widen the perspective from which events are viewed. Sean Moore's novel approach of considering the Irish financial revolution through notions of culture and identity and Patrick Walsh's excellent work on the South Sea Bubble's impact have done much to illuminate events on the island.[4] Meanwhile Daniel Carey and Christopher Finlay have produced an edited collection examining the revolution through the wider framework of empire, while Ivar McGrath and Chris Fauske have shifted some focus away from the center to the peripheries.[5] The issue that remains, however, and which is central to my argument, is that, Walsh aside, Scotland has not been particularly well served by these revisionist works.[6] An emerging consensus has identified elements of a Scottish version of the Financial Revolution, but no one has yet argued for distinctive and significant Scottish financial innovation.[7] There is an understanding that something occurred, something distinct from what happened in England or Ireland, but the full character of events has remained unclear.

In this article, I provide greater detail for the rough sketch that currently represents the historiography of Scotland's Financial Revolution by focusing on the formation of the Royal Bank of Scotland. I make the case that the establishment of the bank in 1727, Scotland's first new financial institution in more than thirty years, marked a pivotal point in the country's revolution. I argue that the Scottish Financial Revolution was an event that occurred both in and without the territory of Scotland and that 1727 denoted a phase of the revolution in which financially innovative projects returned to the country after a period of absence.

I first provide a timeline to illustrate how the progress of the Financial Revolution ebbed and flowed in the country contingent upon political circumstances. I detail a nascent Scottish revolution during the 1690s that was curtailed by both the failure of the Darien venture and the political upheaval of the early eighteenth century. I next describe a second phase of the revolution in which a Scottish diaspora was involved in innovative financial projects beyond the borders of its homeland. I then consider the twenty years prior to 1727 and the political and economic developments that allowed for the formation of the bank. In so doing, I make the case that the Scottish Financial Revolution was a complex movement, very often separated from the state, driven by the agency of Scotsmen at home and abroad.

[3] Although an excellent piece of scholarship, Carl Wennerlind, *Casualties of Credit, The English Financial Revolution, 1620–1720* (Cambridge, MA, 2011), is one such work.

[4] Sean D. Moore, *Swift, the Book, and the Irish Financial Revolution: Satire and Sovereignty in Colonial Ireland* (Baltimore, 2010); Patrick Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690–1721* (Woodbridge, 2014).

[5] Daniel Carey and Christopher J. Finlay, eds., *The Empire of Credit: The Financial Revolution in the British Atlantic World, 1688–1815* (Dublin, 2011); Charles Ivar McGrath and Chris Fauske, eds., *Money, Power, and Print: Interdisciplinary Studies on the Financial Revolution in the British Isles* (Newark, 2008).

[6] See also Patrick Walsh, "The Bubble on the Periphery: Scotland and the South Sea Bubble," *Scottish Historical Review* 91, no. 1 (April 2012): 106–24.

[7] See Walsh, *South Sea Bubble and Ireland*; Walsh, "Bubble on the Periphery"; McGrath and Fauske, *Money, Power, and Print*; Carey and Finlay, *Empire of Credit*.

A REVOLUTION IN CONTEXT, 1690–1727[8]

The scholarly focus on the English Financial Revolution is not unjustified. The 1690s witnessed significant financial development in England, with the formation of the Bank of England, the establishing of a national debt, a growing stock market, a failed national land bank, significant economic debate, and the expansion of a circulating currency. North of the border, developments kept a close pace with southern progress. The early 1690s saw something of a business boom, with forty-seven companies operating in Scotland. These included large joint-stock offerings, such as the Bank of Scotland and the Company of Scotland, as well as new factories producing paper, refining sugar, and making soap.[9] The new Scottish bank also issued a significant amount of circulating paper notes into the economy by 1700.[10] But in the later 1690s, both countries experienced crises; in England this manifested in financial problems in 1696–97, with the Bank of England suspending payments, a difficult recoinage, and issues in the stock market; in Scotland a second successive bad harvest in 1697, accompanied by an increase in food prices, led to widespread starvation. Economic impacts saw outflow of coin from the country to cover the cost of much needed imports, while rural incomes were depressed by farmers' failure to produce a surplus.[11]

It is from 1700 that a divergence between the two countries becomes apparent. England, with the cessation of the Nine Years' War in 1697, began to recover from the economic pressures it had faced, while in Scotland the problems of late in the decade were exacerbated by new issues. Contemporaries writing at the turn of the century noted the fall in overseas Scottish trade, increasing numbers of unemployed, widespread vagrancy, and a national exchequer practically depleted of funds. To many it seemed that the country was on the edge of economic collapse.[12] Business had also severely tailed off by 1700, with only twelve of the forty-seven Scottish companies in existence just five years earlier continuing to trade.[13]

Against this backdrop of Scottish economic difficulty, the promotion of new financial projects continued, with a particular profusion in 1704–5.[14] Those proposals that

[8] All dates in the text correspond to the modern Gregorian calendar. Until 1752, however, England used the Julian calendar, with the new year starting on March 25. Because some archival materials are identified with dates corresponding to the Julian calendar, in those few instances where they would appear to misalign, I provide the corresponding Gregorian dates in square brackets.

[9] A number of rope makers, cloth works, and coach builders also emerged between 1690 and 1695; see Gordon Marshall, "Appendix: Manufacturing Enterprises in Scotland, 1560–1707," in *Presbyteries and Profits: Calvinism and the Development of Capitalism in Scotland, 1560–1707* (Edinburgh, 1992), 284–319.

[10] See Richard Saville, *Bank of Scotland: A History, 1695–1995* (Edinburgh, 1996), 22–25, for an overview.

[11] For details, see William Robert Scott, *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720*, vol. 1 (Cambridge, 1910), 347–51; Saville, *Bank of Scotland*, 39–46.

[12] T. C. Smout, "The Anglo-Scottish Union of 1707, Part 1: The Economic Background," *Economic History Review*, n.s., 16, no. 3 (1964): 455–67, at 459.

[13] Douglas Watt, "The Company of Scotland and Scottish Politics, 1696–1701," in *Scotland in the Age of Two Revolutions*, ed. Sharon Adams and Julian Goodare (Woodbridge, 2014), 211–30, at 212; Scott, *Constitution and Finance of English, Scottish and Irish Joint-Stock Companies*, 1:356.

[14] A number of works appeared in the years directly preceding the union of 1707; all were rejected by the Scottish government. As examples, see Andrew Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements* (Edinburgh, 1705); Andrew Brown, *A second Essay concerning the Land*

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did make it as far as Parliament Hall, however, were now presented to an administration that had become increasingly reluctant to engage in financially innovative schemes. This attitude was significantly different from that of the legislative body that had passed acts to establish the national bank and the Company of Scotland a decade earlier. It also represented a sea change from the interventionist parliaments of the 1660s, 1670s, and 1680s, which had been only too keen to legislate to improve the Scottish economy.[15] In contrast, the parliaments that sat over 1704 and 1705 rejected a plethora of banking and credit projects that would have seen an expansion of paper money in Scotland.[16] Many representatives were in favor of the novel projects; others, including the devoted patriot Andrew Fletcher of Saltoun, were opposed, with Saltoun describing one proposed scheme as "a contrivance to enslave the nation."[17] Overall, a cautious mood prevailed, and by the end of July 1705 the decision had been made that the "forceing [of] any paper credit by an act of parliament was unfit for this nation."[18] The administration did, however, take the action of establishing a council of trade in September 1705—a decidedly conservative move when considered against the other options.[19]

That parliamentarians had become reticent to back bold approaches to aid the Scottish economy can be understood in relation to two important contexts. Firstly, in the opening years of the eighteenth century, Scotland's representatives were dealing with complex issues that, while they had economic considerations, were largely constitutional. Parliament was a political body that had significantly altered since the revolution of 1689, prior to which, according to T. C. Smout, it was there only to "rubber stamp" Privy Council policy, but afterwards became "more vigorous, [and] fitfully moved to oppose Crown and Council if they conceived it in the national interest to do so."[20] This was the case under William, and continued during

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Mint: shewing, that the present necessity, and want of Gold and Silver money, absolutely requires this, or the like Remedy, and that very speedily [. . .] *By the author of the Character of the true publick Spirit* (Edinburgh, 1705); William Seton, *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money* (Edinburgh, 1705); John Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: Together with some proposals for supplying the defect thereof, and rectifying the ballance of trade* (Edinburgh, 1705); James Hodges, *Considerations and proposals for supplying the present scarcity of Money, and advancing Trade* (Edinburgh, 1705); James Armour, *A Premonitor Warning; or advice by a true lover of his country unto all whole hands this may come* (Edinburgh, 1702); H. Chamberlen and James Armour, *Proposal by Doctor Hugh Chamberlen, and James Armour for a Land-credit*, in *Monetary Theory, 1601–1758*, vol. 4, ed. Antoin E. Murphy and Chuhei Sugiyama (London, 1997); and John Law, *Money and trade considered, with a proposal for supplying the nation with money* (Edinburgh, 1705).

15 In 1661, tax-free status and naturalization were offered to foreign craftsmen and businessmen in order to attract foreign capital into Scotland. Measures were enacted to protect several industries in the same year, and two years later a substantial duty was placed on a number of foreign goods. The culmination of these protectionist policies was the 1681 Act for Encouraging Trade and Manufactories, which prompted the founding of a number of enterprises. See Marshall, *Presbyteries and Profits*, 132–39, for details and an overview of the manufactory movement.

16 See the examples above in note 13.

17 Fletcher was talking about Law's *Money and Trade* (see note 13). See Antoin E. Murphy, *John Law: Economic Theorist and Policy-Maker* (Oxford, 1997), 74–75.

18 The Records of the Parliaments of Scotland to 1707, compiled and edited by Keith. M. Brown et al., 1705/6/36, https://www.rps.ac.uk/.

