The Goose, the Golden Eggs, and the Assembly Rooms:
What Edinburgh Should Ask the FCA?

Regulation, rents, and the unfinished business of the Scottish Enlightenment

On 6 October 2026, the Financial Conduct Authority will, for the first time, hold its Annual Public Meeting outside London, opting for the Georgian elegance of Edinburgh's Assembly Rooms. The FCA frames this as a milestone in becoming a genuinely UK-wide regulator and points to the growth of its Edinburgh office as evidence of its *"commitment to growing our presence in Scotland"*. The Investment Association has welcomed the symbolism; as has Consumer Scotland, albeit more cautiously, flagging access to cash, affordable credit and financial inclusion as the key issues Scottish consumers want addressed.

Edinburgh is a fitting city to choose, although perhaps not for the reasons the FCA has in mind. Scotland's Capital, as a quick stroll down the Royal Mile past their bronze statues will tell you, is the Enlightenment city of Adam Smith and David Hume, the 'North British' friends who respectively became the father of modern economics and arguably the most important philosopher to write in English. So, it is worth asking, as this meeting approaches, what these two great figures of the Scottish Enlightenment would have made of the industry meeting taking place in their city in a building Smith would have witnessed being built.

Smith, rent and the 'unproductive hand'

Adam Smith is regularly invoked by the finance industry he is assumed to have blessed, which even has a London-based free-market think tank regularly promoting neoliberal economic policies named in his honour. Smith's famous *"invisible hand"* from his seminal work in 1776 is all too often treated as a charter for self-regulation. This clearly is selective reading. Smith's *Wealth of Nations* reserves its sharpest suspicion not for merchants and manufacturers who took risks with their own capital, but for those who could extract an income simply by virtue of a privileged position - above all, the 'rentiers' like landlords, who Smith observed *"love to reap where they never sowed"* demanding rents or unearned income.

Smith's views of banks and much of today's self-serving finance sector levying unearned income in the form of interest and fees is very possibly akin to his views on Landlords, who in his view belonged to a class whose revenue *"costs them neither labour nor care, but comes to them... of its own accord"*. Later his English classical compatriot John Stuart Mill (1848) would go even further in attacking the rentiers, famously claiming *"Landlords grow rich in their sleep without working, risking, or economising"*. The classical economists from the Smith onwards were united in their thinking - unearned income through monopoly, property ownership or the charging of interest was bad for the economy. This led as classical economists to them having one common foe – the Rentiers.

The modern financial sector earning fees and interest margins that exceed what is needed to allocate capital efficiently - extracting value rather than creating it – are global rentiers, collecting a toll on something they do not themselves produce. Smith was also notoriously wary of joint-stock banking, of speculative *"stock-jobbing"* and of merchants who, he warned, share an interest in deceiving and even oppressing the public, and who colluded to narrow competition wherever they could contrive to meet. They like the financial sector knew the value of monopoly and oligopoly. He would not, one suspects, have been surprised by a sector containing institutions widely described as too big to fail or even too big to jail.

Hume and the morals of an oversized financial sector

David Hume's contribution is less about economics narrowly and more about the moral architecture that makes markets survivable. Hume's account of justice holds that fair rules of property and exchange are not natural instincts but artificial conventions, sustained only because everyone can see that everyone else has an interest in upholding them. Remove that mutual visibility - by letting one sector become so large, so complex, and so shielded from consequence that ordinary rules of accountability no longer seem to bind it - and Hume's whole architecture of *"artificial virtue"* starts to buckle. A financial sector in which a handful of global institutional behemoths are structurally protected from failure, and whose senior figures have rarely faced individual accountability for conduct that inflicted large public harm, is not merely an economic problem in Humeanism. It is a moral one, corroding the very sense of reciprocal obligation on which Hume thought social order depended.

The 'finance curse' made concrete

None of this is merely 18th century nostalgia. Sheffield Political Economy Research Institute 2018 study of the UK's *"finance curse"* put a number on it - our oversized financial sector, which in many respects is the last operational evidence of the British Empire, cost the UK economy some £4.5 trillion in lost output between 1995 and 2015. This equates to £67,500 for every single person living in the UK or more than £3,000 per person per year. However, these figures seem to ignore the financial horrors of banking scandals such as RBS GRG, HBOS Reading and IRHP, so the real figure over this period alone is very possibly significantly higher.

The Tax Justice Network's account of the same phenomenon is worth stating plainly, as just 3.5% of UK business lending goes to manufacturing, while some 60% goes to other financial intermediaries. The notion that banks and capital markets allocate capital efficiently is not strictly correct, as funnelling financial resources into the rentier sector or into acquisitions often reaps larger, faster rewards than building industrial infrastructure.

A financial sector beyond its optimal size stops financing the creation of goods and jobs and starts financing the creation of increasingly complex claims on wealth already created elsewhere — draining talent, inflating asset prices (including house prices), and capturing the policy conversation by threatening to relocate if not granted favourable treatment. Indeed, I myself admit to having succumbed to its draw in years gone by; whilst also know recognising why within the financial sector those who did not ask questions were more often than not the ones promoted.

