and early 1960s. In retrospect, the contextual factors that would drive and shape the Kennedy Round were already incubating during the Dillon Round: these were the emergence of persistent balance of payments problems in the United States and elsewhere, and the reactions of governments in devising creative, inside-the-border solutions to tough border problems. Secondly, geopolitical rivalry was escalating and U.S. geoeconomic considerations, which were never far from the surface in any event, coalesced to give impetus to trade talks.

The Balance of Payments Pressures

In contrast to what is often considered to be a "mercantilist" perspective of modern trade policy (as reflected in the importance attached to maintaining trade and current account surpluses), the principal U.S. concern in the 1960s was the flip side of the consistent current account surpluses that it had run following WWII—namely, the capital account deficits and the still broader balance of payments deficits that had served to transfer large quantities of gold and liquid dollar reserves to the rest of the world. [16]

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[16] It is worthwhile to recall the theoretical views that underpinned policy at that time, and more particularly, what matters were perceived as policy "problems." As Harry Johnson wrote in 1962: "In the past 20 years, there has been a great deal of change in the theoretical approach to balance-of-payments problems and the mechanism of adjustment. This has been associated, on the one hand, with the Keynesian revolution, which led to the formulation of theories in terms of disequilibrium rather than equilibrium and, on the other hand, with the prevalence of balance-of-payments problems particularly in the postwar period. Very briefly, the change has been from the idea of a mechanism of adjustment to the idea of the balance of payments as a policy problem." In the context of the Bretton Woods system of fixed exchange rates, the "balance of payments problem" facing the United States was that its domestic currency supply might become insufficiently backed by a reserve of gold or foreign exchange. While balance of payments problems thus formulated were understood to be fundamentally monetary phenomena, the path to their resolution did not necessarily lie in the financial domain, especially if the repercussions there were undesirable. See: H.G. Johnson, *Money, Trade and Economic Growth* (Great Britain: Unwin University Books, 1962), p. 16.