RECOVERING HISTORY AS A RESOURCE FOR EXPLANATION OF THE ECONOMIC PROBLEMS

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Abstract

Successively, the new ideas in economics sciences have been ignoring the history, more precisely, the history as a resource for explanation for the economic problems. Amid recent economic crisis, the current practices of the banks in the current stage of the capital accumulation – dominated by fictitious capital – had been treated, into the dominant thought in economics science, as “news from nowhere” and, because these practices is from nowhere, they must be eliminated or regulated. Making use of history – particularly, history of economic thought – the present paper will show how the practices of the banks are fundamental in capitalist society. In other words, its practices are “news from somewhere”. To accomplish this, the impressions of Adam Smith about the “practice of drawing and redrawing”, common in the eighteenth century, will be recovered and commented by a critical political economy perspective, recognizing that fictitious capital has much kind of forms, but only one content that express the necessity of the bank’s practices for the reproduction of capitalist society. More than it, the present paper will recover the importance of history for the comprehension of economics problems by the analysis of a particular aspect of Smith’s thought.

Introduction

Successively, the new ideas in economics sciences have been ignoring the history, more precisely, the history as a resource for explanation of the economic problems. For the history makes this role, it has to be understood as a social process. It is social because only the individuals don’t determine it. They have a role, but the society doesn’t moves only by their actions. It has an own movement. The actions of any kind of individuals put forward some kind of causal relations whose result don’t be “predicted” a priori, neither by the sum of the individual’s actions or by something like a “purpose of the society”.¹ However, recognize this don’t meaning that is impossible understand the whole society, i. e., the social relations that conform the society. It’s only meaning that the society is a process, with advances and retreats, which have the possibility of the new.² The new, in fact, can be understood looking for the past and examining the conditions that made it emerges, i.e., the social relation that conditioned the new.

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²See Duayer (2006 & 2010).

²See Duayer (2006 & 2010).
The recovery of history is to reclaim the possibility of understand the society with an “open model”; without any kind of postulate, but by the comprehension of the mechanisms that conform the society and produce some forms of social relation. In other words, for understand the banks nowadays (one mechanism of the capitalism society) is necessary understand their origin and their centrality in a society which the money mediates humans by the mediation of their products of labour. Seek origin of the banks, however, implies know (or seek to know) the contradictions that emerges with the banks and made de banks emerges. All these tasks – origin, centrality, contradiction and the relation among them – aren’t possible within this paper. Here will be attempt to recovery the Smith’s consideration about bank, money and production. The intention is present an interpretation about the bank and its function in the capitalism economy (or “commercial society”) in an important moment for this society – its beginning, which is the industrial revolution. It’s, for us, a form of introduction the debate about the role of history in understand the social relation (where economic relations is one part).

Additionally, the intention is contribute for the debate about the recent economic crises. A reason is that, amid recent economic crisis, the current practices of the banks in the current stage of the capital accumulation – dominated by fictitious capital\(^3\) – had been treated, into the dominant thought in economics science, as *news from nowhere*. And, because these practices are from nowhere, they must be eliminated or regulated for establish the normality. Making use of Smith’s thought, as said above, the present paper

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\(^3\) The conception of fictitious capital is polemic and this polemic doesn’t will be discussed here. Nevertheless is important to note that the term “fictitious capital”, in this paper, have the meaning presented by Marx in *The Capital*, i.e.: the yield of an investment don’t come from a real process of capital valorization, although appear to come from this. See Marx (1983(b): 241-84 & 1983(c): 3-11)
also intends to contribute for show that the practices of the banks is a important part of the capitalist society. In other words, its practices are *news from somewhere*.\(^4\)

To accomplish this, this paper is divide in one session where is separated in three parts: 1) recovered some aspects of Smith’s thought that explain the function of money and bank for the author, 2) explained the function of money and bank for the author and 3) recovered the impressions of Adam Smith about the practice of “drawing and redrawing”, common in the eighteenth century, that is central for understand the bank practices and their function for the author. In parallel with the exposure of these three parts, will be exposes the contradiction that emerges from the banks practices and the important of them for capitalism society.

