University of Southern Denmark, Odense
The Faculty of Business and Social Sciences

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How does the Spanish silver trade illustrate the Resource Curse, and what parallels can be drawn with modern resource-dependent economies?

Economic History

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Introduction

The Resource Curse: also known as the paradox of plenty, in which countries endowed with plentiful natural resources, such as oil, gas and minerals, exhibit slower economic growth and institutional development. The discovery of silver in the Americas during the early 16th century marked a transformative period in global economic history. Spain emerged as the principal beneficiary of the "New World's" wealth, importing vast quantities of silver that financed its imperial ambitions. However, rather than fostering sustained economic development, the influx of silver induced a range of negative economic and social outcomes commonly associated with the Resource Curse. The Spanish's central role in global trade at the time meant that effects of the silver trade were felt across the European continent and even as far as Africa and China. This paper explores how Spain's dependence on silver exemplifies this phenomenon, focusing on inflationary pressures, neglect of domestic industry, and institutional impacts. Through studying its economic and institutional impacts, this analysis draws parallels with modern resource-dependent economies, where we discover divergent cases and factors mitigating the so-called "curse".

Discussion

Spain's conquest of the Americas in the early 16th century brought immense quantities of silver into its economy, primarily from mines in Potosí (modern-day Bolivia). Already by the mid-16th century, silver had become the backbone of Spain's economy and a cornerstone of global trade. This is supported by an estimated amount of 150,000 tons of silver, being extracted from the mines of Potosí, constituting over 60% of global production between the mid-16th to the late-17th century (Barragan 2023)[i]. This immense amount of wealth flowed into Spain's economy, financing wars, palaces, and colonial expansion. However, this wealth also brought significant economic and institutional challenges that align well with the characteristics of the *Resource Curse*. As previously mentioned, the resource curse describes the counterintuitive tendency of resource-rich countries to experience economic stagnation or even contraction despite the wealth generated from resource extraction. There are two primary drivers of this phenomenon: economic and institutional factors.

In Spain, the arrival of American silver caused a radical transformation, namely the "Spanish Price Revolution" (Munro 2008)[ii]. This resulted from the massive increase in money supply fueled by silver imports, triggered soaring inflation that destabilized the economy (Hamilton 1934)[iii]. This is evident from price data on Philip II's reign (1556–1598), which reveals steep increases in the cost of essential goods, such as grain, textiles, and land rents, with wheat prices in Castile[1] rising by over 400% between 1500 and 1600 (Anes 1984)[iv]. This inflationary pressure diminished both purchasing power and the perceived wealth derived from silver, therby exacerbating poverty.

The Spanish silver boom also caused significant changes to the composition of labor in the sectors of its domestic economy, this phenomenon more generally is often referred to as a "Dutch Disease." Due to low marginal costs of silver extraction, there was little incentive to invest in domestic manufacturing industries. Additionally, inflation of the Spanish currency led to higher costs in factors of production, meaning that much of Spanish manufacturing soared and became uncompetitive internationally (Schearer 2019)[v]. This contributed to the surge of imports from England, the Netherlands, and other countries, creating a trade imbalance. By 1600, over 60% of manufactured goods consumed in Spain were imported (Elliot 1963)[vi]. A compounding effect stemmed from the earlier deportation of Jews (Ray 2013)[vii] and later expulsion Moriscos (García-Arenal, Wiegers 2014)[viii] from Iberia resulting in the loss of numerous artisans and merchants who had been vital to the Spanish economy.

The overreliance on silver revenues also introduced volatility through fluctuating commodity prices and brought the risk of supply-side shocks into the Spainish economy. Moreover, as silver extraction started to decline in the late-17th century due to resource depletion and rising marginal costs (Flynn 1982)[ix], Spain faced severe economic contractions. The failure to diversify its economy rendered Spain incapable of long-term growth, with its economic structure unable to withstand the diminishing returns of its resource wealth. Finally, it is estimated that the economic dependency on silver left its GDP per capita 40% lower by 1700 than it would have been, had it not been the first receiver of American treasure (Charotti, Palma, Santos 2022)[x].

Institutional weakness further compounded Spain's economic challenges. The wealth generated by silver fueled rent-seeking behavior and corruption in the Spanish aristocracy (Drelichman 2005)[xi]. Instead of allocating resources to productive investments, much of the silver revenue was spent on wasteful military campaigns, such as the ill-fated Spanish Armada of 1588 (Martin, Parker 2023)[xii]. Additionally, large swaths of silver wealth were siphoned into private fortunes, such as during the "Potosí Mint Fraud of 1649" (Sedwick 2009)[xiii].

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[1] Map of Spain, Figure 1 in the appendix. Bury, J.B. "Maps of the Spanish Kingdoms 1030 A.D. – 1556 A.D." *University of Texas Libraries*, 1903.

