PART ONE
Many of the initial conditions of Latin American inequality originated during the formation of colonial settler societies in the late 15th to early 19th century. The objective of this chapter is twofold. First, it aims to describe how factor market regulations and the restrictions on factor mobility were embedded in a social order legitimising the concentration of economic and political power in the hands of the Creole elite. I refer to this process as the *institutionalisation of inequality*. Special attention will be paid to the institutional arrangements that were introduced to allocate labour, capital and land as well as protect exclusive colonial trade relations. Second, it aims to show that these colonial legacies differed largely across the region depending on specific local conditions such as the ethnic composition of the population and the strength of indigenous institutions that survived the Iberian conquest and the disastrous impact of European diseases, the presence of specific natural resource endowments and the specific geographic location which determined the relative distance to the Iberian peninsula and the Atlantic economy.

### 2.2 The Core and the Periphery

...these people live almost like those in Spain, and in as much harmony and order as there, and considering that they are barbarous and so far from the knowledge of God and cut off from all civilized nations, it is truly remarkable to see what they have achieved in all things

Hernán Cortes in 1520 to Emperor Charles V about the Aztec capital Tenochtitlan (cited in Bakewell 2004: p. 25).

Two years after Columbus’ discovery of *Hispaniola*, Spain and Portugal divided the non-Christian world into separate spheres of influence