19 Records of the Parliaments of Scotland to 1707, 1705/6/193.

20 T. C. Smout, "Anglo–Scottish Union of 1707."

the reign of Anne. Between 1701 and 1705, Scottish and English administrations engaged in an exercise of equivalent retaliation, as opposing legislation was passed by each body. This trend had begun with the English Act of Settlement in 1701, which provided for the ascension of Sophia of Hanover upon the death of Anne. That policy was unpopular in Scotland, but it did not stop both countries participating in union negotiations over 1702–3. These were, however, unsuccessful and led to subsequent debates in the Scottish Parliament on how the country might distance itself from its southern neighbor. The result was the Act of Security in 1704, which would allow for the crowning of a new Scottish king following the death of Anne. In response in the following year, the English Parliament passed the Alien Act, which threatened trade and free movement between the two countries as well as economic sanctions unless a dialogue over union reopened. Consequently, parliamentary debates at this time, independent of those that considered the economy, were not on trivial matters.

The second and arguably more crucial context in directing the averse economic policy of the Scottish administration was the recent failure to establish a colony at Darien.[21] This had been the country's great endeavor, and with the failure to claim territory on the narrow tract of land that connects modern-day North and South America, Scotland had been left in economic difficulty. Of the £400,000 sterling subscribed to the Darien scheme by Scots, £153,000, close to £2 million Scots, had actually been paid and was therefore lost to the nation.[22] So much Scots capital was tied up in the venture that there was little left to support a secondary market in shares. So, unlike the later South Sea or Mississippi booms, where share prices had been inflated and changed hands for vast sums, no bubble was created in Scotland. Despite this compensating feature of events, the fallout was severe. It was in this landscape of financial difficulty and political uncertainty that the Scottish administration's backing of new financial projects ground to a halt.

The lack of interest displayed by the Scottish government between 1700 and 1707 in backing new economic projects was then matched by the new British government from its inception. Following the Union, the new administration implemented a firm rule in Scotland, hoping to subdue a nation that had gained a reputation for unruliness throughout the preceding century. This policy appears to have been successful; even Louis XIV's attempts to raise Jacobite discontent in the country in 1708, with French regiments headed by James Stewart reaching the East Neuk of Fife in late March of that year, came to little.[23] In the absence of Scottish agitation, the government then became largely apathetic to events north of the border.[24] Little deference was paid to Scottish institutions; the Scottish Privy Council was abolished in mid-1708, while the English Mint rode roughshod over its Scottish counterpart,

[21] The Scots had only arrived on the Isthmus of Darien in October 1698, but by end of March 1700 they had surrendered their claim to the territory to the Spanish. For an in-depth account, see Douglas Watt, *The Price of Scotland: Darien, Union, and the Wealth of Nation* (Edinburgh, 2007).

[22] Christopher A. Whatley with Derek J. Patrick, *The Scots and the Union* (Edinburgh, 2006), 173. At this time, £1 sterling was equivalent to £12 Scots; as such, £153,000 converts to more than £1.8 million Scots.

[23] Daniel Szechi, *1715: The Great Jacobite Rebellion* (New Haven, 2006) 78; Steve Murdoch, *The Terror of the Seas? Scottish Maritime Warfare, 1513–1713* (Boston, 2010), 304–5.

[24] T. M. Devine, "The Modern Economy: Scotland and the Act of Union," in *The Transformation of Scotland: The Economy since 1700*, ed. T. M. Devine, C. H. Lee, and G. C. Peden (Edinburgh, 2005), 27.

despite the rights of the Privy Council and the Mint being protected in the Articles of Union. When it came to new institutions the situation was no better, with the formation of the Royal Bank of Scotland in 1727 representing the first new financial institution formed in Scotland under a British government. So, while in England new financial institutions were formed, a growing stock market was augmented with new offerings, and a speculative boom emerged with the South Sea Company during the 1710s, Scotland saw little activity.

In these intervening years, however, there was significant Scottish involvement in numerous foreign economic projects. Thus, the case being made here is that in defining the Scottish Financial Revolution more widely as an event that occurred both in and beyond the landmass of Scotland, these intervening years, roughly encompassing the first quarter of the eighteenth century, marked an important period of the movement. In the wake of Darien's failure, the Scottish Financial Revolution became mobile. No longer a product of the territory of Scotland, it became a transportable project promoted by a global Scots community. Financially innovative ideas were shared and promoted by Scotsmen throughout Europe and North America. These included pushing through a Loan Office to issue paper bills against land security in New Jersey; promoting a national bank in France (the first of its type in the country), Germany, and Austria; various economic endeavors by London-based Scots; and the sharing of ideas across continents. The formative years of the Scottish Financial Revolution were therefore markedly different from those of England, making defining Scottish events difficult.

I hypothesize a timeline of events as follows. A nascent Financial Revolution emerged in Scotland during the 1690s but was halted by Darien's political and financial fallout and by the wider political landscape of the period. Following this, a number of Scotsmen promoted innovative financial schemes at home that were met with little support from the administration, while others advocated for economic projects beyond the country's borders—defining the Scottish Financial Revolution in the years between 1700 and 1726 as being one of ideas and of foreign projects. With the culmination of the political maneuvering that had led to the establishment of the Royal Bank of Scotland, 1727 marked the point at which political inertia gave way and the revolution began to take a significant hold in Scotland.

The new bank was built on ideas that had developed beyond Scottish borders during the first quarter of the eighteenth century—primarily on new concepts of what constituted money, and the capitalization of new ventures through the refinancing of old debt. These were ideas with significant Scottish influence; the ideas of the Scottish economist John Law were particularly important in the new bank's founding. Antoin Murphy has identified Law as one of the first economic writers to express a broad vision of what constituted a monetary instrument. Law, for instance, viewed shares, such as those issued by the English East India Company, as a currency, a belief that led him to monetize the shares of his Mississippi Company into huge sums.[25] For Law, the new financial markets emerging early in the eighteenth century were creating liquid financial instruments capable of being turned into cash without loss or delay, in turn generating new monetary instruments.[26] Understanding this kind

[25] Murphy, *John Law*, 61.
[26] Murphy, 61.

of thinking is crucial to understanding the financially innovative process behind the establishment of the Royal Bank of Scotland.

Hand in hand with creating new forms of money at this time went the refinancing of old debt, a process then being employed by joint-stock companies taking on government debt in exchange for monopoly rights or other advantages. The most notable examples of these debt-for-equity swaps were the deals undertaken by the Bank of England and Law's refinancing of extensive French government debt between 1715 and 1720, a move mirrored in Britain by the South Sea Company. Each of these initiatives involved a direct deal between the government and the company undertaking the refinancing.[27] While it is not often considered, the Royal Bank of Scotland was also built on government debt, with men behind the project understanding that this debt had a value.

Up to this point I have outlined a conceptual framework for understanding the events that are posited as representing the Scottish Financial Revolution. The lack of political will from both the Scottish and then British government to back innovative financial schemes after 1700 was crucial in defining how the revolution developed, and instrumental in slowing the progress of financial institutions in Scotland. With this in mind, I turn to the creation of the Royal Bank of Scotland, and to the innovative practices that allowed government debt incurred in the aftermath of the Anglo-Scots Union to be transformed into capital to underpin the new bank.

THE PROBLEM WITH PAPER: THE EQUIVALENT, EXCHEQUER BILLS, AND DEBENTURES

The founding of the Royal Bank of Scotland was the culmination of a twenty-year journey inextricably linked to the Equivalent payment stipulated in Article Fifteen of the 1707 Treaty of Union. This was a negotiated figure intended to compensate Scotland for taking on a proportion of the English national debt and to cover other costs associated with the union process. The sum arrived at, £398,085 10s., while mathematically precise, was one that involved considerable political considerations. Numerous men, including Bank of England projector William Paterson, were employed in its calculation. Quotes ranged from just £10,000, upward to £1 million, with Paterson's own estimate being between £600,000 and £1 million.[28] Paterson was, however, deeply involved with the Company of Scotland, a group whose shareholders would benefit greatly from the Equivalent (around 60 percent of the agreed total went to this group), so it is perhaps unsurprising that he should provide one of the highest estimates.[29] In the end the figure agreed upon was one calculated by an

[27] In 1719, the South Sea Company won its bid to exchange £40 million of government debt. The company planned to make money by exploiting the difference in exchange between the government debt and its inflated share prices. The bubble created from this kind of trading burst the following year, and the company was bankrupted. A similar situation occurred in France as shares in Law's company peaked at over 10,000 livres before becoming worthless in 1721. In that case, however, Law was also in charge of the Banque Royale and printed more money to support the share price, a move that only worsened the crisis.

[28] Watt, *Price of Scotland*, 229.

[29] Watt, xvii.

Aberdeen-born mathematician, David Gregory. He had been called upon by the Scottish Union Commissioners in 1706 to become involved in calculating the Equivalent, his appointment providing a mathematical perspective to Paterson's commercial and financial experience.[30] It was also important that the figure settled on was large enough to be acceptable for the Scots without being too large for the English.[31]

That this payment would be instrumental in providing the capital for a bank twenty years later was unintended and unforeseen. That eventual outcome was only achieved through the agency of an innovative financial network dominated by Scots, which was successful in exploiting the monetary provisions of Union in a manner that not only increased individual profit but also allowed for the development of financial opportunities both north and south of the border.

The story of how this happened begins in June 1707, with the founding of a parliamentary commission tasked with administering payment of the Equivalent. Within this payment, funds had been ring-fenced for defraying the cost of an imminent recoinage necessary to bring the quality of Scots coin in line with that of England, to provide a development fund for Scottish industries, and to defray the costs of the parliamentary commission.[32] The initial sum calculated, however, was not expected to be enough to cover these costs and to compensate the nation for taking on part of the English national debt. In order to cover the full expected costs, in addition to the Equivalent payment, Scotland was also to receive the "arising equivalent," this being a proportion of expected increased yields between 1707 and 1714, resultant from the new uniform British fiscal system and increased trade brought by Union.[33] Unfortunately for those owed from the Equivalent payment, these expected yields would take longer than seven years to materialize; this would become a crucial issue.

