The question of trust, however, turns on a different way of looking at the problem. Trust involves the integrity of the contractual agreement made and the political environment in which it is immersed. Since the SDRs have no "backing" and are of no intrinsic worth, the agreement to honor them is contingent on the interest a country has in honoring them in exchange for other assets. As an asset, they have fiat character that has a value only as good as the agreements to honor them are kept. We assume they will be honored, because as economists we assume a given legal environment. But history has shown alternative possibilities, as exemplified, for example, by existing debts arising from World War I that are not recognized by one party, nor cancelled (written off) by the other.

This is not to say that the SDRs cannot function as international money. My purpose is to emphasize that their properties are affected in an important way by the fact that they are unbacked.[19]

In view of these considerations, we must conclude that the Special Drawing Rights cannot be sufficiently relied upon as a genuine international money. This consideration, combined with the problems created by the new amendments to the Articles, which severely restrict the Fund's traditional operations and shift power to the creditor countries, makes the danger of a potential liquidity problem as acute as ever.

We must, therefore, conclude that the new Fund Agreement does not meet the problems of the international monetary system. At the same time, the new two-tier gold arrangements have immobilized gold reserves and made most gold-holding countries illiquid. There is still a huge gap in our international financial arrangements.

V. A NEW INITIATIVE

It is in recognition of that gap that I propose the creation of an international currency. The time for creating one has, I believe, arrived. Its scientific foundation, based on sound banking practice, is, I believe, secure. Although it accomplishes much more than the SDR plan, it is less radical in principle. The major barrier in past years would have been the international financial bureaucracy. But new light has appeared. The experts who created the Special Drawing Rights have developed an understanding of the international system superior to that of any international financial delegation in human history. After having created an instrument as subtle and complicated as the SDR unit, the proposal here advanced is child's play to understand and implement.

If the attached plan for an international monetary pool merits sympathetic consideration, it could be offered as a recommendation to be considered at the IMF meetings by the U.S. But the initiative does not, in fact, have to come from the U.S. If the U.S. is not interested in it, the initiative could come from Britain, Germany, France, Japan, Italy, or India. Since the proposal is not tied to existing treaty arrangements (to facilitate co-operation with non-members of the Fund), there is no reason why universal agreement is necessary; a few countries could go it alone. *Universality* is not necessary. The proposal presents a minimum conflict with existing institutional arrangements. All it requires is a bit more imagination than has been shown on these matters in the past year. Public opinion itself may be necessary to jog the monetary authorities from their lethargy, if the current disruptions of the exchange markets of the past year have not already done so.

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[19] My position on this issue appears to differ rather fundamentally from Professor Machlup's. In his *Remaking the International Monetary System: The Rio Agreement and Beyond* (Baltimore, 1968, pp. 64–68), he applauds officials for their courage in not succumbing to the old "myth of backing," and suggests they be given honorary degrees by the great universities I agree with him that the officials deserve honorary degrees, but not with his dithyramb about the absence of backing in the SDR scheme. His economic argument is, of course, valid if the legal system is held constant and there is complete trust that when and if a member withdraws from the Agreement or if the Account, for one reason or another, breaks down, all commitments will be honored. But that is precisely what, in my opinion, the whole issue of "backing" is about. I do not believe the authorities will be as willing to stake as much confidence in unbacked liabilities as they will in backed liabilities, and that consequently, an approach to world money creation through this route is more limited than Machlup appears to suggest.