payments ceased to be a policy "problem" *per se* as the exchange rate became the mechanism of adjustment.

The yen appreciated from its Smithsonian parity of 308 to the 260-265 range, and for 1973 as a whole, averaged 271 to the dollar, an appreciation of about 33 percent from the pre-1971 Bretton Woods parity of 360. This more or less offset the depreciation that the yen had effected in real terms during the Bretton Woods era.[35]

The exchange rate realignment, coupled with the oil price hike, resulted in Japan's current account surplus being wiped out, Germany's being sharply reduced, and the United States deficit being transformed into a surplus of US$18 billion in 1975, which was massive for the times. In short, for the United States, the external economic issues had been addressed and there was no immediate need to press forward at Geneva. And so the trade negotiators "marked time."

The Re-emergence of Pressures and the Gain in Momentum

Forward movement on the Tokyo Round was not restored until 1977. Importantly for this analysis, this coincided with the re-emergence of external pressures for the United States: as the U.S. economy recovered from the 1975 slump, its current account swung sharply back into deficit. In 1977, the deficit was almost as large its surplus had been in 1975.

For the new Carter Administration, which took office at the beginning of 1977, the external situation posed a severe constraint on its policies seeking to invigorate growth. Not surprisingly, U.S. attention focussed particularly on Japan, which had in the meantime swung back into a large surplus, aided by the fact that the yen had in the meantime depreciated back to the 300 range. Under pressure from the Carter

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[35] One estimate put the Bretton Woods era real appreciation of the yen at 27 percent. For a discussion, see C. R. Henning, *Currencies and Politics in the United States, Germany and Japan*, Washington, Institute for International Economics, 1994), pp. 123-127.