**Banks and their practices in Smith’s thought: the possibility and the necessity of fictitious capital**

For explain the bank’s function in Smith thought is necessary, as said above, recovery some general aspects of his thought that pointed out how banks are connected with his theory. More specifically, it is necessary show the role of the division of labor on wealth creation and its distribution. It is the purpose of the next section.

- **Division of labor and the wealth creation an its distribution**

The investigation of the Smith is centered on discovery how the wealth of Nations grows; because more products of labor (wealth) imply much more capacity of the individuals for satisfy your needs (human progress). In turn, discovery how the capacity of individuals for satisfy your needs grows is answer how the wealth of Nations is originated.

In Smith thought, the labor is the *first* source of the wealth\(^5\). More specifically, the productive power of labor is the source of the growing of the wealth; which means

\(^4\) *News from nowhere* is a book’s title of William Morris, an utopist socialist of the final of nineteenth century. In the book, the personage sleep after became from a discussion in his part and weak up in the socialist society.

\(^5\) (Smith, 1976: 53-5)
that the increases on the wealth occur because the worker has capable to do more things in shorter time. For it, he needs to increase your dedication at work\textsuperscript{6}. With more dedication, the worker has the possibility of develop your abilities and invent machines to use at work; which means that the worker becomes specialized in your work. In addition, with the specialization, the work comes to be divided in many specific functions, which might be, for example, the development of machines or the operation of it\textsuperscript{7}. The specialization of the worker, therefore, occurs in one aspect of the production of a commodity, don’t in all the process of production. This is, in general lines, the mechanism of the division of labor, which need the exchange and the accumulation of capital to operate. Why?

When a worker specializes in some part of any kind of commodity, he will dedicate all your time of work in this part; but this part of the work doesn’t satisfy all your needs. Hence, the worker needs to access other products of labor of the others workers to satisfy your needs. The exchange is the mean of the worker to access other commodity of any workers and, with it, satisfy himself. Smith’s say more than it, the exchange isn’t only a condition of the division of labor, but is too the cause of the division of labor. The individuals, in his argument, are moved by the “propensity of exchange”\textsuperscript{8}, which means that the man relates only by the exchange. Thus, by the exchange, a man is apt to use the ability of any kind of man only by the activating the will of another man to exchange or negotiation your ability; more precisely, one man uses another man based in the interest of him.\textsuperscript{9} In other words, because of this propensity, the human being can cooperate and, as a result, extend the possibility of satisfy your needs. In this argument, Smith point out the origin of the society or a

\textsuperscript{6} (Smith, 1976: 7)  
\textsuperscript{7} (Ibid: 13-4)  
\textsuperscript{8} (Ibid: 17)  
\textsuperscript{9} (Ibid: 18-9)
conception of social being. Here we don’t development this point of his argument, but it is necessary to say that this conception of society implies which man based your relationship in the exchange and, consequently, the cooperation at work occur by the exchange.

One “condition” for worker specializing is the exchange, which the worker can access other commodities and, in consequence, satisfy your needs. Other condition for worker specializing is that the worker needs to maintain your status of worker along the process of production. Consequently, some stock is necessary to be accumulated. If the stocks will be accumulated by the same worker that will be specialized in some part of production, he would need, in the better case, much time to do it. It restricts the possibility of the division of labor by the restriction of worker possibility of specialization. When the accumulation of stocks is private, the division of labor can operate without this restriction, because the owner of the stock, by the concentration of it, can put more workers at production. The owner of the stocks, in Smith’s thought, is nothing more than the man which is “specialized” in accumulate property, either land or capital (patrimony). Hence, for the author, the productive power of labor is increased not only by the labor, but too the land and capital accumulation. Because of this, the source of wealth has two more origins: the land and the capital. Beyond that, only by the specialization in accumulate (private accumulation) land and capital, the division of labor can increase the productive power of labor. In other words, the private accumulation of land and capital is necessary for the development of the worker abilities. Moreover, the private property isn’t only a predicate of the land or capital owner, but this is a predicate of the worker, which must has the property himself to

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10 (Smith, 1976: 291)
11 (Ibid)
dispose of himself in any occasion – like the capital or land owner – to choose (or be chosen) for the work.\textsuperscript{12}

As a result of the argument above, the division of labor can only operate in a society that the nexus between men is established by the exchange and the private property is the form of the property\textsuperscript{13}. In a society with these mechanisms of operation, continuing the argument above, the division of labor generates the wealth for the individuals satisfy your needs. The wealth is distributed by the exchange, according to the individual’s needs and the individual’s contribution for the production of wealth; but the access of the commodities isn’t occurring by the exchange of commodities. The money mediates the exchange.

