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What is This?

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This article is an engagement with a piece of Buchanan's on the ethics of debt default, in which Buchanan proved to be surprisingly sympathetic to debt default as an option. Debt default is a current period transfer from bondholders to taxpayers at large. Default cannot then serve to improve, in aggregate, the lot of the generation whose bequest receipts may have been diminished by the use of debt financing. Current generations of taxpayers may have a legitimate complaint against past generations of voters/taxpayers who used debt financing (and reduced their net bequests thereby), but that past generation is beyond the grave and cannot provide recompense.

THE DUBIOUS ETHICS OF DEBT DEFAULT

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1. INTRODUCTION

In the entire Buchanan output,[1] there is perhaps no more astounding paper than his piece on "The Ethics of Debt Default," written for the edited volume on *Deficits* in 1987.[2] In this paper, Buchanan (1987) stated what to many contractarians might seem unthinkable—namely, that any ethical constraints that might stand against political pressures to default on public debt may themselves be misconceived. Properly described, the paper is an *investigation* of ethical issues surrounding debt default: It hardly amounts to a ringing endorsement of the default option. Nor does it amount to what many contractarians might have expected—a strong ethical endorsement of the general principle of "keeping one's promises," even when those promises are collectively made. Buchanan's final conclusion on the issue is that "on balance, the moral arguments against default on public debt do not seem so strong as seems to be assumed" (Buchanan 1987, 372). Buchanan's paper

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serves, therefore, to call into question a proposition that most economists and most moral philosophers have been disinclined to raise—not, we suspect, because of any lack of moral imagination but rather because the answer seemed totally self-evident. Public debt default has just seemed, on its face, unconscionable in any except utterly peculiar circumstances. That a lifelong exponent of contractarian ethics and a well-established authority on the economics of public debt should suggest otherwise certainly makes one sit up and take notice.

Indeed, precisely because contractarian ethics and public debt have been such consistent Buchanan themes, this small (and arguably somewhat obscure) paper is of more interest than might at first meet the eye. If our intuitions are that the contractarian position ought to find debt default in all ordinary circumstances abhorrent, is our interpretation of what the contractarian position requires mistaken? And if so, might this discovery lead us to rethink our allegiance to the contractarian position more broadly? Or is it Buchanan's interpretation of what contractarianism requires that is faulty—in which case, what else in the whole Buchanan normative scheme is up for grabs? Or could it be that the Buchanan analysis of public debt financing and its implications is mistaken? And if so, what revision of our thinking about public debt is required, relying heavily as it does on Buchanan's own analysis?[3] The truth is that a significant number of strands of Buchanan's thought come together in relation to the question of debt default, and if these strands, taken together, have implications that prove uncomfortable, that is no trivial matter—however exactly it all works out.

In this article, our aim is to retrace Buchanan's steps through this set of issues and to raise questions at various points both about the issues themselves and about Buchanan's treatment of them. We should state at the outset that our prejudices and intuitions on the central question itself are quite traditional: The notion that it might be entirely ethically legitimate to default on public debt in more or less ordinary circumstances strikes us as outrageous. For that reason, our discussion of the issues should, perhaps, be especially scrutinized for bias.

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2. DEFAULT VERSUS RENEGOTIATION

One of the interesting features of the Buchanan treatment of debt default is the scant attention given to the status of bondholders. Although, as Buchanan acknowledges, "The strongest moral basis for adherence to debt contracts, even in the stylized setting examined, lies in the possible acknowledgement of the standing of the claims [of bondholders]" (Buchanan 1987, 372), holders of debt instruments do not play more than a residual role in the central drama that makes up the Buchanan account. The principal players in that drama are governments and taxpayers, both present and future (or, more accurately perhaps, present and past). At one level, this omission is not surprising. Given that *default* is the option under consideration, the relevant ethical constraints are those applicable to the persons who might choose the default option—namely, current taxpayers and the current government, acting (conceivably) as those taxpayers' agent.