Paying the Equivalent in 1707 was complex. The Bank of England was responsible for making the payment to the Scottish commission. That institution sought to turn the payment in its own favor by issuing just £100,085 of the total amount in gold, with the remainder issued in Exchequer bills only payable in cash at the English bank.[34] These bills were short-term credit instruments that had first been issued in 1696 as an attempt to ease the shortage of cash in the economy by extending the credit available to the English government.[35] Issued in denominations of £5 and £10, the bills passed in payment "to any person or persons that shall be willing to accept and take the same," and by the reign of Anne were intended to cover all "aids, taxes, loans and payments to Her Majesty."[36] Their inclusion in the Equivalent payment was shrewd, and followed the passing of an English Act in March 1707 agreeing that the Bank of England would lend the English government £1.5 million in Exchequer bills, with an interest of 4.5 percent, which was also to be

[30] William Deringer, *Calculated Values: Finance, Politics, and the Quantitative Age* (Cambridge, MA, 2018), 92–93.

[31] Watt, *Price of Scotland*, 229–30.

[32] S. G. Checkland, *Scottish Banking: A History, 1695–1973* (Glasgow, 1975), 44.

[33] Glyn Davies, *A History of Money: From Ancient Times to the Present Day*, 3rd ed. (Cardiff, 2002), 275.

[34] Bank of England, Court of Directors, Minutes, 9 January 1706 to 29 March 1709, G4/6, 22 May 1707, p. 155, Bank of England Archive online, https://www.bankofengland.co.uk/-/media/boe/files/minutes/1700-1800/1706/court-january-1706-march-1709.pdf.

[35] Saville, *Bank of Scotland*, 75–76.

[36] Saville, 75–76.

paid in the bills rather than in specie, for the first three years.[37] The bank therefore had an incentive to push the circulation of the bills.

The bank's decision to include the Exchequer bills in the payment bound for Edinburgh was met with little enthusiasm in Scotland, where the bills were viewed as a clear challenge to Bank of Scotland notes. In August 1707, as news spread of the bills' inclusion, riots broke out on the streets of the Scottish capital. At the insistence of the Scottish commissioners, more money was sent, with an additional £50,000 arriving swiftly. By Christmas there remained few, if indeed any, Exchequer bills in circulation in the Scottish economy.[38]

Despite this troubled start, and with reports of "ill agreement" between the appointed commissioners, it appears that the commission worked effectively.[39] By 1709, it had paid out £381,509 15s. 10.5d, leaving little over £16,575 of the original sum remaining in the coffers.[40] Of that paid, in excess of £49,888 had gone to the cost of a recoinage; £229,611 4s. 8d. went toward payment of "the stock, interest and debts" of the Company of Scotland; just over £5,513 was used to pay the members of the commission for their services, with an additional £2,224 being used "for defending law suits where the titles of parties were not clear"; the remaining amount was put toward the cost of civil and military lists.[41] These figures show that the majority of the money designated for the Equivalent had been quickly paid. However, many debts remained outstanding.

Shareholders and creditors of the Company of Scotland were always a priority, with most having been paid by end of 1707. Covering the full cost of military and civil lists had not, however, been viewed with the same importance. When it came to paying these, there was a deficit in the fund.[42] Of course a shortfall had always been expected, which was to be covered by the arising equivalent. However, in an early example of what economists today would term the "J Curve"—this being the occurrence that a country's balance of trade deteriorates in the direct aftermath of a devaluation or deprecation of its currency but eventually recovers to a higher level than where it was initially—the yields from the arising equivalent in the seven years following 1707 failed to meet the anticipated sums.[43]

Those with a claim to the Equivalent became impatient, with many beginning to realize that "there was no necessary relation between the amount of the Equivalent and the amount of public debt."[44] To cover the outstanding debt, the British

[37] Richard A. Kleer, "'A New Species of Mony': British Exchequer Bills, 1701–1711," *Financial History Review* 22, no. 2 (2015): 179–203, at 183–85.

[38] Saville, *Bank of Scotland*, 76.

[39] Letter from Mar to Seafield, 5 August 1707, in *The Manuscripts of the Duke of Roxburghe: Sir H. H. Campbell, Bart.; the Earl of Strathmore; and the Countess Dowager of Seafield*, (London, 1894), 222.

[40] P. W. J. Riley, *The English Ministers and Scotland, 1707–1727* (London, 1964), 211.

[41] "An act to discharge and acquit the commissioners of the equivalent for the sum of three hundred eighty one thousand five hundred and nine pounds fifteen shillings ten pence half-penny by them duly issued out of the sum of three hundred ninety eight thousand eighty five pounds ten shillings, which they received" (1714), in D. Pickering, ed., *The Statutes at Large, from the Twelfth Year of Queen Anne, to the Fifth Year of King George I*, vol. 13 (London, 1746), 109.

[42] Watt, *Price of Scotland*, 240–41.

[43] See Davies, *History of Money*, 275. For a modern overview of the phenomenon, see Ian Bremmer, *The J Curve: A New Way to Understand Why Nations Rise and Fall* (New York, 2006).

[44] Riley, *English Ministers and Scotland*, 215.

Parliament sanctioned the use of debentures, these being financial instruments issued as paper certificates to those still owed money from the Equivalent. They detailed the creditor and the sum due, as well as providing details of the annual interest due on the debt. In this case, that was a yield of 5 percent interest due to the creditor from June 1708.[45] By 1713 a total of £138,201 7s. in debentures had been issued and would continue to rise.

These "IOUs," which implicitly recognized the British government as the debtor, may have alleviated the need for funds in the short term, but they were not without their own controversies. They could not be redeemed for cash, nor could they be converted into other (more profitable) government stock, and perhaps most problematically, no sufficient fund was in place to cover the interest payments due to debenture holders.[46] It is important to note that, despite significant issues, these documents, issued to cover the emerging gap between the sum of the Equivalent and the needs it was required to meet, were what would eventually be transferred into capital to underpin the bank in 1727. Getting to that point would, however, require considerable political maneuvering over a prolonged period of time.

THE EDINBURGH COMMITTEE AND THE EMERGENCE OF THE EQUIVALENT SOCIETIES

By 1714 the process of financial remuneration started in 1707 should have been completed. This was not the case. Instead the British administration at this time acknowledged that there were "publick debts of Scotland yet unsatisfied" and extended the period in which claims to the Equivalent could be made.[47] The decision was influenced in part by Equivalent creditors becoming organized, after a "considerable number" had met in Edinburgh in January of 1714 to form a committee. The group planned a campaign designed to secure their rights, and at their next meeting, "several hundreds" were in attendance.[48]

The committee emerged at a time of significant political upheaval, when the Union itself was in very real peril. Since mid-1713, there had been a serious attempt by Scottish representatives at Westminster to dissolve the merger. Many Scots felt that the new British government was failing the Scottish economy, citing post-1707 taxes on various commodities and industries—woolens, candles, animal skins, fishing, linen—as having had a negative impact on the country.[49] In the years prior to Union, the Scots had legislated heavily in respect to economic matters, passing fifty-three related acts between 1689 and 1707.[50] Following 1707, few "British" acts aimed at the economy applied to Scotland.[51] The Union

[45] Neil Munro, *The History of the Royal Bank of Scotland, 1727–1927* (Edinburgh, 1928), 28; Riley, *English Ministers and Scotland*, 213.

[46] These were signed by the Lords of Session. Saville, *Bank of Scotland*, 84.

[47] "An act to discharge and acquit the commissioners of the equivalent," 109.

[48] Riley, *English Ministers and Scotland*, 223.

[49] Whatley and Patrick, *Scots and the Union*, 336–38.

[50] Whatley and Patrick, 338–39. In the twenty years following 1707, the British administration passed just six such acts.

[51] Julian Hoppit, *Britain's Political Economies: Parliament and Economic Life, 1660–1800* (Cambridge, 2017), 118.

had left a void in Scottish political society as a number of elites decamped south, and with the abolition of the Privy Council in 1708, "a body that might have generated policies in London toward Scotland" was removed.[52] Those Scots who were elected to the new Parliament then did little for Scotland in the years directly following Union, with, it has been suggested, parliamentary politics in Scotland by 1714 having "degenerated into a 'spoils system.'"[53]

In 1713, the pamphleteer and English spy Daniel Defoe wrote that "a firmer union of policy with less union of affection has hardly been known in the whole world."[54] This point was confirmed by the British administration's attempts to extend the English Malt Tax to Scotland, despite the Union Treaty explicitly stating "that any Malt to be made and consumed in that Part of the united Kingdom now called Scotland, shall not be charged with any Imposition on Malt during this War [the ongoing War of the Spanish Succession]."[55] A bill to repeal the Union, citing the Malt Tax and various constitution issues including the abolition of the Privy Council and the bar on Scottish peers being peers of Great Britain as reasons, was brought before the House. The ballot was close, with just four votes saving the Union.[56]

In addition to this parliamentary discontent, 1714 also marked the long-anticipated Hanoverian Succession and the political upheaval it wrought as ministerial offices were won and lost. The ascension of a new royal house also stirred opposition from those who supported the Old Pretender's claim to the throne, with this antagonism erupting into hostilities during the second half of 1715. Yet, despite these significant events, payment of the Equivalent continued to be a central British issue.

This is unsurprising. After the efforts of the Scottish commission between 1707 and 1709 to disburse the majority of the sum set aside for the Equivalent, the financial commitment covered by debentures had been steadily climbing. By 1714 the figure sat at £230,308, which included almost £45,000 in unpaid interest due to holders.[57] New legislation passed at this time canceled all existing debentures and replaced them with fresh ones, still with 5 percent interest.[58] The act, however, failed to provide a fund from which the interest would be drawn. It was not until five years later, in 1719, that legislation was passed to provide for the interest payments. It stipulated that £10,000 was to be paid out of the customs and excise of Scotland to service the interest on outstanding Equivalent debentures, the total sum having increased by then to £248,550.[59]

[52] Hoppit, 118.