In the case of Smith’s time, the money is, firstly, gold or silver and, according to his theory, the access to money is determined by the contribution for the creation of wealth.\textsuperscript{14} The capital owner, the landowner and the worker have your individual needs satisfy, therefore, according to your contribution for the wealth or, to keep the discussion suggested in this article, the money that they can obtain with their income.\textsuperscript{15} Furthermore, the land and capital owner must have part of your stock in form of money, because they need to do some spending in the process of production – for example: wages, instruments, raw materials, etc. This money is a part of the stock that doesn’t operate, like Smith said, it is a “dead stocks”\textsuperscript{16}. Here is central the role of bank for makes this capital stays “alive”. For explain this centrality of the banks is necessary clarify the function of money in Smith thought.

\begin{flushright}
\textsuperscript{12} (Ibid: 136) \\
\textsuperscript{13} (Marx, 1977: 156-163) \\
\textsuperscript{14} (Ibid: 53-5) \\
\textsuperscript{15} Smith said this. However, Marx pointed out the relation between the source of wealth and the income as form of occult the origin of the wealth. \\
\textsuperscript{16}“(…) That part of his capital which a dealer [or producers] is obliged to keep by him unemployed and in ready money, for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing, either to him or to his country (…)”. (Smith, 1976: 340)
\end{flushright}
• The Relation Between the Money and the Bank

On Smith’s theory, as showed above, the explanation for the origin of money is connected with the division of labour. The specialization caused by the division of labour made the producers (worker, capital owner and landowner) need to maintain some kind of commodities with them for your sustenance. In the beginning of the division of labour, the producers exchange these commodities by another one, which they need for sustenance or production. The commodities for exchange in any situation needed to be a commodity that any one would like to receive or save it for exchange. The cattle, the salt, the shells and the tabbaco are some kind of these commodities that was used for it. With the evolution of the division of labour, it would be common the use of metals. All kind of metals was used with it function, but the difficult of determine the quality and authenticity of the metal impled on the use of conaige of the metals for ensure the authenticity and the quality of the money. It was the origin, according to Smith, of the coined money (currency), which represented an important advanced for the commerce and industry because, with them, occurs the elimination of the operation of check – all the time – the veracity of metals and, due to it, the exchange (trade) could expands with more speed.17

With the coined money, emerged the possibility of the value/weigth of metal recorded on coined money not be the same that was in the money. The explanation of it isn’t a stealing operation, but it is only because of the wear of the coin during its use.18 Hence, with the operation of coined money, arose the possibility of the creation of

17 (Ibid: 26-30)
18 “One-and-twenty worn and defaced shillings, however, were considered as equivalent to a guinea, which perhaps, indeed, was worn and defaced too, but seldom so much so”. (Ibid: 46) This passage refers to a part of Smith’s book that were discussed the fluctuation of the value of the gold (or silver) and its impacts on the fixed exchange rate of the coins (for example: 1 guinea = 21 shillings; 1 shilling = 12 pence). The cause of the relation is simple: the coins were made with these metals which implied that one change in the value of metal change the real value of the coin; at the same time, a change in the coin (wear of it, for example) implied a change in the quantity of metal was in the coin, but didn’t change the value of the coin.
money. For the same quantity of metal, or less, the economy might have more money in circulation. This was exposed by Smith, but he assings it for the miserliness of the government, which diminush the quantity of metal in the money for have more money to pay your debts.\textsuperscript{19} The moral causes aren’t the important to rescue here. The important to be note is that the creation of money only is possible due to the form of the money, which origins from expansion of the relations based on the exchange.

