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# Theoretical and Practical Research in Economic Fields



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## Volume IX, Issue 2(18), Winter 2018

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## MONETARY POLICY OF GEORGIA IN XI-XII CENTURIES AND ITS INFLUENCE ON THE INTERNATIONAL FINANCIAL AND ECONOMIC RELATIONS

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### Abstract

*This works we have researched the matters of formation of monetary policy of feudal age and their effect on development of foreign trade, methods of money formation important for the present world, which correct choice may provide increase of production volume and economic activity. Currency policy, geopolitical and geostrategic localization proved the country to turn into one of the economically strong economic states with high standard of life, developed system of socioeconomic relations approached to the international standards and democratic institutions*

**Keywords:** monetary policy; monetary system; Europe: pre-1913; Asia including Middle East; economic development

**JEL Classification:** E42; E52; N13; N15; O23.

### Introduction

As is known, Georgian feudal state in Tamara epoch achieved the highest level of its political, socioeconomic and cultural development. Multiethnic Georgia stretching for the wide territory of 505 000 sq.km was one of the few strongest civilized countries of that period determining progress of mankind.

Of course, it would be naively to tell of capitalism in Tamara epoch Georgia, but it is obvious, that the country was developing just in this direction and the appropriate trends in the life of the country were evident.

Politically integrated and economically strengthened foreign policy of the Georgian feudal state of Tamara's epoch aimed protection of the economic interest of the country. General direction of its Caucasian and Middle East policy was conditioned by the economic factors as well, as necessity of entering and capture of the main trade routes. The throne took control over the East and West Transcaucasian trade routes, namely, Dvin-Erzurum and Damuban-Shamakhi trade routes which played the important role in general economic development of Georgia. These routes were the main arteries connecting Georgia with the neighboring and other countries.

So, overland, river and sea routes have formed foreign trade routes since ancient times. Georgia was not only transit basin for western and eastern goods but participated in the foreign trade both inside and outside its territory maintaining brisk trade with the other countries. Both domestic and foreign trades were developed, that is proved with finding of the foreign coins of that period.

Resulted archeological excavations, a part of the Georgian coins, the Tamara's epoch Arabian-Armenian, Byzantine, Orthikidian, Halibi Atabags', Anatolian Seljuk Sultanate silver dirhams and Trebizond aspres were found.

It is also important that Georgian coins were spread beyond the territory of Tamara's Georgia. They have been found southward, in the former kingdom of Armenia and northward, up to Kuban lowland, eastward - in Sharvan with which Georgia had the tight economic and political relations (Abuselidze 2004, 31).

The large-scale merchants in the Tamara's kingdom took active part in the political and economic life of the country. Just from their circle were elected city envoys who were aware of the routes directions, owned transportation means and funds. Apart of trading, the large-scale merchants were good in diplomacy.

That epoch Georgia maintained the brisk trading with the Arabia, Iran and Greece. From the East they imported expensive cloths: strings, gold cloths, fragrances, aromas, sweets, rock crystal etc. From Greece and Byzantium, they imported icons, pictures, dishes, parchment books, writing tools etc. In the Tamara epoch wool was imported from such far-located places as Alexandria.

According to this information, it becomes clear that sale of handicrafts and generally, agricultural products was maintained both in the domestic and foreign markets. Sale of handicrafts, generally, agricultural products and their monetary or natural incomes played the significant role in the trading relations of the population and increase of families' budgets. Foreign marketing and seasonal domestic markets promoted establishing of cultural and economic relations between concrete regions and their further development and stabilization.

It shall be noted, that Georgian money circulated in the market. In the reign of Queen Tamar (1184-1214) copper coins were produced. On one side they bore writing "Tamar", on the other – "Queen of Queens, Glory of the World and Faith, Tamar, daughter of George, Champion of the Messiah."

First of all, it shall be noted, that this period Georgia had a money control system. The feudal government produced money, determined metal, money unit, standard of price, weight of pure metal and alloy for the moment, order of money production and collection.

Existence of money control system is unshakably proved with founding of the foreign coins in this epoch excavations.

No legislative act related to money circulation control has come down to us. This complicates solving of the matter of money system of Queen Tamar epoch. We may discuss of money circulation system only based on coins and literary monuments of that epoch. Besides, we shall remember that "factual system of money circulation does not often coincide with the formal system proclaimed by government" (Koiava 1938, 89).