[53] William Ferguson, *Scotland: 1689 to the Present*, vol. 4 of *The Edinburgh History of Scotland* (Edinburgh, 1968), 137.

[54] Daniel Defoe, *Union and No Union, Being an Enquiry into the Grievances of the Scots, And How far they are right or wrong, who alledge that the Union is dissolved* (London, 1713), 4.

[55] Article 14, *Articles of Union*, 1707, accessed 24 September 2018, https://www.parliament.uk/documents/heritage/articlesofunion.pdf.

[56] Article 14, *Articles of Union*, 1707.

[57] Saville, *Bank of Scotland*, 85.

[58] "An act to discharge and acquit the commissioners of the equivalent," 109.

[59] *The Public General Statutes Affecting Scotland: From the Beginning of the First Parliament of Great Britain, 6 Anne, A.D. 1707, to the End of the Fourteenth Parliament of the United Kingdom, 10 & 11 Victoria, A.D. 1847, with a Chronological Table of the Titles Or Subject-matter of All the Public General Acts During that Time, and Index*, 3 vols. (Edinburgh, 1876), 1:47–53.

Prior to the passing of the 1719 Act, a number of Equivalent proprietors attempted to sell on their debentures at the best price they could. Much of the paper remained in Scotland, but a large quantity, somewhere in the region of £170,000 worth, moved into the hands of London investors, some of whom were Scots.[60] To protect their investment, debenture holders both north and south of the border organized themselves into two societies, superseding the Edinburgh committee that had been so important to the additional issue of debentures in 1714.

The Society for the Subscribed Equivalent Debt emerged from London, although it was not an exclusively English enterprise. The group had an undoubtedly Scottish hue and included members of the merchant and political classes. The merchant and one-time banker John Drummond, an important figure in the lucrative financial machine of James Brydges, Duke of Chandos, was involved from the outset and became central in deciding society policy. Lord Archibald Hamilton, brother to James, 4th Duke of Hamilton, the leader of the Country Party in the Scottish Parliament at the time of union negotiations, was also an original member.[61] So were John Campbell, Duke of Argyll, and George Middleton, a Scottish banker who conducted business for the Campbell brothers as well as acting as London agent to John Law.[62]

Scotsmen were not only members of the London Society: they had been crucial in its conception. The man who first proposed the formation of the group was William Paterson. He had made the case that there were many shareholders with an interest in Equivalent stock throughout Great Britain, yet, as Edinburgh was the only place "where at present the said debt and interest . . . [is] payable," many found it hard to manage their interest.[63] Paterson was of course working his own angle, and it was written into the group's first indenture that he was to receive for "the term of twenty one years one tenth part of the nett profits above the interest on the subscrib'd capital stock, and incident expences in the management thereof."[64] Additionally, Paterson held Equivalent stock of £5,000 in 1718; this was after years of political wrangling had led to his being awarded £18,241 (around £2.25 million today) in Equivalent debentures in 1715, despite his having never invested a penny of his own in the Darien venture.[65]

60 Watt, *Price of Scotland*, 49.

61 James Hamilton has become a divisive figure. He argued against the Union, but when it came time to the final vote, he was struck down with a suspicious case of toothache and could not attend Parliament. Post-Union, he was chosen as one of sixteen Scottish peers at Westminster and in 1711 was created Duke of Brandon.

62 Warrants for the dividends paid to members of the London Society (for the subscribed Equivalent debt) 7 July 1719, REQ/13/1, Royal Bank of Scotland Archives, Edinburgh (hereafter RBS Archives); Warrants for the dividends paid to members of the London Society (for the subscribed Equivalent debt) 14 July 1721, RBS Archives, REQ/13/3; E. Healey, "Middleton, George (1692–1747)," in *Oxford Dictionary of National Biography* (Oxford, 2004); Antoin E. Murphy, *Richard Cantillion: Entrepreneur and Economist* (Oxford, 1986), 175; Larry Neal, *"I Am Not Master of Events": The Speculations of John Law and Lord Londonderry in the Mississippi and South Sea Bubbles* (New Haven, 2012). For more information on John Law, see Murphy, *John Law.*

63 Transfer book of the London Society (for the subscribed Equivalent debt), 1718–1724, RBS Archives, REQ/9, p. 2.

64 Transfer book of the London Society (for the subscribed Equivalent debt), 1718–1724, RBS Archives, REQ/9, p. 11.

65 Paterson had been attempting to gain a share of the Equivalent since 1707, hoping that his role in raising capital in London for the venture might be properly recognized. His claim was not unfounded,

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North of the border, the new Equivalent society emerged from Edinburgh, where it originally consisted of fifty members, made up of noblemen, professionals, and merchants. These included Archibald Campbell, Earl of Ilay, later the first governor of the bank, and Andrew Fletcher of Saltoun, later Lord Milton, the nephew of his patriotic namesake and one of the first directors of the bank, and the then lord provost of Edinburgh, John Campbell. The society's deed of settlement outlined that the group was to "carry on several undertakings for the benefit of the City of Edinburgh, but may likewise be of use to promote the interest of the nation, by encouraging trade, manufacture, & fishing, and introducing several new branch[es] thereof."[66]

That the society might be advantageous to Scotland, appearing almost as an afterthought to the benefits that could be brought to the capital, understates the intentions of the group. While it was to remain an entirely domestic entity and avoid partaking in "such branches of trade or merchandize, as consist in buying or selling goods or wares, or adventuring them by sea," a prominent feature of the society's intended business was tied to the capitalization of the Scottish economy.[67] Those steering the new Edinburgh Equivalent Society were invested with the power to "lend or employ all or any part of the money to be paid to them by the subscribers hereof, as also their bills or notes of credit and all such sums of money, or effects which they shall become possest of by virtue of this deed, upon heritable bonds, wad setts, absolute purchase of lands, or in exchange for the bills or notes of credit, or upon other things, as they shall think fit."[68] These powers unequivocally signal the group's intention to enter the business of banking, and clearly encroach upon the sphere of activity undertaken by the Bank of Scotland. It was not long until the bank was made aware of the society's intent.

THE EQUIVALENT SOCIETIES AND THE BANKS

In 1719 the Edinburgh society attempted to advance its interests by amalgamating with the Bank of Scotland. The choice was an obvious one for such a move; the bank after all represented the most successful Scottish endeavor to emerge from the financial developments of the 1690s, and the monopoly on Scottish banking, which the bank had held for twenty-one years, had lapsed in 1716, potentially leaving the institution vulnerable to competition.

as he had agreed a contract for 4 percent of the total capital raised for the Darien venture in 1695; the figure being set at £600,000 at this time potential netted Paterson £24,000. With the failure of the company, however, it is safe to say that this figure never materialized. Paterson's attempts at compensation largely fell on deaf ears until ascension of George I in 1714 saw a number of his friends appointed to government, and by the middle of 1715 an act had been passed by the British Parliament entitling Paterson to £18,241; Saxe Bannister, *William Paterson, the Merchant Statesman, and Founder of the Bank of England: His Life and Trials* (Edinburgh, 1858), 408–9; Watt, *Price of Scotland*, 246; *Upon the Petition of William Paterson, Esq.* (London, 1715), 16; "An Act for relieving *William Paterson* Esquire, out of the Equivalent-money, for what is due to him" (1715), in *Journal of the House of Lords*, vol. 20, *1714–1717* (London, 1767–1830), 122.

[66] Original deed of settlement of the Edinburgh Society, RBS Archives, REQ/11/1, p. 1.

[67] Original deed of settlement of the Edinburgh Society, RBS Archives, REQ/11/1, p. 3.

[68] Original deed of settlement of the Edinburgh Society, RBS Archives, REQ/11/1, p. 3.

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The Bank of Scotland had been founded in 1695 during a flurry of economic debate and had remained where it was through restrained governorship, despite challenges. A significant literature emerged from those who felt the bank was failing in its aims;[69] it had also been confronted by the appearance of a number of competing financial schemes during the parliamentary debates of 1704–5, challenges it overcame despite a funding deficit forcing it to stop cash payments, lending, and discounting in late 1704.[70] The stop was short-lived, however, and following the Union of 1707, business improved as the board funneled its energy into increasing the bank's loans and advances.[71] The bank also began to benefit from funds deposited by revenue collectors and British government officers after Union. Richard Saville has identified this boom in the bank's business as being "indicative of an agricultural economy which benefited from the active links with English markets," and by 1713 the bank held advances of £91,000, with almost £40,000 in its notes circulating, a sharp increase from accounts prior to Union.[72]

After this extraordinary boom in business, the bank again fell upon difficult times. Political uncertainty, symptomatic of the years directly following the Hanoverian Succession, pervaded all areas of society, and the bank was no different. The intensified Jacobite threat led to demands on the bank's funds, and on 19 September 1715, less than two weeks after the standard of "James the 8th and 3rd" was raised at Braemar, it again stopped payments.[73] The bank issued a notice that all banknotes would carry a 5 percent annual rent, while all holders of due bills were asked to repay by 1 November. Many failed to do so, and for the next year the bank issued no advances. The bank conducted little business until things began to improve slightly in the middle of early 1717.[74]

This was the situation at the bank when the Edinburgh society approached it with an offer of up to £250,000 investment in December 1719.[75] For the bank, it was a significant amount, equaling two and a half times the entire capital of the institution,

[69] Some criticized its lending practices, complaining that the loans were being given "to all that would give them good security … [the bank] never concerning themselves whether it was to stay in the kingdom [of Scotland] or not," and fearing that this had led to "the export of so much coin as hath in a manner left us beggars." *An Essay For promoting of Trade and increasing the coin of the nation (in a letter from a gentleman in the country to his friend at Edinburgh, a member of parliament)* (Edinburgh, 1705). Other critics of the bank held the conflicting view that credit was not being advanced in a sufficient quantity and called for the bank to be reestablished with an improved charter, or to be replaced by a new national bank with governors appointed by Parliament. Clerk, *The circumstances of Scotland consider'd*, 25.

