

Round centred on non-tariff barriers and safeguards—issues that had much more to do with U.S.-Japan trade than U.S.-EC concerns.

To understand what did come out of the Tokyo Round and to understand the actual course of events (including the lengthy delay before serious engagement on the issues actually was made in the late 1970s), it is necessary to return to the broader economic context and specifically to focus on (a) the factors that led to the Nixon Measures of 1971; and (b) the emergence of Japan as a major economic actor on the international scene.

### *The Nixon Measures*

The early 1970s witnessed one of the epochal events of postwar economic history: the breakdown of the Bretton Woods system of fixed exchange rates. This happened in stages.

Very briefly, as noted earlier, the Bretton Woods era witnessed persistent U.S. balance of payments deficits. These led to a growing glut of U.S. dollars abroad, which in turn generated pressure on the U.S. dollar. This led to a series of responses, including the formation of the London Gold Pool in 1961, which essentially institutionalized the arrangements between the Federal Reserve and the Bank of England to fight off the run on the dollar in October 1960. Under the London Gold Pool, the Bundesbank and several other Western European banks joined the Fed and the Bank of England in stabilizing the price of gold on the London gold exchange below US\$35.20.

Things began to unravel in 1967: in June, France withdrew from the Gold Pool and in November, balance of payments deficits forced the United Kingdom to devalue sterling, triggering another run to gold. In March 1968, the gold market was closed for two weeks, the London Gold Pool was disbanded and the so-called “two-tier system” was set up with convertibility limited to central banks.

This settled things briefly: after spiking into the \$40 range, the price of gold returned to about \$35. However, the expansionary fiscal and monetary stance adopted in the United States in 1971 following the 1970 recession (and widely