In this sense, however, focusing on default *qua* default is already to make a controversial move within the contractarian scheme. If contractarianism is to be understood in terms of the agreement of affected parties, then default is already a step or two beyond what one might reckon contractarianism to require. Default is a unilateral action, undertaken without consultation with—let alone the consent of—the other parties to the original contract. Of course, bondholders have a well-defined interest here. They may well lack sufficient grasp of the contractarian virtues to see the force of the "contractarian" arguments that taxpayers/governments are going to make. But bondholders are not unique in being interested parties. There seems no good reason to suppose a priori that current taxpayers, themselves manifestly interested parties, will be more sensitive to contractarian ethical considerations than bondholders are. The neutral presumption here is that taxpayers and bondholders are *equally* identifiable as possible moral agents. And we mean by this ascription that agents are "moral" both in the sense that their interests make claims on one's moral attention and in the sense that they are all seen as capable in principle of acknowledging such moral claims. This means that the logical point of departure for any specifically *contractarian* rethinking of the liabilities that taxpayers confront under existing public debt is *renegotiation*—not default. And this is not a mere matter of words. Renegotiation fore-

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grounds the moral status of bondholders' claims by recognizing their right to take part in any decision concerning those claims. Default presupposes that only taxpayers and governments have standing in the decision-making processes. Of course, if taxpayers "have the numbers," bondholders might consent to some arrangement that falls well short of what they would require if *they* "had the numbers." Even so, such bondholder consent must have *some* standing within a contractarian scheme: Renegotiation under some political pressure presumably dominates total default—in the absence, even, of consultation.

There is an aspect of this point that generalizes. Ever since Rawls's (1971) influential *Theory of Justice* and Buchanan and Tullock's (1962) slightly different (and earlier) application of similar notions in *The Calculus of Consent*, the "veil of ignorance" construction has become a routine tool in contractarian thinking. Deliberation "behind the veil" has assumed a certain authority in determining what it is to which no reasonable person could disagree. And Buchanan does, in this paper, appeal to veil of ignorance reasoning (of which more anon). But sometimes, enthusiasm for the veil of ignorance can be a snare and delusion: It can be a way of avoiding the claims of actual parties to actual contracts. Imagine two ordinary traders in the process of exchange, interrupting their negotiations so that one of them can slip behind the veil for a little contractarian reflection and then reemerge to announce what the precise terms of the contract should be. Imagine that this exercise was conducted after A had delivered his or her side of the deal and that this fact was strangely forgotten by B in B's behind-the-veil deliberations. Perhaps such imaginings merely caricature veil of ignorance reasoning. But the point is often made that the veil of ignorance, even in its idealized form, secures "agreement" but no contract. In its less than ideal form, the method can serve to give self-serving reasoning a contractarian moral gloss that that reasoning does not merit.

Moreover, it needs to be emphasized, as a general proposition, that the reason for rules (in this case concerning debt and default but also more generally) is to improve the game that we are playing: It is not to secure an arena for agreement for its own sake. Constitutionalism serves the contract within the contractarian scheme, not vice versa.

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The simple parlor game analogy is, as usual, helpful here. When you sit down to have a few hands of bridge, you want to play bridge—not play the quite different game of determining good rules for bridge. The person who insists, before play starts, on settling all the fine points of the rules and debating the merits of every provision is simply a pain in the neck and is likely to get summarily ejected from the game. Analogously, the purpose of settling the rules of substantive market and political games is to enable agents to get on with the business of playing those games more effectively—of searching out and exploiting the potential for mutual benefit that is the final object of contractarian-approved action. In short, one must be careful not to fall victim to a kind of "constitutional fetishism." Securing consensus over the rules of the game—however desirable consensus on the rules may be—is not what ultimately the game itself is all about. Is it a danger for contractarians that they forget this simple fact? And is that danger one that the veil of ignorance construction encourages?