[70] Late repayments of loans, political uncertainty, and rumors of a forthcoming recoinage that was to increase the value of the Scots pound (a rumor that led many to retain their money instead of depositing it with the bank) combined at this time to leave the bank with a funding deficit. For details, see Saville, *Bank of Scotland*, 49–50.

[71] Between August and December of 1707, £157,000 in bank notes was exchanged for coin and Exchequer bills and against bills and bonds of exchange, representing a substantial increase from the £2,850 monthly average issued during the same months in 1705. See Saville, *Bank of Scotland*, 77–81.

[72] In March 1706, the bank's accounts showed total lending of £24,118 and just £6,052 in notes out. Saville, *Bank of Scotland*, 77–81.

[73] Checkland, *Scottish Banking: A History, 1695–1973*, 47; Christoph v. Ehrenstein, "Erskine, John, Styled Twenty-Second or Sixth Earl of Mar and Jacobite Duke of Mar (bap. 1675, d. 1732), Jacobite Army Officer, Politician, and Architect," *Oxford Dictionary of National Biography* (Oxford, 2004).

[74] Saville, *Bank of Scotland*, 83–84.

[75] The sum suggests involvement from both the Edinburgh and London societies.

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which had stood at £100,000 since 1695.[76] The anonymous proposer of the merger, "a proprietor in the Equivalent stock, and also an adventurer in the bank," made the case that in addition to the cash injection, the bank would also benefit from the monetary provisions outlined in the 1719 act, these being £10,000 per annum to cover interest payments on debentures and £600 for administrative costs. Additionally, there was an allowance of £2,000 per annum for "all Pretensions of growing Equivalents due to Scotland," as well as £14,000 for the encouragement of the woolen industry.[77] All of this, if the merger went ahead, was to be funneled through the bank.

One may assume that many bank proprietors read the proposal with interest. When it came to how future profits were to be divided, however, many presumably became less enthusiastic. These were to be split unequally between the two interests, 5:7 in favor of the Equivalent proprietors, this being a figure calculated from the investment of £250,000 (five-sevenths) of the £350,000 total of the bank's stock, should the proposal be accepted. This would leave existing bank proprietors the remaining two-sevenths. This seems like a rational deal based on the ratio of investment. However, another caveat included in the proposition was that those holding Equivalent debentures were to be advanced nine-tenths of their total investment, equating to £225,000, in Bank of Scotland notes.[78] Effectively, this meant that the investment made by the Equivalent proprietors was just one-tenth of their stock for a return of five-sevenths of the bank's profits!

The plan was shrewd. The bank was well established and would allow those holding Equivalent debentures the opportunity to capitalize their funds quickly. The proposal also indicates that Equivalent proprietors viewed themselves as negotiating from a position of strength, with their overall stock dwarfing that available to the Bank of Scotland. Proprietors of the bank, however, were not enamored with the plan.

The bank's assessment of the proposed uniting of the two interests was that it was "most disadvantageous to the Bank; and if complied with, would expose the Company to very great Hazards, if not certain Ruin." At the core of their rejection was the fine print found in the 1695 act that had established the bank. This limited the stock of the company "to £100000, whereof at least 2/3 must be long to Scotsmen residing in Scotland."[79] Even if this were not the case, the bank was concerned with the unequal distribution of profits, particularly considering that nine-tenths of the Equivalent investment (in the form of debentures) was to be reimbursed in the bank's bills. Agreement to this condition would in principle commence the circulation of a large-scale convertible paper money backed by unredeemable Equivalent debentures.[80] The bank could not support this situation, and the proposal went no further.

The Equivalent proprietors were undeterred by the rejection. Those in Edinburgh attempted to publicly undermine the Bank of Scotland, spreading rumors that its cash stock was in short supply, while also calling for the withdrawal of the £8,400 they held with the bank in one amount in the hope of prompting a run. When

[76] *An Historical Account of the Establishment, Progress and State of the Bank of Scotland: And of the Several Attempts that Have Been Made Against It, and the Several Interruptions and Inconveniences which the Company Has Encountered* (Edinburgh, 1728), 12.

[77] *Historical Account*, 11.

[78] *Historical Account*, 11.

[79] *Historical Account*, 13.

[80] Alan Cameron, *The Bank of Scotland, 1695–1995: A Very Singular Institution* (Edinburgh, 1995), 40.

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these underhand tactics failed, the society approached the bank with a second investment offer. This time, rather than repeating the offer of large-scale investment, they instead proposed to buy an extensive number of the bank's shares. The society suggested that shareholders in the bank would transfer six hundred shares to members at a cost of £200 Scots per share, equating to £10,000 sterling for all six hundred shares.[81] Possibly having learned something from the previous rejection, the society stated that the sale of shares was to be done "in such manner as is consistent with the constitution of the bank."[82] The proposer was also mindful, however, that by selling some of the shares, many of those holding office with the bank might lose the right to do so. As such, those in office were permitted to retain their shares until the next election, at which point they were to transfer them to the Edinburgh society.[83]

This second proposal was every bit as bold as the first. An early historian of the bank, writing in 1728, described it as "ridiculous," but the response from the bank remained measured.[84] As in the first instance, the 1695 charter was presented as an obstacle to the plan, while the suggestion that existing bank shareholders should be forced to part with their stock, in turn barring many from being directors "who are very fit for the office," was deemed improper. It was also stated quite simply that there was no appetite among the bank's proprietors to sell their shares, even at a higher price. There was also a concern that should some of the bank's stock be transferred to the society, Equivalent proprietors would then attempt to purchase additional shares in order to "make themselves absolute Masters" of the bank.[85] The bank refused the offer, but as we return to below, this rejection did not mark the end of the Edinburgh society's challenge to the national bank.

South of the border, the London society was also attempting to enter the business of banking. Here they hoped to exploit a clause included within the Act of 1719 that had secured the interest payments for holders of Equivalent debt. The clause stated that the king, if so inclined, could grant debenture holders greater legal security by allowing them to incorporate. And when the London society sought a charter, they did so under the same terms of the indenture agreed to by the proprietors at the establishment of the group. These terms stated that the society might "lend or imploy their bills or notes of credit, and all or any part of the moneys paid in unto them . . . as they shall think fit upon, mortgages, pledges or absolute purchases of any lands, leases, goods, or chattels, or in exchange for any other bills or notes of credit or other things."[86]

Mindful of objections from the Bank of England, the London proprietors proposed to restrict their note issue to paper payable at six months from the time of borrowing and also ruled out notes payable on demand while the bank existed—although this did little to allay that institution's concerns.[87] The charter, if granted

[81] *Proposal for uniting the Bank of Scotland and the Edinburgh Society, in order to prevent mutual injuries, and lay a solid Foundation for their being subservient and assisting to one another* ([Edinburgh,]1728), as reproduced in *Historical Account*, 19.

[82] *Proposal for uniting the Bank of Scotland*, in *Historical Account*, 19.

[83] *Proposal for uniting the Bank of Scotland*, in *Historical Account*, 19.

[84] *Proposal for uniting the Bank of Scotland*, in *Historical* Account, 19.

[85] *Proposal for uniting the Bank of Scotland*, in *Historical Account*, 20.

[86] Transfer book of the London Society (for the subscribed Equivalent debt), 1718–1724, RBS Archives, REQ/9, p. 9.

[87] Saville, *Bank of Scotland*, 86.

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as it stood, would provide the London society with power and privileges identical to those held by the Bank of England while also granting them trading rights from which the bank itself was restricted.[88]

The bank urgently sought a meeting with the attorney general, Nicholas Lechmere, to discuss the matter. This occurred on 6 August 1719, and on 27 August the bank was informed that a clause designed to limit the powers of the Equivalent proprietors, and to prevent the new corporation "from acting as a bank in England," had been added to the draft legislation.[89] The clause had, however, been suggested by the Equivalent proprietors and was almost identical to a clause included in the 1711 South Sea Act, intended to prohibit the South Sea Company from acting as a bank. Despite that clause, that company had indeed conducted banking operations; the Bank of England remained concerned. Lechmere found himself in a difficult position. The bank continued to apply pressure as it attempted to protect its own interests, and in September directors again met with the attorney general to discuss the charter.[90] Yet by November he had taken the stance that the clause, which was similar to that enacted at the establishment of the South Sea Company, offered sufficient security to the bank.[91] The Bank of England remained vehemently against the charter. Its position was weakened, however, by the Bank of Scotland, which declared the limiting clause in the charter to be acceptable.[92] At this time the Edinburgh society was still attempting its rough wooing of the Scottish bank, so one must consider how much this acceptance of the proposed charter was influenced by these discussions. Perhaps the Scottish bank viewed a charter for banking in England as a way to distract Edinburgh proprietors, freeing the bank from the continually grasping hands of the Scottish society.

In the end, bad timing more than objections from the Bank of England prevented the Equivalent proprietors from being granted a charter, with the collapse of South Sea stock mid-1720 bringing talks to an end. The rupturing of the Mississippi bubble later in the year exacerbated the situation. From then until the autumn of 1722, the offices of the attorney general and the solicitor general had little time to focus on anything other than the financial fallout of the collapses, refusing to comment on the charter application "while they unravelled the traumas of the stockmarket crash."[93]

UNION TALKS BETWEEN THE SOCIETIES, INCORPORATION, AND THE FORMATION OF THE ROYAL BANK

Running concurrently with the London society's attempts to attain a charter for banking, discussions on a potential merger between the society and its counterpart in Edinburgh had also commenced. Those in London may have been focused on

[88] Saville, 86.

[89] Bank of England, Court of Directors, Minutes, 10 July 1718 to 10 March 1719 [10 March 1720], G4/11, 27 August 1719, p. 82, Bank of England Archive, https://www.bankofengland.co.uk/-/media/boe/files/minutes/1700-1800/1718/court-july-1718-march-1719.pdf.

[90] Bank of England, Court of Directors, Minutes, 10 July 1718 to 10 March 1719 [10 March 1720], G4/11, 10 September 1719, p. 84.