Since has this possibility, the function of money is potenciated, because don’t have default of money to make trade. Nevertheless, for Smith, the trade isn’t determined by the quantity of money is in an economy (Nation); but by the quantity of commodities avalieble for the trade. The money is only the “gear” that is necessary for the operation of the exchange’s “mechanism”; don’t determine this:

\begin{quote}
The great wheel of circulation is altogether different from the goods which are circulated by means of it. The revenue of the society consists altogether in those goods, and not in the wheel which circulates them (…) When we talk of any particular sum of money, we sometimes mean nothing but the metal pieces of which it is composed, and sometimes we include in our meaning some obscure reference to the goods which can be had in exchange for it, or to the power of purchasing which the possession of it conveys. Thus, when we say that the circulating money of England has been computed at eighteen millions, we mean only to express the amount of the metal pieces, which some writers have computed, or rather have supposed, to circulate in that country. But when we say that a man is \textit{worth fifty or a hundred pounds a-year}, we mean commonly to express, not only the amount of the metal pieces which are annually paid to him, but the value of the goods which he can annually purchase or consume; we mean commonly to ascertain what is or ought to be his way of living, or the quantity and quality of the necessaries and conveniencies of life in which he can with propriety indulge himself. (…) When, by any particular sum of money, we mean not only to express the amount of the metal pieces of which it is composed, but to include in its signification some obscure reference to the goods which can be had in exchange for them, the wealth or revenue which it in this case denotes, is equal only to one of the two values which are thus intimated somewhat ambiguously by the same word, and to the latter more properly than to the former, to the money’s worth more properly than to the money. (Smith, 1976: 306-7)
\end{quote}

\textsuperscript{19} (Ibid: 30-2)
In the long passage above, Smith pointed out the function of money that, in short, is make the mediation between the commodities that is producer and seller by someone and his needs – satisfied with the commodities of others producers. The money contains, also in accordance with the above passage, two meanings: is power of purchase – i.e., money is the quantity of commodities which someone can buy with the revenue obtained with the sale of his commodities – and is unit of account – i.e, money express the price of something or represents a quantity of metal that is in a coin. Because of these two meanings, the creation of money, enabled by the coined money, is an increase in the quantity of money and in the power of purchase. However, a rise in the quantity of money doesn’t meanings a rise, in the same ratio, in the power of purchase, since one coin does many payments. To put it in another way, because one coin makes many payment, the value of all these payments aren’t the same of the quantity of money which are in circulation, but is the same of the value of the money in circulation – the money’s power of purchase. Furthermore, the increase in the money which are avalieble for trade only represents an increase in the power of purchase, for Smith, with it is in according to the money necessary for the circulation of the production. For explain it, is important to summarise the relation that there between money and banks in Smith’s thought.

The coined money, namely, represent a cost for the society, but the great cost isn’t it. Smith exposes that the income of society, the production of land, work and industry, have three destinations: maintain the stocks – capital or land – and the work (circulate capital), the own stocks – machinery, installation and so on – necessary for the production (fixed capital) and the immediate consumption.20 In any case, the fixed and circulate capital are spending that should be done if society would like to grow,

20 (Smith, 1976: 296-9)
because without them, the production will stop. The immediate consumption, then, is the purpose of the production because meanings that there are possibility of satisfy the needs of individuals. The money necessary to be preserved with the productor for some outgoing during the process of production represent a part of circulate capital which are not in production, but stoped. Since it is used only for payments of input to maintain the production, the revenue of the society is submitted to a cost. This implies the reduction in the income avaiable for production and, with it, for immediate consumption. More than it, this capital preserved in form of money couldn’t be used for increase the income, because is stopped for use in potential expenditures. In Smith theory, the issues of bank notes represent the elimination of this stoped money. How does it occur?

With the operation of the banks, which is only a possibility – the value recorded on the currency to be different from the quantity of gold or silver in the currency – is accomplished. Already in the operation of coinage this possibility was effected, as in the case of necessity of State to multiply its funds for pay your debts; but with the banks operations this is accomplished without appear to be a stealing. A bank, when received a deposit of gold or silver gives to the owner of the metals a bank note, which represent the value of the deposit. With this bank note, anyone can go to the bank and withdraw the quantity of gold or silver that this bank note represents. Because of this, the notes have the same “status” of gold or silver for makes payments. The bank, for operates, don’t need to maintain, at bank, the same quantity of metals that is in circulation, at economy, in form of their banks notes. A reason is that the bank notes don’t will be withdrawn at the same time and, more than it, the bank will have inflow and outflow of