## **1. Literature Review**

The well-known Georgian Historian Ivane Javakhishvili wrote: "In ancient Georgia foreign golden money had circulated, until in III-IV centuries Sasanian kings started to produce silver coins in Persia. After that Georgia began to use silver money, it even produced silver coins of the same appearance as Persian ones. From V century to the period of reign of David the Builder silver money was spread in Georgia. In the period of sway of Arabians Arabian silver dirhams, i.e. drams were spread. David the Builder started to produce copper coins and after that, during XII and earlier XIII century, in the periods of reign of George III, Tamar the Great and Lasha-George silver coins were not produced. Change of money unit was undoubtedly caused with some deep economic reasons. It shall be noted that in the other Eastern countries in the same period silver money was gradually replaced with the copper coins. That is why, disappearing of silver money shall be considered general phenomena for the whole Middle East and must be caused with the same reason in all those countries. Unfortunately, this matter has not been thoroughly researched (Javakhishvili 1925, 48-49).

Opinion by the other researcher, E. Pakhomov is also remarkable. He wrote in his book, that "before XII century we dealt only with silver coins and no copper ones made by Georgians or Muslims before XII century have been found. But from earlier XI century this condition sharply changed and during one hundred years we find only copper coins. Before XII century copper money might be produced, but probably much less... We cannot tell the same about silver money in XII century: we cannot even hope, that we find silver coins, as in that period silver money was not produced not only in Georgia, but in many other countries of the Western Asia" (Pakhomov 1910). Then he writes: "In the first years of XI century, when Seljuks attacked Persia and neighboring regions, exportation of Muslimanic dirhams northward sharply ceased, resulted this, amount of silver money circulating in the Muslimanic East did not increase. In opposite, we observe that in the second half of XI century silver coins are gradually rejected: coins become smaller and of low standard and in earlier XII century even low standard silver coins are found very rarely. At the same time, in the first half of XII century very original types of copper coins appear... on these new types of coins the Arabic word "fels", which before that period meant copper money missed and instead appears "dirham", which earlier was used only for silver. Naturally, the new copper "dirham" was a credit coin which circulated at much higher price, than real cost of its metal and which might replace the missed silver coins (Pakhomov 1910, p.79-80).

In respect of Georgia Pakhomov writes: "Georgia did not escape silver crisis and we can see such sequence: Sasanian-Georgian drachm weighted approximately 3 grams. Imedian, Abasilian and Jafasidian dirhams with rare exceptions did not exceed 2.75-3.50 grams, David Kuropalates's coins weighted 1.78 g. His successors, Bagrat IV

and George II brought it down to almost 1 g, but silver coins produced in the reign of David II did not achieve even such weight (0.82-0.87g). In the earlier XII century, similarly to neighboring countries, Georgia stopped to produce silver coins and began to produce copper ones.” (Pakhomov 1910, 79-80).

Such conditions lasted during the whole XII century. Only in 1230, in the reign of Queen Rusudan production of silver coins was recommenced.

Georgian coins of XI century and the first quarter of XII century are very rare. Especially remarkable is one coin kept in the British Museum, which was published by the English scientist D. Lang in the hard-to-reach organs (Lang, D., 1957). As this coin inscription requires some explanations, it shall be published repeatedly.

This coin is made of silver, its weight is 10.73g, diameter – 35mm. According to Acad. N. Berdzenishvili, it bears the following inscription: “Christ! David, King of the Abkhazians, Kartvelians, Arranians, Kakhetians and Armenians”, what shall be considered due, as the royal pot (kept in the State Museum of Georgian Art) bears almost the same writing, namely: “Holy Cross! Magnify Unconquerable David, King of the Abkhazians, Kartvelians, Arranians, Kakhetians and Armenians” ... (Abuselidze 2004, 40)

As we think, we will not make a mistake connecting the time of production of this coin with liberation of Ani city from sway of Seljuks. After the king liberated Ani, the capital of Armenians in 1123 and joined it to Georgia, he assumed the title of king of Armenians. As David died in 1125, it becomes clear that this remarkable coin was produced during the last two years of the reign of David.

Upon beginning of XII century, type, appearance and shape of coins sharply changed; they lost their regular shape – roundness; from that time, they began to produce money in kind of copper plates of casual form and shape. That is why, in often cases, due to small size of this plate, siki (side inscription) cannot fit into it. First, Qina was introduced in the other neighboring eastern countries and this order became firmly established in Georgia as well. David the Builder’s copper coins have been found and it may be declared that this order was introduced in the reign of Demetre the First. From the period of reign of Demetre the First to the money reform implemented in the reign of Queen Rusudan, *i.e.* for more than one century such “irregular shape” coins were permanently being produced in Georgia.