[91] Saville, *Bank of Scotland*, 86.

[92] Saville, *Bank of Scotland*, 86.

[93] Saville, 87.

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the charter negotiations, but they were not so preoccupied as to miss the Edinburgh society's advances to the Bank of Scotland, aware that a new unified Equivalent society could, in the event of a successful takeover of the Scottish bank, "legally divide [the bank] with the corporation."[94] In this situation, debenture holders in London stood to gain considerably.

The proposals for uniting the Edinburgh and London Equivalent societies appear only in anonymous drafts, but an analysis of the handwriting shows the author to have been Patrick Campbell of Monzie, a man deeply involved in the financial speculations of the time, from Darien to the South Sea Company, and one of the first directors of the bank. Arranging the drafts in any definitive order is difficult, but it is possible to see an evolution in the terms and complexity of each.[95] The most advanced proposal would have seen the two societies each holding a stock of £150,000 sterling, made up of £15,000 cash, £62,500 in Equivalent debt, and £72,500 in subscriptions. The £62,500 in Equivalent debt was to be kept by each society "constantly in their respective rights," but all "stock or debentures over and above" this figure, "whither already in their possession or hereafter to be purchased by either society shall belong to the tuo societies in common and what ever profit or improvement shall be made thereof to be divided equally."[96] As profit would be made for both parties, the cost of defraying the operations undertaken by the corporation was to be split.

By February 1720, Monzie had been dispatched from Edinburgh to London to discuss the merger. He was instructed "in conjunction with Mr Drummond [to] use [his] best endeavours to come to a settlement with the [London] proprietors . . . upon such terms as either have been allready suggested to Mr Drummond, or such others as may be for the interest of the society."[97] The "Mr Drummond" referred to was the aforementioned merchant John Drummond, a man with impressive connections. He was central to the financial network of the Duke of Chandos and provided intelligence to Robert Harley, Earl of Oxford, and Henry St. John, Viscount Bolingbroke. He was a correspondent of John Churchill, Duke of Marlborough, and Isaac Newton, master of the English Mint, and a confidant of John Law and Thomas Pitt Jr., Lord Londonderry. He was also involved in the grand schemes of the day, becoming a director of the Royal Africa Company in 1722 and of the Royal Exchange Assurance Company in 1726.[98] He was the first Scotsman to take on a directorship with the English East India Company, where he used his position to guide a program of patronage overseen by Robert Walpole, designed to reduce the threat of Jacobitism.[99] And he was also one of the largest shareholders in the London Equivalent Society, holding stock of £3,516 in 1718,

[94] Letter to a proprietor of the Equivalent debt, 14 March 1720, RBS Archives, REQ/11/11, p. 2.

[95] "Proposition," undated, RBS Archives, REQ/11/8; "Proposal for uniting the Equivalent and Edinburgh Societies," undated, RBS Archives, REQ/11/9.

[96] "Heads of ane agreement between the proprietors of the subscribd equivalent debt and the Edinburgh society," undated, RBS Archives, REQ/11/10, p. 1.

[97] Instructions of the Edinburgh Society to Mr Patrick Campbell of Monzie Advoct, 2 February 1720, RBS Archives, REQ/11/16.

[98] Aaron Graham, *Corruption, Party, and Government in Britain, 1702–1713* (Oxford, 2015), 235; George K. McGilvary, *East India Patronage and the British State: The Scottish Elite and Politics in the Eighteenth Century* (London, 2008), 46.

[99] McGilvary, *East India Patronage and the British State*, 46; George K. McGilvary, "John Drummond of Quarrel: East India Patronage and Jacobite Assimilation, 1720–80," in *Jacobitism, Enlightenment and*

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increasing that amount by £1,000 in 1720 when his brother William transferred stock to him.[100]

In bringing the two societies together, both sets of Equivalent proprietors stood to gain significantly. The hope in London was that the Edinburgh society would successfully infiltrate the Bank of Scotland, so that they might share in the spoils, while the granting of a charter for banking in England would provide investment opportunities for those proprietors north of the border. Unification at this time, however, was not to be. Instead, the same financial shocks that had derailed talks for the banking charter in 1720 also disrupted union talks, as proprietors shifted their focus from the Equivalent societies and attempted to rescue other financial interests.

By 1724, however, attention had returned to the Equivalent societies' intention to unite, and the two were incorporated as one in the Equivalent Company. The new venture held a capital stock of £248,550 and was overseen by thirteen directors, including Campbell of Monzie and John Drummond. Also included in this first batch of directors was Patrick Crawford, later one of the first directors of the bank, and numerous financial associates of William Paterson.[101] The company was based in London, with 210 of the 238 shares being held in the capital, while a branch office was established in Edinburgh to carry out Scottish business. The charter granted was, however, extremely limited, only allowing the company to collect and administer the sum of £10,600 previously settled by statute for defraying the costs of interest on debentures and administration. No banking rights had been granted, so while the proprietors had made advances, they were still not where they wanted to be.

The network operating around the Equivalent was, however, an influential one. Argyll and Ilay lobbied for the Equivalent Company to be given the right to organize banking, while Robert Walpole, to whom Drummond had granted favors via his East India Company directorship, and who by then was prime minister in all but name, also backed a new charter. Walpole was held in high esteem by George I, and with his support a revised charted was secured. This was granted in 1727, and subscriptions totaling just over £111,000 were transferred by proprietors holding Equivalent stock into shares of a new business—the Royal Bank of Scotland.[102]

The new bank was the source of Scottish financial innovation when it provided the first known overdraft facilities in 1728.[103] It also introduced a significant amount of

Empire, 1680–1820, ed. Allan I. Macinnes and Douglas J. Hamilton, 141–58, at 146; T. M. Devine, *The Transformation of Scotland: The Economy since 1700* (Edinburgh, 2005), 25.

[100] Transfer book of the London Society (for the subscribed Equivalent debt), 1718–1724, transfer receipt 195, RBS Archives, REQ/9. At this time only six members of the London group held more stock than Drummond.

[101] These included merchant James Campbell, a former director of the Paterson-driven Company of Scotland, and Paul D'Aranda, an English merchant who at the time of Paterson's death in 1719 was named as sole executor of his estate. Watt, *Price of Scotland*, 44, 70; James Samuel Barbour, *A History of William Paterson and the Darien Company* (Edinburgh, 1907), 224–25; William Paterson, *The Writings of William Paterson, Founder of the Bank of England; with Biographical Notices of the Author, His Contemporaries, and His Race*, ed. Saxe Bannister, 3 vols. (London, 1858), 1:cxli. *The Writings* is also dedicated to a "Paul Daranda," who appears to be the father of Paterson's executor.

[102] The rest remained as stock with the Equivalent Company.

[103] Transaction for 31 May 1728, Ledgers of the transactions of the Royal Bank of Scotland, 1 January 1728 to 25 March 1731, RBS Archives, RB/714/1.

paper money into the country's economy, with £138,530 of the bank's notes in circulation within two years. Importantly, however, this was a bank that had been formed using innovative means. It was, after all, an enterprise built on debt incurred by the government as a direct consequence of the Anglo-Scots Union. The £111,000 capital had never existed as money, only as debt, but was used to capitalize the banking endeavors of the bank. The money drawn from the Equivalent debentures to fund the bank, along with the remaining sum that had not been converted into bank stock, totaling £248,550, plus all outstanding monies relating to the annual interest payments, was not paid by the British government until 1850, by which point the bank had grown its capital to £2 million.[104] That a powerful bank had been formed using this fund 123 years earlier is a clear example of the alchemy that surrounded many financial projects of the period.

THE WIDER CONTEXT OF THE NEW BANK, 1700–1727

Although the political situation in Scotland from 1700 under both Scottish and British administrations hampered the development of financial projects and institutions, the group operating around the Equivalent succeeded in overcoming the political inertia, and through a long program of organization formed the first new financial institution in Scotland since 1695. However, a number of other factors, some of them a consequence of Union, materialized between 1700 and 1727 and were crucial in creating the circumstances for the bank's foundation. These are now considered, with a particular focus on the Scottish economy, and on how pre-Union institutions had fared following 1707, beginning with the shifting fortunes of the Bank of Scotland.

When the Bank of Scotland's monopoly lapsed in 1716, this did not provoke a wave of new bank foundations in the country. Even the bank itself did not attempt to renew its monopoly, believing there was little competition, and that one bank was all the country could accommodate.[105] The end of the bank's monopoly, as outlined above, coincided with a slump in its business, as those opportunities brought by Union began to fade. It also overlapped with a decline in the bank's reputation, as the institution's alleged Jacobite links stoked the rumor mill.[106] Even if the bank had not been linked to Jacobitism, the wider threat still significantly impacted its business, with an increased demand to withdraw funds, prompted by the unrest, forcing a stop on payments in September 1715, markedly affecting the institution's commercial performance until early 1717.[107]

The bank fought back from the slump, however, and through its good management weathered the storm caused by the bursting of the South Sea and Mississippi Bubbles in 1720. As detailed above, it also fought off multiple attempts at takeover from the

[104] Scroll General Balance, 1851, RBS Archives, RB/257/1.

[105] Lawrence H. White, *Free Banking in Britain: Theory, Experience and Debate, 1800–1845*, 2nd ed. (Cambridge, 1984), 22.

[106] The treasurer at the bank, David Drummond, had instituted a fund to support Jacobite prisoners of war in the wake of 1715, and reports circulated that the bank had refused in 1715 to lend funds to the government, with whom they were disillusioned. Saville, *Bank of Scotland*, 91.

[107] Checkland, *Scottish Banking*, 47.

Equivalent societies, and rejected an attempt by the struggling London-based Royal Exchange Assurance Company to invest significant sums into the bank.[108] The strength shown by the bank was down to its leadership. The governor since 1697 had been David Melville, 3rd Earl of Leven, holding the office until his death in 1728. Leven's tenure has been described by Saville as epitomising "the Presbyterian ideal of the cautious approach to lending and discounting."[109] Through his leadership the bank saw off the challenges outlined above as well as reignited threats from the monetary ideas of John Law, after *Money and Trade* was republished in mid-1720.

