

interpreted as a way to ensure President Nixon's re-election in the 1972 campaign) plunged the United States into its first trade deficit of the postwar period (and, indeed, its first since 1888), exacerbating the balance of payments deficit and driving U.S. gold reserves to a record low.

In rapid succession, the Bundesbank announced the floating of the Deutsche mark in response to speculative inflows (May 1971), the Bank of England prepared a request for a US\$3 billion dollar conversion (August 9, 1971), and the Nixon Administration responded with the aforementioned Nixon Measures announced August 15, 1971: a "temporary suspension" of convertibility of dollars into gold, a 10 percent surcharge on imports, a 90-day freeze on prices and wages, and a tax on overseas capital investment.

Several months later, in December 1971, the Smithsonian Agreement re-established the Bretton Woods system. The price of gold was increased from \$35 to \$38 per ounce. This devalued the dollar by 8.5 percent, while other currencies revalued (the biggest revaluations were effected by the yen, which rose 17 percent against the dollar, and by the Deutschemark, which increased by 14 percent). However, despite expanded fluctuation bands, the parities agreed to under the Smithsonian Agreement could not be sustained and by early 1973 the major currencies were all floating.

In September 1973, in Tokyo, with the United States lacking negotiating authority as noted above, the new round was launched.

Arguably, it was the collapse of the Bretton Woods system and the overt protectionism of the Nixon Measures that galvanized the international community and elicited uncharacteristic leadership from Japan, the GATT member that appears to have felt most threatened by the new developments,³¹ and that fortuitously happened to be the host of the Ministerial Conference that launched the round.

³¹ The United States had only recently targeted Japan with voluntary export restraints on textiles, and also for the first time on steel.