Images and inscriptions of that period Georgian coins were changing: first, there were mainly Arabic inscriptions and the Georgian ones occupied inconsiderable place, later images were replacing with the ornaments etc.

## 2. Survey

From these cites it is clear that in XI century deficient coins were produced, but their nominal value was much higher than the real value. Besides, such difference between nominal and real values was growing more and more. In XII century they began to produce copper coins. Were such copper coins of full value or not? Was transfer to production of copper coins caused with the intention of issuing of full value coins, even copper ones? No! In this respect Iv. Javakhishvili wrote: “It is interesting that the governors of that period fixed for such copper coins the price of silver money of previous period. Copper coins bore inscription: “This is dirham”. As usually, dirham or dram were made of silver and they became synonyms of silver money, such inscription meant that a copper coin shall have silver dram price. Georgian government did the same... As the Georgian government named copper money “silver”, it wanted to point that copper money produced by it had the price of silver money, or dram. So, such way the government fixed the obligatory price for copper money.” (Javakhishvili 1925, 99).

Copper coins had enforced rate (Kapanadze 1947). These coins functioned as credit money. As K. Marx explains, “Money based upon credit implies on the other hand conditions, which, from our standpoint of the simple circulation of commodities, are as yet totally unknown to us. But we may affirm this much, that just as true paper money takes its rise in the function of money as the circulating medium, so money based upon credit takes root spontaneously in the function of money as the means of payment” (Marx 1887, 83).

So, we can confirm that copper money produced in XII century instead of silver money had not full value, its nominal exceeded its real.

So, in the golden age of Georgia copper money circulated. Then how can we explain that in XI-XIII centuries Georgia stopped production of silver money and copper coins took the place of silver ones, but at silver’s obligatory rate?

“It is clear that the strong and progressing economic potential of Georgia required substantial change of existing money. Money was needed to operate not only in Georgia, but abroad as well. Just that is why, in XI-XIII centuries monetary type significantly changed. Surface finish and content of inscriptions changed” (Metreveli 1990).

So, as we can see, in the first quarter of XII century the royal court implemented the significant financial arrangements, namely: changed coin type, exchange rate was fixed simultaneously with change of coin type.

Some historians explain replacing of silver coins with copper ones with exhaustion of Asia Minor silver mines.

Proceeding from this, the question arises: could exhaustion of Asia Minor silver mines cause disappearing of silver money in Georgia and the whole Western Asia or not? No, it could not. Why? Because silver was mined not in Asia only, but in Europe. Exhaustion of silver mines would be compensated with intensification of its mining in Europe and it was just done so. "In XI-XII centuries in Europe the new mines opened for exploitation, namely in Maasmunster, Schwarzwald, Mansfeld. In XII century Freiburg mines started to work as well" (Lexis, W., VII).

Intensification of silver mining in Europe was, of course important for Western Asia and Georgia, as these latter maintained brisk trade with the European countries. Resulted such trade, silver would have started to overflow from Europe to Asia.

At the same time, "existence of silver money circulation in a country does not require existence of silver mines therein or even in the vicinity thereof. Whole history of money circulation clearly proves this principle. Many great countries maintained silver money circulation, but they did not have silver mines at all or have such mines, which produced less silver than it was required for money circulation" (Koiava 1938, 95).

Queen Tamar did not produce silver money due to certain political reasons. Due to crusading wars, the neighboring Muslim countries did not produce silver money for fear of exportation of silver stocks to the foreign countries. Georgia did not produce silver money due to the same reason, although, it had great stock of silver and precious metals, what is proved with plenty of silver icons, church dishes and precious jewelry of Tamar's period.

At the close of XII century and at the beginning of XIII century Georgia was very rich: there were plenty of jewels and pearls; royal treasury was full of gold. The Georgian Chronicle (Kartlis Tskhovreba) tells that, no silverware was used in the royal palace, but only gold and crystal ones (Kartlis Tskhovreba, II, 1959).

So, there was no deficit of silver. Absence of silver money in XII century cannot be explained with silver deficit.