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21 “(…) To maintain and augment the stock which maybe reserved for immediate consumption, is the sole end and purpose both of the fixed and circulating capitals. It is this stock which feeds, clothes, and lodges the people. Their riches or poverty depend upon the abundant or sparing supplies which those two capitals can afford to the stock reserved for immediate consumption (…)”. (Smith, 1976: 299)

22 (Ibid: 310)
metal during its operation. In this circumstances, the bank maintain the metal that is need to supply withdraw of money during its operation (for example, at the day or at a week). The important is note that a part of money, as Smith said, can return to the “channel of circulation”, where the producers can use this to increase your production.\(^{23}\)

In consequence, the trade is now conduced through the banks, which allow the development of bank transactions and, with it, the creation of money.

In Smith time, an operation that represents an important creation of money was the “cash accounts”. It was a credit for a person (dealer or producer), who was capable to show two other persons who had property and reputation for guarantee the payments concerning to the credit in the case of the former person didn’t did the payments.\(^{24}\) In particular, it was a form of dealer or producer did your payments without money because they could buy commodities for seller or for production with this credit and – after sells the commodities or performing the production – they can pay the credit.\(^{25}\) In fact, money was created without the necessity of gold or silver and, with this, the exchange obtains other mechanism of expansion that doesn’t have material bases\(^{26}\) – which don’t meaning that this expansion doesn’t have limit.

The bank notes (money paper), according to Smith, don’t can stay above the quantity of gold or of silver which it replace or is necessary for the circulation of the wealth produced in the Nation.\(^{27}\) If the money paper stays above of which are necessary for the trade (exchange), they will return to the banks for be changed by gold or silver

\(^{23}\) Smith exposes that the gold or the silver didn't used by the bank, returned to the economy and, when in the country didn’t had which buy, was used for buy it from foreign countries, which implies an increase in the foreign commerce. This increase should be sustainable or not, depending of what was bought. When buy commodities for immediate consume, it isn’t sustainable; when buy commodities for applied as capital circulating or fixed, it is sustainable. (Smith, 1976: 311-2)

\(^{24}\) (Ibid: 326)

\(^{25}\) Smith called attention for one thing: the bank don’t be able to advance all capital circulating or fixed because of the time that it became to be realized or became to be money again. (Ibid: 322-3)

\(^{26}\) Of course, the credit was based on the value (expressed of money) that the property of the guarantors had, but, in any case, the money for payments did came from the bank, didn’t from the gold or silver which was in the pocket of guarantors.

\(^{27}\) (Ibid: 318)
and, then, going to foreign countries. It represent, for the banks, a necessity of increase the quantity of gold and silver at bank – depending of the quantity of money papers are in circulation, can cause a run to the bank and other banks. In this argument, the money is only a mean of trade – a “commodity” which has the function of facilitates the exchange. And, in fact, if it is the function of money, they wouldn’t circulate in a quantity that is more than the necessary for make the commodities circulate. However, Smith relates a pressure made by the dealers, which occurred in the middle of eighteenth century in Scotland, where they tried to force the banks expands the credit. This pressure illustrates that the dealers realized another function in money.

The operation of credit account contains the possibility of expand the money and use it for any kind of employment or improvement. In other words, at the same time that the bank can improve the division of labour – by disposal more capital for the producers, and, consequently, increase the wealth – the banks broken the relation of the money with the production because money can be producer by yourself, don’t need to be a material – like gold or silver – to exist. With the bank, what is only need for money exists is the belief that a paper represents gold or silver. With this, the possibility of the value recorded on money didn’t be the same that in the money became more complex: the value recorded in a bank note (or appears at a cash account) don’t have any peace of gold or silver. In other words, they are liabilities for disposal of gold or of silver in any time, but aren’t them. In consequence, in the development of the relationship based on exchange, the transformation of money and the development of banks contain the possibility of the creation of money be based only in the confidence: a fiat money. More than it, the money can only be used for pay the ending balance. The

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28 Marx (1983(a)) pointed out it in the distinction between the circulation of commodity (M-D-M) and the circulation of capital (D-M-D’) and, later, he demonstrated how the circulation of a form of capital – fictitious capital – implies that the valorization of capital appear like D-D’.
payments made until the ending balance are *fictitious payments*. Why of all this? This is what the explanation below wish to answer.