Perhaps nowhere is this mechanism more visible than in the Crown Dependencies. Jersey's house prices are now some 2.5x the UK average or on par or slightly higher than London, depending on the measure used. Jersey represents the finance curse in miniature: a global financial centre inflating local costs of living and property to the point where the native economy it was meant to serve - agriculture, tourism, ordinary trades - is hollowed out and priced off its own island. Jersey did not set out to destroy its horticultural, industrial and fishing heritage, an oversized financial sector decided to - with scant regards for the real-world side-effects for the island and its people.

Why the structure of regulation is the real question

If Edinburgh wants to ask the FCA one serious question at its Assembly Rooms meeting, it should be about regulatory structure.

No system of regulation - financial or otherwise - has ever worked reliably where the same institution investigates, prosecutes, and adjudicates. Criminal law abandoned that model centuries ago, for good reason - a police force that also decided guilt would be intolerable, and everyone would recognise it as such. The Post Office Scandal has brought the potentially devastating effects of simply combining investigation and prosecution into the public domain. Investigation wise, Singapore's Corrupt Practices Investigation

Bureau (CPIB) may offer a proven template with broad powers and the ability to also hold those in government and other senior positions to account.

Financial regulation, and professional regulation generally, still largely runs on precisely those fused models - the FCA investigates, brings its own enforcement action and effectively judges the outcome through its own tribunal and settlement processes, with very limited external contestability. We all know how hard it has been to expose the decision-making behind the defective RBS GRG compensation scheme, which unfairly reduced claims and many of the limited claims permitted reached insolvency practitioners as opposed to the real victims.

It is hard to see how public confidence in fair, consistent, proportionate outcomes can ever be fully secured while investigator, prosecutor, and judge sit inside the same covert organisational walls. A genuine separation of civil and criminal investigation; of civil and criminal prosecution; and of adjudication through courts and tribunals independent of the regulation is not merely a technocratic nicety. It is the same basic constitutional insight that gave us the separation of powers, applied to a sector that has, for decades, been allowed to mark its own homework.

The second question is more fundamental still. The FCA's objectives currently entangle it in a duty to have regard to the growth and international competitiveness of the sector it regulates. Given the analysis above, this looks less like a sensible balancing act and more like an in-built conflict of interest. A regulator cannot simultaneously be the disinterested guardian against rent extraction and market abuse whilst co-sponsoring that same sector's growth.

On the evidence of Sheffield's findings in 2018 the UK's oversized financial sector primarily comprised of global rentiers is 'anti-growth'. It is a curse not a blessing. The financial sector is undoubtedly 'harming' third parties and in 1920 the Professor of Political Economy at Cambridge, Arthur Cecil Pigou, gave us the answer to this in the form of *Pigouvian taxation* – as is levied on cigarettes and other harmful goods today. Also, economic growth – by this I mean on a more holistic measure than the current measure of GDP - is a legitimate objective of elected government and not of any non-governmental body involved in regulation, like the FCA.

The UK economy is one of the most unbalanced in the world and the size of our finance sector as a proportion of GDP is greatly larger than the USA or European counterparts such as France and Germany. The esoteric economic decisions of the 1980's, which still largely prevail today, have seen communities destroyed and wealth lost. When in Edinburgh if you travel over the Bridge into the Kingdom of Fife you can witness the former coal mining towns of Cowdenbeath and Lochgelly and I will leave it for you to judge whether or not they have recovered. Even the Edinburgh you see today, is not the Edinburgh I knew and occasionally worked in prior to the Banking Crisis.

The UK, the country that for a brief period stood alone against the horrors of fascism – horrors which came about due to economic and political ineptitude, which Lord Keynes warned the world of – is now vulnerable. We were once the *workshop of the world* yet now due to the UK's financial sector and government starving manufacturing and industries producing earned income of capital, we now import almost two thirds of our goods and services. So, be in no doubt that US 'Big Tech', the next major class of rentiers, has its eyes on the UK for the purposes of white-collar job displacement, particularly in the high paid world of finance and related professional service roles.

The late great 'Scotch Canadian' economist John Kenneth Galbraith, whose CV ranges from running the US economy in World War 2, to being US Ambassador to India in the 1960's and adviser to various Presidents including JFK, in 1992 wrote a book called *The Culture of Contentment* which Sheffield-based economist Richard Murphy recently reviewed and commented on its present relevance. Put simply, Galbraith argued that the more advantaged in society have captured the political process to protect their own immediate comforts at the expense of long-term social progress and public investment, whilst his central message was that this can and will end. Galbraith (1992) argued *“the absence of regulation … is a licence for instability”*.

Edinburgh gave the world the intellectual tools to see rent-seeking for what it is, a blight on the political economy, and to understand that markets survive only within a moral and institutional architecture that constrains self-interest rather than flattering it. The FCA choosing to hold its first Annual Public Meeting outside London in the Georgian New Town of this great city is an opportunity, whether or not the regulator intends it, to be reminded of exactly what that inheritance demands of it.

Paul Callin