Spain's governance structures proved inadequate to manage the resource windfall effectively. The influx of silver wealth further entrenched power and resource-concentration among elites (Drelichman, Voth 2008)[xiv], with little effort to invest in public goods, social infrastructure, or long-term economic resilience (Marichal, Mantecón 1994)[xv]. Moreover, Spain's underinvestment in education, technology, and infrastructure stifled innovation and industrial development (Rosés 2004)[xvi]. This lack of progress contributed to Spain's economic decline, especially when compared to the relatively resource-poor but industrious nations like England and the Netherlands, which prioritized productivity and technological innovation (Fouquet, Broadberry 2015)[xvii] over resource exploitation.

Spain's experience with the silver trade shares notable similarities with the challenges faced by modern resource-rich economies such as Venezuela, Nigeria, and the Democratic Republic of Congo (DRC). Economically, the reliance on a single resource often leads to stagnant growth, economic volatility, and a neglect of other productive sectors[2]. Venezuela, much like Spain during its silver boom, has suffered from inflation and economic instability as a result of its dependency on oil revenues. The collapse of oil prices has devastated Venezuela's economy, exposing the risks of overdependence in conjunction with and compounded by weak institutions (Roy, Cheatham 2024)[xviii]. Similarly, Saudi Arabia's oil wealth has created economic distortions, and while its Vision 2030 initiative aims to diversify the economy and reduce reliance on oil (Mati, Rehman 2023)[xix], the results remain uncertain as oil still constitutes 80% of government revenues and 90% of export earnings (Delivorias, De Martini 2023)[xx]. Furthermore, falling labor productivity (Salvai, Añorve 2022)[xxi] and a high reliance on public sector employment (Ndoye, Andrle 2018)[xxii] suggest that the current economic structure is unsustainable beyond oil rents.

Nigeria's resource dependency mirrors Spain's historical experience in several ways. The oil sector's dominance has contributed to inflation, currency volatility, and the neglect of agriculture and manufacturing (Christou, Gonzalez 2023)[xxiii]. For instance, Nigeria's manufacturing sector shrank from 20% of GDP in 1980 to a low of 6.55% in 2010[3], reflecting a similar trend to Spain's declining industrial output during its silver boom. The DRC represents another case of overdependence, where mineral revenues fluctuate with global demand, rendering the economy highly susceptible to external shocks. Additionally, the DRC struggles with internal conflicts over resource control (Lawal 2024)[xxiv], highlighting the limitations of weak institutions.

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[2] NRGI (Natural Resource Governance Institute). "The Resource Curse." *NRGI Reader*, 2024.
[3] World Bank, OECD data. "Nigeria – Manufacturing, value added (% of GDP)." *National Accounts data files*, 2020.

Institutionally, resource wealth often fosters corruption, rent-seeking behavior, and governance challenges (Narh 2023)[xxv]. In Venezuela, oil revenues have been diverted away from public investment and infrastructure development due to rampant corruption (Gates 2010)[xxvi]. Nigeria's widespread corruption and weak governance (Folarin 2021)[xxvii] have perpetuated inequality and underinvestment in critical infrastructure (Anyaogu 2024)[xxviii]. Similarly, the DRC's lack of strong institutions, has led to the exploitation of resources by foreign corporations (Anderson 2023)[xxix], which has prolonged both economic stagnation and inequality domestically.

Strong institutions and governance are critical, as demonstrated by Norway's Government Pension Fund, which ensures transparency, long-term savings, and insulation from revenue volatility (Olsen, Tangen 2021)[xxx]. The case of Norway, highlights the importance of preconditions in a nation's ability to avoid the resource curse. Moreover, in countries with weak institutions, establishing anti-corruption frameworks often require strong political will, societal support, and external assistance. Collaborative extraction agreements with companies in more developed economies, such as the formerly Arabian-American Oil Company (Schwebel 2010)[xxxi], may also support nations lacking robust institutions. This is to say that; policies must be tailored to the specific economic, and political contexts (Rosser 2006)[xxxii], with mechanisms like sovereign wealth funds proving particularly popular in ensuring stability (Affuso, Istiak, Sharland 2022)[xxxiii].

Economic diversification is another essential strategy. Botswana successfully reinvested diamond revenues into sectors like tourism and finance, reducing their dependency on a single resource (Sekwati 2010)[xxxiv]. Similarly, Chile's Copper Stabilization Fund illustrates the importance of transparent, rule-based revenue management in buffering against price volatility and ensuring macroeconomic stability (Solimano, Guajardo 2017)[xxxv]. Investing in human capital also supports long-term development. Malaysia, for instance, continue to spend oil and gas revenues on education and healthcare (Azalea, Hisham, Solhi, Annuar 2024)[xxxvi], ensuring that the benefits of their resource wealth extends beyond its expiration date.