The reason may be quite different. Namely, in XI-XII centuries paper money was not known neither in Europe, nor in Asia. It appeared in Europe only in XVIII century, in Asia - even later. That is why, in this epoch the wars were not financed with paper money. It was not produced for covering of treasury deficit, increasing of state incomes, gaining of emission taxes, but this period the way for increase of royal incomes was already found. It was the easy way for financing of the endless mediaeval wars, covering of deficit, for filling of incomes which were very insufficient for covering of treasury costs; such way included falsification of coins. It was known in the antique world and restored in the mediaeval centuries. The coins which real value was less than nominal circulated. The difference made the state income, because such money was the legal mean of settlement of unlimited quantity. It has forced exchange rate, due to which state gained significant incomes. "Falsification of coins, if they have not forced exchange rate is pointless. Deficient money is a symbol of money, *i.e.* token money (Koiava 1938, 100).

The information of historians and numismatists cited by us proves that in Western Asia and, namely, in Georgia just token money circulated.

"In XI-XII centuries in Georgia, as well as in the European and Western Asia countries we deal with coins falsification, mainly as a financial arrangement aiming enrichment of feudal lords" (Koiava 1938, 100) As for Marx, in respect of value he writes as follows: "... Name and substance, nominal weight and real weight, begin their process of separation. Coins of the same denomination become different in value, because they are different in weight. The weight of gold fixed upon as the standard of prices, deviates from the weight that serves as the circulating medium, and the latter thereby ceases any longer to be a real equivalent of the commodities whose prices it realises. The history of coinage during the middle ages and down into the 18th century, records the ever-renewed confusion arising from this cause" (Marx 1887, 82).

Georgian wars in XI-XII centuries, consolidation of Georgia in XII century required great means and such means were found by the way of falsification of coins.

In the period of circulation of full value silver coins, the contaminated silver money was produced. Such contaminated silver coins had compulsory exchange rate; compulsory rate did not guarantee constancy of commodity prices.

Marx writes: "The natural tendency of circulation to convert coins into a mere semblance of what they profess to be, into a symbol of the weight of metal they are officially supposed to contain, is recognized by modern legislation, which fixes the loss of weight sufficient to demonetize a gold coin, or to make it no longer legal tender. The fact that the currency of coins itself effects a separation between their nominal and their real weight, creating a distinction between them as mere pieces of metal on the one hand, and as coins with a definite function on the other – this fact implies the latent possibility of replacing metallic coins by tokens of some other material, by symbols serving the same purposes as coins" (Marx 1887, 82-83).



Involuntarily a question arises, if in XI century we deal not with falsification of coin, but change of prices scale or decrease of such scale or monetary unit without any gap between nominal and real values? As Prof. N. Koiava thinks, we shall rule out such version, as constant change of scale from king to king and in the whole Western Asia during over one hundred years would be impossible. No, the situation of the named period in whole proves that we deal with falsification of coin by the above way (Koiava 1938).

David the Builder introduced the new method of falsification of coins. He mobilized copper money which declared as silver money. Simultaneously with starting production of copper coins the last contaminated silver coins vanished from circulation. Copper money circulation caused all the related inconveniences: large volume of small value, low portability of money, rejection of copper money from international circulation, drop of money value and, thus, of its purchase power etc.

Prolong falsification of coins should have the following results: taxation was unsuccessful, price raised, this caused long worsening of economic state of workers; it worsened state of the persons who had fixed earnings, made the additional profits for creditors, circulation flooded with contaminated, deficient money; falsification of money caused messing of trade relations, complicated international trade. State could not constantly deceive and rob its population such way. Georgia was the important trading country, taking active part in the international trade. But trading interests required return of coins of full value which would be used in the international circulation. Return of the coins of full value, *i.e.* silver ones became required. Just in 1230 we can see return to the silver coins of full value in Georgia (Koiava 1938).

So, we can tell that falsification of coins was caused not with deficit of silver, but on the contrary, falsification of coins caused removal of silver from circulation. Falsification of coins financed the arrangement aiming consolidation of Georgia, powerful wars of Georgia. That is why, circulation of copper coins coincides with full blooming of feudal Georgia.

According to the sources, in the Rustaveli epoch copper money circulated with representation value of silver money. In the Rustaveli's poem "drachm" is mentioned (quatrains 585, 918, 1078, 1097). Our poet represents his present-day reality and it is clear that in his poem "silver money" means copper one. There are no place therein which directly proves existence of silver money, except 157-163<sup>th</sup> quatrain, where the author writes:

"...Give to the poor my treasure--gold, silver and copper." (Rustaveli 1912, v. II, p.27).

