Tastes can also explain some measure of divergence: Europeans, for example, have lower rates of labour force participation and work shorter hours than Americans.[14] This largely explains the gap between their per capita GDP. To each his own, as it were.

Generalized, the latter argument comes out as the theory of "conditional convergence": that is, a complex set of national characteristics determines different levels of potential incomes towards which these nations "converge", even as they diverge across the broad spectrum of the rich and poor.[15] While conditional convergence nicely explains some degree of divergence, one would not want to use it to explain the extent of divergence seen today. That would imply that countries are locked into low-per-capita-income states by certain characteristics. This notion flies as much in the face of the available evidence that some states break out as to ignore the fact that low-income states are generally failing to do so. After all, it is unlikely that anyone would have singled out Korea in 1960 to shed its characteristics of a backward agrarian state to become a phenomenal industrial success story over the next 40 years. Interestingly in this connection, Stanley Fischer has recently summarized the current understanding as follows: "The weight of the evidence appears now to have moved away from the initial conclusion of conditional convergence towards a view that there is a convergence club among the high income

---

have failed to "take off" as was optimistically expected with the help of international financial program support. Easterly argues that increasing returns "lock in" countries into poverty traps because the absence of some types of skills and or capital create a disincentive to invest in others. There is a co-ordination failure and all economic agents fail to invest in education or physical capital. See Easterly, op. cit., pg 168.

14 The converse argument is, of course, that the differences in preferences are simply the endogenous response to price signals.

15 For a recent exposition of the convergence literature which sets out the evidence on conditional convergence, see Xavier X. Sala-i-Martin, "The Classical Approach to 'Convergence Analysis", *The Economic Journal,* 106 (July 1996), 1019-1936.