Finally, it must be acknowledged, that modern economies benefit from financial tools unavailable to early modern states, including sovereign wealth funds and diversified financial instruments, such as exchange-traded funds (ETFs). These means enable the management of resource revenues in a way that serves as a foundation for growth rather than a source of economic instability.

Conclusion

The Spanish silver trade provides a compelling historical example of the Resource Curse, illustrating how resource wealth can undermine economic and institutional development. Inflation, Dutch Disease, and overdependence on silver revenues crippled Spain's economy, while weak governance and rent-seeking behavior hindered sustainable growth. These lessons resonate with modern resource-dependent economies and should serve as a cautionary tale for those countries facing a similar challenge of entrenched institutional issues in managing resource wealth.

Appendix

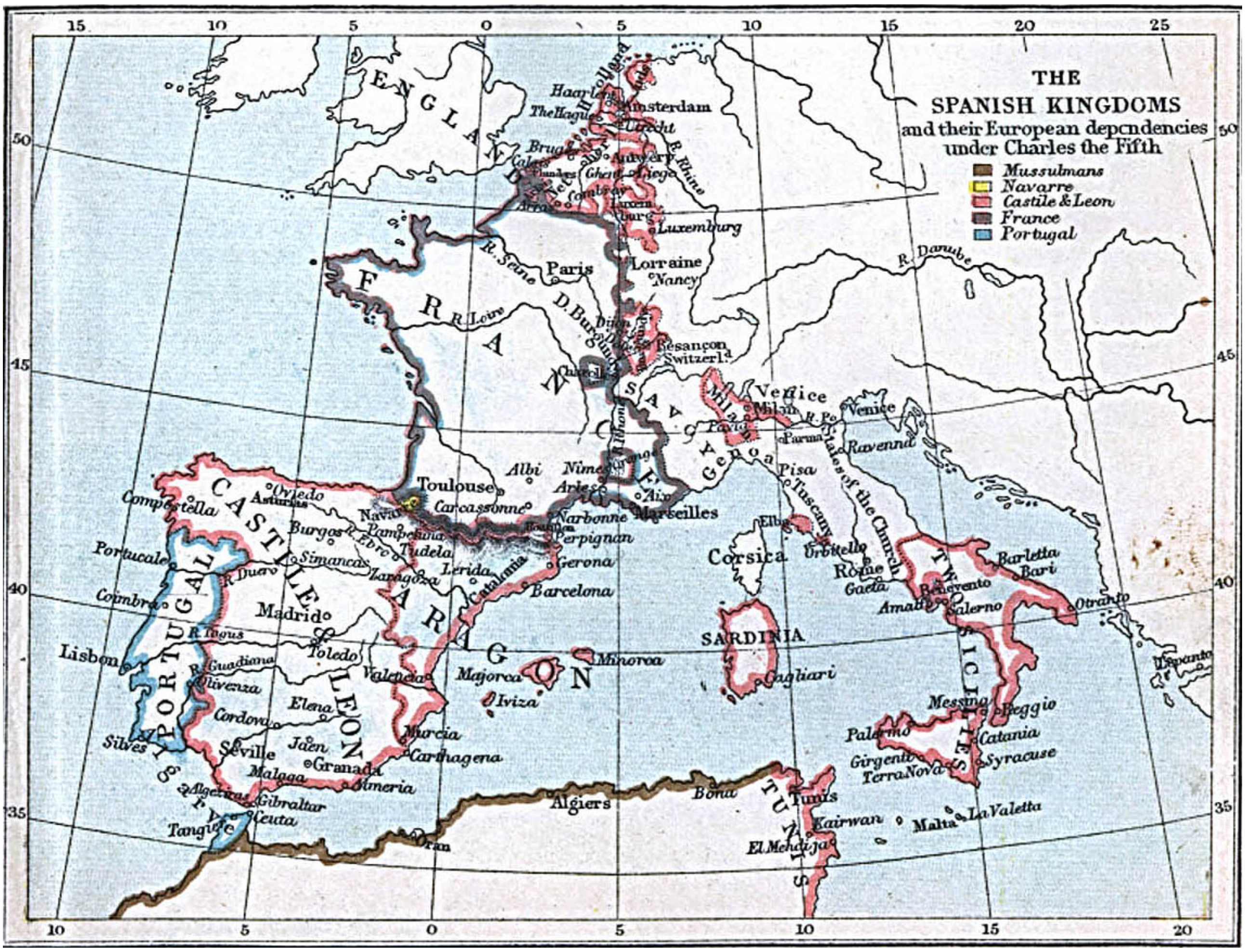

Figure 1: Map of "The Spanish Kingdoms" outlined in red. (ca. 1519-1556).

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