According to Smith, the bank and money paper are necessary to improve the production because liberate capital for it and create money for it (as seen, cash account); which facilitates, expands and increases the speed of exchange and the quantity of commodities that are exchanged. The result of this is expand the number of individuals that is enabled for satisfy your needs. However, these benefits of banks bring the possibility of the use money, credit and others mechanisms money creation to expands the business without any kind of material bases. Only the confidence is necessary. For show this, would be necessary look to the other operation showed by Smith, which emerged by the perception of the dealer (might be the producer) that the money can be obtained without gold or silver. It’s necessary only the belief that the business will generate money and the credit can be obtained. Nevertheless, without bank credit, they use another mechanism to obtain money and, with this, applied in business that they imagine that will have great returns. This mechanism will see below. It’s called operation of “drawing and redrawing”\(^29\).

- **The Operation of “Drawing and Redrawing” and the Contradiction of Bank Practices**

  For the intention of this paper, we will recover the simple form of the operation, because this contains the basic elements that show the possibility of fiat money and the function of *fictitious payments* for expands the exchange. The operation of “drawing and redrawing” was made through bills of exchange, which already been used like money or to received advanced in money based on the value of the bill of exchange. The operation is as following explanation: a dealer issue one bill of exchange against another dealer under the condition that the latter can issue other bill of exchange – just

\(^{29}\) (Smith, 1976: 328)
before of the maturity of the issued bill of exchange and with the its accumulated commissions and interest – against the former; when this last bill of exchange arrive near the maturity, another bill of exchange is issued against the second dealer with the accumulated commissions and interest of the last issued bill of exchange. The particularity of these issues of bill of exchange is they didn’t have origins in any debt between the dealers. They only did this for discount the bill of exchange at a bank and, with the money, apply in some business that they considered had great yields, which compensate the accumulated commissions and interest of the issued bill of exchange. These issues of bill of exchange did stopped when they didn’t was able to be discounted, because the bank recognized that the accumulated commissions and interest precluded the payment of it; due to this, the dealers was required to pay or discount it in another bank. When these two alternatives didn’t occur, the dealer enters in bankrupt. It is important to be note that the issue of bill of exchange is only based in the confidence and in the expectation that the business could have great yields.

In your description of the operation above, Smith reminded a case which occurred in Scotland, where a bank was more liberal than any other have been and discounting any kind of bill of exchange with any “reasonable security” (the same standard was used for cash accounts). The result is that the bank had a lot of his bank notes in circulation, but, this was much more than the gold or silver that was at bank. Due to it, the gold and silver outflow was more quickly than it inflow at bank coffer. They had to drawing upon London for obtained the metals necessary for the coffer. The unsustainable condition of the bank implies its closing after two year opened\(^\text{30}\). In spite of it, for Smith, the bank made a good role in Scotland because attracts all the bills of exchange used only by raising money to bond projects for him and the other banks

\(^{30}\) (Smith, 1976: 333-4)
could left from these exchange bills. This bank, therefore, cleared the market for the others banks, which was important for the other banks give credit and discount the bill of exchange for the producers or dealer who will use for real business, which produce real yields\textsuperscript{31}.

The arguments of Smith in this case show to us that, in his thought, the bank has the function to \textit{liberate} the capital that is in money form to be employed in production. The \textit{creation} of capital isn’t a function of banks because capitals are stocks\textsuperscript{32}. In other words, for Smith, capitals are goods or lands which can be employed for production of commodities – not accumulation of money (good and silver), as mercantilism thought\textsuperscript{33}; or a social relation, as Marx demonstrated\textsuperscript{34} – and the money are a mean of exchange – not the wealth or a form of capital – and generate it more than the necessary for exchange (trade) will stimulate the “bond projectors”, which will destine the part of capital (goods and lands) for projects that don’t have any chance of objectify.