Changes were coming for the bank, however. It did not hold the political influence that it once had, and its account book had been appreciably blotted by its alleged Jacobite sympathies. When the Argathelian interest flexed its considerable political muscle in favor of the Equivalent Company's bid for a banking charter in the mid-1720s, the bank protested. Leven went as far as petitioning the king. In an appeal to the newly crowned George II in 1727, he stated that the charter for the Royal Bank of Scotland had been signed by the late George I shortly before his death earlier that year, and that this had not yet been passed by the Seal of Scotland. Leven requested a hearing on the matter in order to request the charter be annulled.[110] The meeting was never granted.

As outlined above, the economic provisions of the Treaty of Union were central in creating the capital which underpinned the bank in 1727, but the effects of Union in its first two decades were also important for creating the conditions for the emergence of the bank in other ways. One particularly challenging aspect of Union had been the recoinage stipulated in article sixteen of the treaty. Here it was stated that "from and after the union, the coin shall be of the same standard and value throughout the united kingdom," and over the next two years a process to this end, overseen by the general of the Scottish Mint, John Maitland, 5th Earl of Lauderdale, took place.[111] Between 1707 and 1709 a total 103,346 pounds (weight) of silver was coined, producing coin with a figure of just over £100,000 sterling, a sizeable sum for Scotland at the time.[112] Policy decisions taken during the recoinage would, however, cause significant problems for the Scottish economy, particularly that of adhering to the English custom of minting no coin smaller than sixpence. In respect to the much larger English economy this policy was valid, but in a small, predominantly agrarian economy, transacting low-value business, as was the case in Scotland, this was to become a problem.[113]

[108] James Armour, *Proposals for making the Bank of Scotland more useful and profitable: and for raising the value of the land-interest of North-Britain* (Edinburgh, 1722).

[109] Saville, *Bank of Scotland*, 41.

[110] *Copy of a Signature for a New Bank* [the Royal Bank of Scotland] (n.p., 1727), 29–35.

[111] Article 16, *The Articles of Union* 1707. The Article also states that the "Mint shall be continued in Scotland, under the same Rules as the Mint in England, and the present Officers of the Mint continued, subject to such Regulations and Alterations as her Majesty, her Heirs or Successors, or the Parliament of Great-Britain, shall think fit."

[112] Athol L. Murray, "The Scottish Recoinage of 1707–9 and Its Aftermath," *British Numismatic Journal*, no. 72 (2002): 115–34, at 121. Murray states that "in December 1708 with 14,155 pound weight melted and 13,700 pounds minted in new crowns and half crowns"; using these figures, it is possible to calculate that 103,346 pounds (weight) of silver would produce approximately £100,024 in coin.

[113] "Of the withdrawn coins the 5s. Scots piece had been equivalent to 5d. sterling and the 3s. 6d. to 3 ½ d." Murray, "Scottish Recoinage," 123.

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When those with commercial interests became aware of the policy they made representations to the December 1708 Convention of the Royal Burghs of Scotland (a Scottish institution that did survive the Union, only giving way to a new body in the late twentieth century). Here the case was made that smaller denomination coin, such as "tou pence, three pence and four pence," was required to be put into circulation in order to keep the Scottish economy moving.[114] An application for a warrant to mint smaller coin was made to master of the English Mint, Newton, also in December 1708, seeking permission to strike £8,000 sterling in 2d., 3d. and 4d. This was approved by royal warrant in May of the following year. There was, however, a delay in putting this into operation, and despite Newton being directed to prepare a contract for the new coin in July 1710, this was not received by the Scottish Mint until April 1712.[115] In readiness, workers in Edinburgh had prepared punches for small silver coins and manufactured dies for twopence and fourpence. Despite this, no coins were struck.[116] In addition to the issues around the striking of smaller denomination silver coins, the Scottish Mint was also refused permission to produce new copper coins. This was a ruling particularly felt by the country's poor, the scarcity having a profound effect on the business conducted at Scottish fairs and markets.[117] By the middle of the 1710s, Dutch "doits," counterfeit Irish coin, and clipped coins circulated freely in the Scottish economy as a means of alleviating this need.[118] In the end, notwithstanding the efforts of successive generals at the Scottish Mint, and despite small denomination Scots coin being given royal ascent in 1709, no new specie materialized, with the coins produced during the recoinage of 1707–1709 being the last ever minted in Scotland.

These issues around currency indicate that the Scottish economy faced significant challenges directly linked to Union policy, a fact compounded by the failure of the increased yields anticipated in 1707 to materialize during the subsequent seven years. I am cautious, however, of pushing this point too far, and subscribe to the notion that the decades which directly followed Union were, in an economic sense, largely like those which had preceded them, which would be to say they were difficult; a condition not necessarily linked to Union.[119] T. M. Devine has made the case that the harm brought by Union to the Scottish economy should not be exaggerated. He states that "the nation's economy after Union was not in ruins; indeed there had been some modest recovery from the miseries of the 1690s and, though some activities were hit badly, others prospered."[120] Devine admits that some sectors were affected by English competition after 1707, but that many had also been struggling prior to Union, while others flourished within

[114] Murray, 123.

[115] Murray, 123.

[116] Athol L. Murray, "The Scottish Mint after the Recoinage, 1709–1836," *Proceedings of the Society of Antiquaries of Scotland*, no. 129 (1999): 866–86, at 864.

[117] Whatley and Patrick, *Scots and the Union*, 324.

[118] Whatley and Patrick, 324.

[119] Chris Whatley's assertion that "there is virtual unanimity amongst historians that by and large the first two to three post-Union decades were, like those which preceded them, economically stagnant" may be true, but it ignores much of the economic development that took place during the 1690s. C. A. Whatley, "Economic Causes and Consequences of the Union of 1707: A Survey," *Scottish Historical Review* 68, no. 2 (1989): 150–81, at 168.

[120] Devine, "Modern Economy," 13–33, at 27.

an integrated British economy.[121] In the medium- to long-term, Scottish trade grew considerably post-Union, but this was mainly after the mid-1730s.[122] In the decade prior to the commencement of this growth, however, and notwithstanding Devine's downplaying of the situation after 1707, large sections of a disaffected Scottish public were moved to unrest as a direct result of economic issues linked to Union.

Urban crowds in Scotland had caused fewer problems in the opening quarter of the eighteenth century than they had during the preceding century.[123] It appears that following 1707 the new administration pushed for firm rule, and when this was achieved it became generally indifferent to events in Scotland.[124] By the early months of 1720, however, this was beginning to change as food riots spread up and down the Scottish east coast. From Linlithgow, along the Forth Estuary, up through Dysart, around the East Neuk of Fife, through Dundee and on to Montrose, the violence was widespread, and lives were lost. The research undertaken by Chris Whatley into these events has revealed a situation directly driven by grain shortages but aggravated by a series of secondary issues linked to Union.[125] Whatley argues that to view the impact of the Union as "broadly neutral in the short run or that patterns of life were 'little affected' by it, is to ignore its impact on the urban laboring classes as well as on proto-industrial workers in the surrounding countryside." He highlights the increased duties imposed on linen at Westminster in 1711 and 1715, as well as the new taxes on imported salt that were put in place in 1707, and the later decline of Fife fishing later in the 1710s as affecting significantly on these classes.[126] He does admit that while there were signs of an improvement in Scottish external and coastal trade "from or even prior to the Union," this in the main benefited merchants, with the domestic manufacturing economy remaining stagnant until the late 1720s.[127] Thus for Whatley, if the unrest that emerged in the east during 1720 had a political dimension, "this derived from deep dissatisfaction with the Union of 1707."[128]

The east coast food riots marked the beginning of five years in which pockets of unrest sporadically erupted throughout Scotland. Anti-enclosure riots emerged in

[121] Finer Scottish woolens are highlighted as having been affected by English competition, with the caveat that this sector had been in trouble prior to the Union. In addition, Devine argues that some industries, such as brewing and paper making, which were also struggling, were doing so quite possibly as result of the "ill years" of the 1690s rather than the Union. Devine also argues that an integrated British economy allowed for the development of southern markets for Highland goods, particularly cattle, but also timber, fish, and slate. Devine, "Modern Economy," 17–24.

[122] Philipp Robinson Rössner, *Scottish Trade in the Wake of Union (1700–1760): The Rise of a Warehouse Economy* (Stuttgart, 2008), 209.

[123] Christopher A. Whatley, *Scottish Society, 1707–1830: Beyond Jacobitism, towards Industrialisation* (Manchester, 2000), 186.

[124] There was, of course, the Jacobite unrest of 1715. This was not, however, an exclusively Scottish endeavor, and, as Daniel Szechi has shown, the Jacobite rebellion of 1715 was a "supremely local phenomenon, wholly dependent on the degree of commitment in the local population (especially the élite)." Szechi, *1715*, 251.

[125] Christopher A. Whatley, "The Union of 1707, Integration and the Scottish Burghs: The Case of the 1720 Food Riots," *Scottish Historical Review* 78, no. 2 (1999): 192–218.

[126] Whatley, "The Union of 1707," 207.

[127] Whatley, 206–8.

[128] Whatley, 208.

Dumfries and Galloway during much of 1724, while in the June of the following year unrest broke out across the country, from Elgin in the northeast to Ayr in the southwest, and Dundee in the east to Glasgow in the west, all driven by the Malt Tax. Many in the urban population had become incensed by the imposition, which had again raised its head after the debates of 1712–13.[129] People took to the streets and brewers throughout the west of Scotland went on strike.[130] Perhaps the most significant rioting was in Shawfield, Glasgow, during which the house of Daniel Campbell, a member of Parliament for the city, was ransacked after rumors abounded that Campbell had supported the tax; eight civilians were killed by soldiers in the process.[131]

During this turbulent period, the specter of Jacobitism continued to raise its head. While there is little to link the igniting of events to the cause—indeed we should note Whatley's word of caution that not every occasion of unrest in the early eighteenth century was the result of Jacobitism—there was a fear that Jacobites may take the opportunity to undermine the British government.[132] The administration's solution was to return Scotland to order through the influence of Ilay, who, within a month of his arrival in Edinburgh in mid-August 1725, had persuaded striking brewers to restart production and to pay their taxes.