We should think that precious metals were mainly imported to Georgia from the other countries. Just in "The Knight in the Panther's Skin" we can see the indication thereof:

"...They set up a couch of gold, of red of the Occident..." (Rustaveli 1912, v. XXXV, quatrain 1166, 189)

"Occident" means "western" (Koiava 1938, 103). So, gold was imported from the west or not only from the west. Precious metals were imported to Georgia before Rustavelian epoch and even during the same. Gold and silver were transported from the places of their production to various countries including Georgia.

Precious metals were imported to Georgia and transited through it resulted international trade, as the riches were exported in form of precious metals.

So, we may think that in the named period the considerable part of silver was exported from Georgia, what is quite possible to be the reason of introduction of copper money.

In the first fourth of XII century money reform played the important role in the economic strengthening of Georgia.

It is the accepted truth that money plays the important role in a country's economy. Money expresses spirit of the epoch and life of society.

Coins of Queen Tamar epoch really correspond to political and economic state of this period. Besides, such type of coins was achieved that due to the economic strength of the country (money had real value) and shape of coins (Arabic and Persian inscriptions) they were freely convertible in the whole Middle East. The country was rich and money exchange rate – stable. It provided stable and intensive circulation of money. Active financial policy provided successful development of economy and all above mentioned rose Georgia to the high level of cultural life.

In short, in XII century Georgia was in the brilliant economic state. Its population fully protected from foreign enemies greatly upsurged, state treasury had large revenues, trade and industry expanded and grew, people became rich, a good deal of money circulated in Georgia.

In this period the kingdom income consisted from state taxes, military duty and tributes of conquered countries.

External duties and internal taxes formed total revenue of the kingdom.

Numerous fiscal staff was employed for the purpose of tax collection and belonged to the officers entitled to enter king's hall and finely reported to the concrete departments viziers.

The concrete names of the fiscal officers are described in part 2 of "Favnelta Sigeli", which proves that the list of fiscal officers entitled to enter king's hall included cashier, equerry etc.

All villages or larger administrative units had their tax-collectors reported to each other in the same hierarchy as the respective administrative units.

General names of the fiscal officer originated from the respective kinds of taxes they collected (Megrelishvili 1963, 131-132).

The main state tax included tributes and they were collected by the tribute-collectors. Such position is referred in several documents of XIII century, namely in "Istorian and Azman". Queen Tamar exempted church from tributes and taxes" (Zordania 1986, 63). This tribute reflected natural tax, *i.e.* tax of land.

Save the land tax, there were activity taxes, namely urban population tax. These people - traders and craftsmen - were considered villeins of state and were obliged to pay a part of their earnings in favour of state. That is why, the state gained large revenues from towns.

But tax revenues were not always equal. The king exempted from taxes some monastery lands or concrete feudal lords, so tax-originated revenue paid to state treasury reduced. Besides, something Georgian kings exempted the conquered states from tribute (Kartlis Tskhovreb, 1959).

In XII-XIII centuries Georgia received enough large annual tributes from many conquered countries, approximately:

- from Gurgan – 4.000.000 dirham;
- from Kazvan (Zanjan) – 1.628.000 dirham;
- Azerbaijan (Masaga, Ardavel) – 4.500.000 dirham;
- from Gilan – 5.000.000dirham;
- from Armenia (Karnu town, Erzurum, Gelakun) – 9.100.000dirham;
- from Iraq – 13.000.000dirham;
- from Khiorasan – 38.000.000 dirham.
- Totally 75.228.000dirham (Javakhishvili 1930, 51-52).

The tributes also provided the great revenue. Although its size depended on the wars and riches of the conquered countries, such way our country gained large number of valuables, goods and wood. The fifth part of tributes belonged to the king, the rest part was divided between the warriors.

The largest amount was spent for maintenance of the army and wars, as power of feudal monarchy based thereon. Besides, wars provided rich booty a part of which was taken by the kings, but the rest part was divided between the warriors. That is why, just the warriors were interested in wars being always ready to attack far countries.

*But integrity and strengthening of the Georgian feudal monarchy was possible not by the booties in wars and attacks, but development of monetary economy what economically and social-politically united all parts of the state.*

## Conclusion

So, as we see, the Georgian monarchy in the reign of the XI-XII centuries implemented the significant financial arrangements, namely: change of type of coins; contemporarily with change of coins the rate became stable.