However, what is putting out in this paper is that the operation of drawing and redrawing exposes that the dealer (or producer) that use it to get money look at it, consciously or not, with a chance to employ capital (stock) without any payment of

\begin{itemize}
\item[(31)] (Smith, 1976: 335)
\item[(32)] “(…) It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital which a dealer is obliged to keep by him unemployed and in ready money, for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing, either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work upon; into tools to work with; and into provisions and subsistence to work for; into stock which produces something both to himself and to his country. The gold and silver money which circulates in any country, and by means of which, the produce of its land and labour is annually circulated and distributed to the proper consumers, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper in the room of a great part of this gold and silver, enable the country to convert a great part of this dead stock into active and productive stock; into stock which produces something to the country. The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures, and corn fields, and thereby to increase, very considerably, the annual produce of its land and labour (…)” (Ibid: 340-1)
\item[(33)] See Rubin (1989).
\item[(34)] See Marx (1983).
\end{itemize}
money. **They see all the possibilities that are in the capital (stocks) in a peace of paper.** More than it, the dealer or producer can disposal of it money without any money; only by the confidence. They discount the bill of exchange at a bank, receive the money and pay this bill of exchange with other bill of exchange, with a greater value than the first bill of exchange – due to the accumulated commissions and interest – which allow them to get more money – originates from the difference between what have to be paid and the value get in the discount of the bill of exchange. The important here is that this operation implies an outflow of money without any inflow of metals to the bank, as Smith (1976: 331) said: “this payment [of the bill of exchange that is to win], therefore, was altogether fictitious”. Only in the final transaction can be possible that the payment is done. For this, the employed capital needs to have great yields that can cover the last issued bill of exchange. However, the irrational operation of the capitalism economy implies that the money get by this operation can be applied in business whose yields are inflated or exist only in the imagines of the dealers that apply them. Because they don’t know the production of any other, they don’t be able to predict whether the business is bad or good before the bankrupt is near by them.\(^{35}\) Other reason for the payment don’t be made is that the economy, according to Smith thought, have average gain and this kind of operation have a cost above this average gain, which implies a great risk for the operation.

Beyond the critic of Smith about the operation of “drawing and redrawing”, this operation shows that the quantity of money necessary for the exchange can falls more with the development of the banks operation. And, other thing is truth, the expansion of money pass to be disconnected from the real operation; but this is truth only in the appearance because at the moment of the payment is necessary the yields of the

\(^{35}\) In some cases, it is possible to discover, yet in many of it cases represent cases of deliberated theft.
business. These yields are only obtained by the operation of the capital. To sum up, the fictitious payment create a possibility of expands the economy without material bases – coined money – but, at the same time, create the possibility of the production don’t be made according to the material bases of the country – capital (stocks), which means that is possible expand the economy much more than it can sustain.

**Conclusion**

The argument above putting out the Smith’s thought about banks and money in order to show the relation of them with the increase of the production. According to Smith, the bank’s operation is fundamental for the increase of the production because liberate capital, which is stopped, for be used in the production; but is necessary to contain the bank operation because the wide creation of money can allocate resources in business that don’t have any chance of create wealth, meaning that resources that could be applied in “good” business was wasted.

However, the present paper shows that the creation of money, which the bank operation provides, brings the appearance that the money is created by itself because disconnected the creation of money of this material bases – coined money and the stocks for production. Additionally, the recovers of Smith’ thought showed that this development of the banks, which produce the appearance that the money is produced by itself, was necessary for increase the production. In other words, the condition for the production increases makes the production doesn’t have any relation (in appearance) with the bank’s operation, which open the possibility for the crises, like we seen in the 2008 and other times (1929, 1973, 1987 and 2000). The development of the bank’s operation contains these possibilities, which means that their practices are *news from somewhere*. 
Recovery the history through the Smith’s thought had the intention to reclaim that is possible to understand the economic problems today with the past; even so, some questions remain. One question is that the Smith’s thought is one vision about the banks and its history, which characterizes his thought as an introduction for understanding the bank’s role and its relation with the other structures that characterize the capitalist society. For makes more than an introduction is necessary to recovery more thoughts (history and economics) about the emergence of the capitalism, the banks and the social relation that this society establish.

Another question is: can the production increase only with the “good” part of the bank’s operation or the “bad” part is necessary? In other words: could the contradictions that contain the development of the capitalism production and its relation be eliminated without overcoming this society? For answers this question, is necessary seek the answer for the question above, which means that the presentation of the Smith’s thought only have the possibility of establish an introduction by remember that the contradictions that we see in the recent economy crises was present in the operation of the banks in the beginning of the capitalism society (the industrial revolution) and made Smith worry with them.

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