Walpole had invested Ilay with all the power he needed to curtail a rowdy Scotland.[133] With his aims accomplished, Ilay sought to use his influence with Walpole to call in the money that had been promised as support to Scottish industries in the Treaty of Union twenty years earlier.[134] There was a recognition that a connection between idleness and popular unrest existed, and it was hoped that by reviving Scotland's ailing economy, civil unrest might be prevented in the future. With this in mind, Ilay's request was soon granted. As fears over the Bank of Scotland's Jacobite links continued, that institution was snubbed when it came to the administration of the funds. Instead, a new body designed to issue grants to encourage Scottish manufacturing and fishing industries, the Board of Trustees for Fisheries, Manufactures and Improvements in Scotland, was erected in July 1727. Ilay and his associates were at the very center of the new trading authority, which, driven by a spirit of improvement, became central to the Scotland's future economic policies.

Against this background of political advance, economic uncertainty, and social unrest, there had also been significant developments in economic thought between 1700 and 1727. Particularly important was the monetary theory of John Law, which had caused a stir throughout Europe and fed directly into the ideas that underpinned the bank. After his unsuccessful attempt to establish a land bank in his native Scotland in 1705, Law had remained active. He had unsuccessfully attempted to found banks in France in 1706 and 1707, and then in Turin between 1710 and

[129] A. Gibson and T. C. Smout, "Scottish Food and Scottish History, 1500–1800," in *Scottish Society, 1500–1800*, ed. R. A Houston and I. D. Whyte (Cambridge, 2005), 59–84, at 77.

[130] A. I. MacInnes, "Scottish Jacobitism: In Search of a Movement," in *Eighteenth Century Scotland: New Perspectives*, ed. T. M. Devine and J. R. Young (East Linton, 1999), 70–89, at 77.

[131] Valerie Wallace, "Presbyterian Moral Economy: The Covenanting Tradition and Popular Protest in Lowland Scotland, 1707–c. 1746," *Scottish Historical Review* 89, no. 1 (2010): 54–72, at 62.

[132] Whatley, "Union of 1707," 203.

[133] Roger L. Emerson, *Academic Patronage in the Scottish Enlightenment: Glasgow, Edinburgh and St Andrews Universities* (Edinburgh, 2008), 293.

[134] Allan I. Macinnes, *A History of Scotland* (London, 2015), 112.

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1712.[135] Despite these rejections, Law carried on, and was eventually successful in his endeavor, opening a French bank in 1715.

Law's bank represented the first part of a system that would eventually come crashing down in 1720, wreaking economic havoc across Europe.[136] Despite this, his ideas remained influential and had garnered him a number of prominent acolytes. One of these was Ilay, whose personal library included multiple copies of each of Law's works.[137] The two men were close and had been for some years. Even as far back as 1694 there is a suggestion that Ilay and his brother were involved in Law's escape from the gallows, and following 1720 the Argylls protected Law after the collapse of his system.[138] Ilay was a subscriber to Law's monetary theory, and is even said to have written the preface to Law's *Money and Trade* when it was republished in 1720.[139] Like Law, Ilay believed that an expansion of the money supply was desirable, and would use the Royal Bank of Scotland to do just this, with, as noted already, the bank offering overdraft facilities and issuing over £138,000 in notes within two years of its foundation.

The manner in which the bank was founded also points to the ideas that Law promoted throughout his career. He had reimagined what constituted money, viewing company stock as representing a "new type of money."[140] Law viewed these financial instruments as capable of acting as a medium of exchange and becoming new monetary instruments.[141] This was exactly the type of thought which was applied by the Equivalent Company when it turned Equivalent debentures into capital to underpin a new Scottish bank. An overview of these occurrences of public unrest, currency issues, economic uncertainty, and the development of economic ideas provides the wider societal, political and economic backdrops to the Equivalent societies maneuvering in the decade prior to 1727. They indicate that the British government's inability to successfully incorporate Scotland into the British state project in the years following Union had by 1720 led to significant social unrest, and pushed for the beginnings of political and economic reform in the country.[142] The Royal Bank of Scotland, and the Board of Trustees for Fisheries, Manufactures and Improvements, were consequences of this reform.

[135] See John Law, *Mémoire touchant les monoies et le commerce* (n.p., 1706); John Law, *Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent* (n.p., 1707); John Law, *Mémoire touchant les monoies et le commerce* (n.p., 1706); John Law, *The Bank of Turin Manuscript* (n.p., 1710–1712).

[136] For an in-depth view of this, see Murphy, *John Law*, 105–293.

[137] Roger L. Emerson, *An Enlightened Duke: The Life of Archibald Campbell (1692–1761), Earl of Ilay, 3rd Duke of Argyll* (Glasgow, 2013), 230.

[138] Law had been convicted of killing a rival during a duel in Bloomsbury Square in 1694. Roger L. Emerson, "The Scottish Context for David Hume's Political-Economic Thinking," in *David Hume's Political Economy*, ed. Margaret Schabas and Carl Wennerlind (London, 2008), 10–30, at 18.

[139] Emerson, "The Scottish Context for David Hume's Political-Economic Thinking," 18.

[140] Law was speaking about the stock of the East India Company in 1707; John Law, *Mémoire pour prouver qu'une nouvelle espece de monnaie peut etre meilleure que l'or et l'argent* (1707), in John Law, transcribed by Paul Harsin, *Oeuvres complètes*, 3 vols. (Paris, 1934), 1:205.

[141] Murphy, *John Law*, 61.

[142] Julian Hoppit makes the case that Scotland's integration into the British state only made significant progress from the 1740s. Hoppit, *Britain's Political Economies*, 118.

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THE GROWTH OF SCOTTISH BANKING, 1727–1772

The decades which followed the founding of the bank saw significant developments in Scotland's financial structures. The Bank of Scotland and the Royal Bank of Scotland had initially engaged in hostilities, with each attempting to disrupt the business of the other, before an uneasy truce was agreed in the mid-1740s. These two large banks were then joined by a third, with the emergence of the Edinburgh-based British Linen Company, later the British Linen Bank, in 1746. This was an enterprise driven by a group who had been deeply involved with the Royal Bank of Scotland, headed by Lord Milton, an original director at that bank, and Ilay, now the third Duke of Argyll, who had been the governor of the bank until 1737.[143]

The three institutions—the Bank of Scotland, the Royal Bank of Scotland, and the Linen Bank—operated as Scotland's main banks, with each taking deposits, issuing notes, and operating a branch banking system.[144] Beneath these emerged a number of small private Edinburgh-based banks which accepted deposits and borrowed heavily from the three larger banks in order to lend to their own customers. At this time the focus of Scottish trade was also shifting from Scotland's east coast to its west, where easy access to Atlantic markets was possible; accordingly, the number of private banks in Glasgow began to increase during the 1750s, with the Royal Bank of Scotland and the Bank of Scotland both funding private banks in in the city.[145] Following the Jacobite rising of 1745 there emerged alongside these banks a number of provincial banking companies, and by the 1770s these were to be found in Glasgow, Aberdeen, Dundee, Perth, Ayr, and beyond.[146]

Between 1740 and 1750 the number of banks in Scotland (issuing and non-issuing) rose from five to fourteen. By 1769 the figure had reached thirty-two, and it was only slowed by the collapse of the Ayr Bank in 1772 and the associated financial crisis of that year and the next.[147] The emergence of these banks considerably boosted the Scottish economy, and illustrates the significant developments since the country's first bank had been founded in 1695. There is, however, a certain irony that the progress of Scotland banking sector was disrupted by the collapse of the Ayr Bank, a bank which was built on the monetary theories of John Law, a man who had been so crucial in developing ideas central to the wider Financial Revolutions and to formation of the Royal Bank of Scotland.[148]

[143] Charles P. Kindleberger, *A Financial History of Western* Europe (London, 1984), 83.

[144] C. W. Munn, "Industry, Business and Finance in Scotland since 1700," in *Industry, Business and Society in Scotland since 1700*, ed. A. J. G. Cummings and T. M. Devine (Edinburgh, 1994), 125–41, at 128.

[145] White, *Free Banking in Britain*, 25.

[146] White, 129.

[147] White, 27. For an overview of the crisis of 1772–73, see Paul Kosmetatos, *The 1772–73 British Credit Crisis* (London, 2018).

[148] The Ayr Bank realized Law's 1705 proposal of monetizing the land of Scotland. Like Law's French bank, however, the Ayr Bank overextended itself and collapsed just three years after it opened its doors. See Antoin E. Murphy, *The Genesis of Macroeconomics: New Ideas from Sir William Petty to Henry Thornton* (Oxford, 2008), 177.

CONCLUSION

The Scottish Financial Revolution was an event that occurred both within and without Scotland, and its development was contingent upon the country's political situation. The place of the state was crucial to the success of financial projects, but it was not as crucial to their manifestation or to their dissemination. Despite a lack of government backing in the first two decades of the eighteenth century, a significant literature on economics emerged from Scotland in the years directly before Union, while members of the diaspora promoted ideas with relative success outside the country during the first quarter of the century. The network that operated around the Equivalent was then effective in reigniting the Financial Revolution in Scotland, and through a process of sustained organization successfully distilled the banking ideas that had been circulating in Europe and England into the Royal Bank of Scotland.

From the fits and starts of the 1690s through the politically difficult first decades of the eighteenth century, a period in which the revolution was one of ideas and foreign institutions, and on to the lengthy period of organization and political wrangling that would eventually lead to the formation of the Royal Bank of Scotland, the Scottish Financial Revolution was complex and manifested itself in a number of forms in a number of locales.