It is general truth that money plays important role in economy of country. Money reflects sole of epoch and social life.

Coins of XI-XII centuries reign really reflected political and economic state of the epoch. Besides, the coins were of such type, that due to economic strength of Georgia (money had real value) and coins appearance (Arabic and Persian inscriptions) they were freely converted all over the Middle East. The state was rich, its money rate - stable. This provided stable and intensive circulation of money. Active financial policy preconditioned successful development of economy and all above rose Georgia to the high level of political and economic life.

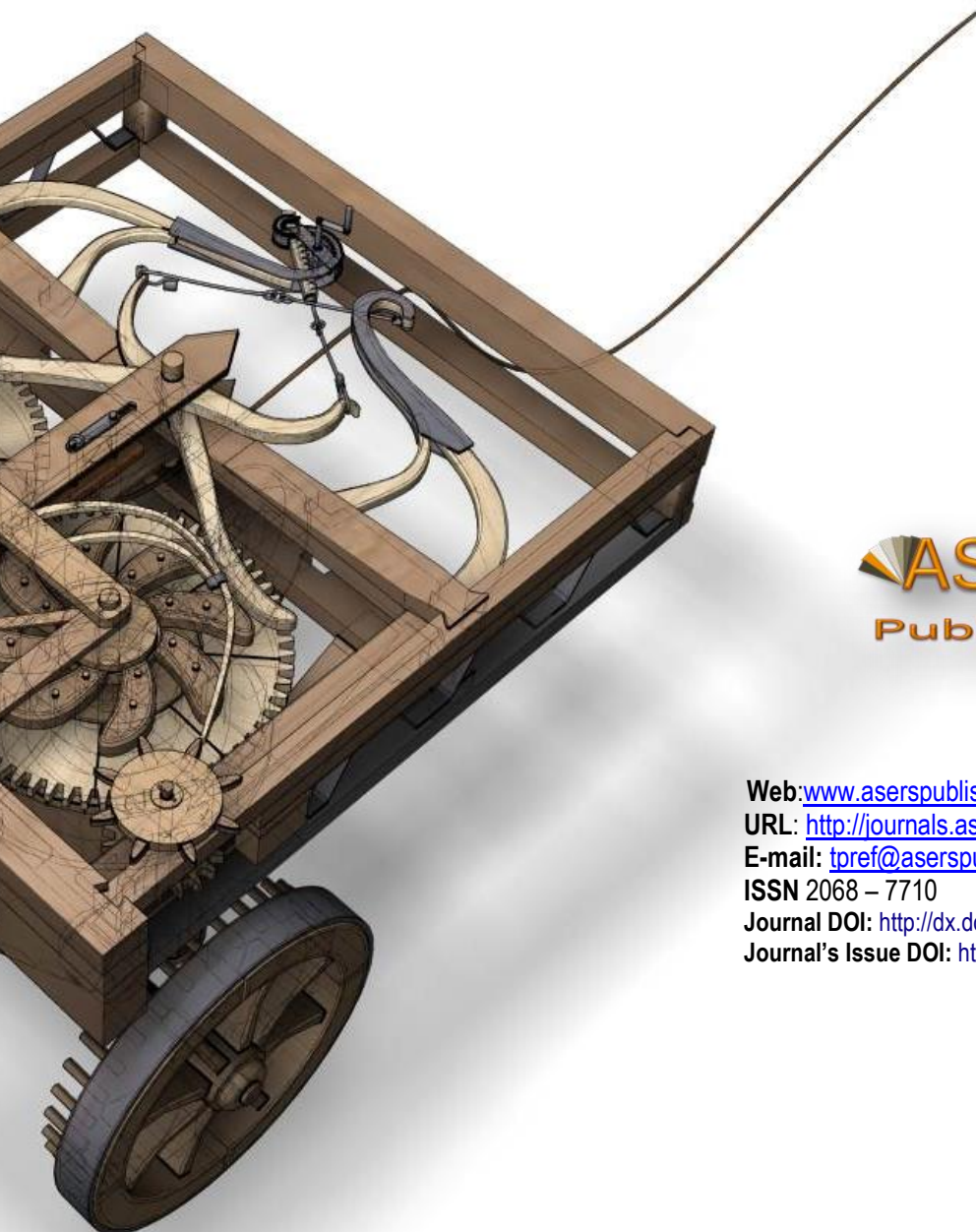
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