For our own part, we shall be especially attentive in what follows to ensure that bondholders play the full role in the analysis that their moral standing as parties to an extant contract requires. One aspect of this concern is that we shall recast the "ethics of default" as the "ethics of renegotiation": We shall pose the relevant question in terms of the circumstances under which such renegotiation might be justified on broadly contractarian ethical grounds. And we shall insist that those grounds be no less persuasive for bondholders than for the current generation of taxpayers. Focusing exclusively on the ethical deliberations of taxpayers seems simply to invite partiality.

Of course, in the late 1980s when the paper was written (Buchanan 1987), and perhaps no less in the millennial "Jubilee Year" and its aftermath, the issue as it presents itself *practically* is the matter of default, as perceived by taxpayer-debtors and their (often self-appointed) defendants. But for us, as for Buchanan, the relevant issue "is with the *ethics* of default, rather than with either the politics or the basic economics" (Buchanan 1987, 362)—or rather, as we would put it, with proper contractarian argument within a context of renegotiation. In this setting, bondholders, far from being silenced, will exercise a presumptive right of veto.

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3. "GENERATIONS," DEBT, AND TRANSFERS

Buchanan (1987) has drawn a sharp distinction between the case in which public debt is used to finance public current consumption and that in which the expenditure financed is for a public asset or "extraordinary public expenditure." In the latter case, there is a "powerful moral-ethical argument in support of adherence to debt contracts: . . . the basic moral argument is equivalent to that which might be advanced in support of adherence to any contract initiated on what seemed to be genuine *quid pro quo* terms" (p. 363). But, according to Buchanan, this case is "irrelevant" because by hypothesis, the program in question is public consumption. The assumption that forms the point of departure for subsequent analysis is that "there are no benefits that accrue to persons living in subsequent periods" (p. 364). Buchanan's claim is that this assumption is decisive. But this is actually a rather puzzling claim and needs some unpacking. To do that unpacking, we need to make some appeal to public debt analysis—to Ricardian equivalence logic and Buchanan's lessons about public debt and the problems of false aggregation. Specifically, there is an issue about how different "generations" fare under debt and tax financing and, more particularly, of the mechanism by which the effects on different generations are brought about. These considerations are relevant because we need to investigate the circumstances under which expenditure use from debt revenues has any effect on future generations of citizens.

We take it that the *only* way in which future generations can be negatively affected by debt financing is through a reduction in net bequests. By *net* bequests, we mean bequests net of the tax liabilities required to service and/or redeem the public debt. There seem to be three possible routes whereby bequests might be affected by debt financing:

- intertemporal substitution effects induced by the altered time profile of tax rates—that is, the effect of increased tax rates in the future and reduced tax rates in the present period induces agents to switch consumption into the present;[4]
- debt illusion effects, whereby bequestors overlook the tax obligations embodied in public debt; or

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- negative bequest effects, whereby (some) bequestors seek to leave an estate that is negative in net terms.

Of these mechanisms, only the second seems likely to depend on the use of the revenue in the period when the debt is first issued. Consider the negative estate possibility. If expenditure use is to rule out that possibility, it is necessary not just that the revenue raised be used for public capital accumulation, generating benefits in future time periods, but also that *the distribution of those future benefits across individuals is such that all individuals benefit more or less equally*. Only then will the option of leaving a negative estate be foreclosed. The distributional proviso here is worth special emphasis. Expenditure on public capital is a necessary but not sufficient condition for avoiding the negative estate possibility.

Although the mechanism by which bequests are reduced is independent of expenditure use in the second case, the *effects* on bequests will be offset if there is a corresponding illusion on the expenditure side. Specifically, if bequestors ignore the future tax liabilities that are embodied in public debt obligations, it seems likely that they will also overlook the future benefits that will accrue from publicly held assets. In this event, the negative effects of debt financing on bequests could be roughly offset if the debt were used to finance public assets. However, there is no *logical* connection between the debt effects and the expenditure effects. Again, furthermore, there will be a distributional proviso. Not all bequestors will be subject to the same illusion, and not all those bequest-recipients who are harmed will necessarily have that harm offset by the particular capital expenditure that is at issue.

Clearly, in the first case, where the effects on bequests arise via intertemporal substitution effects, there is no illusion present at all, so it would seem somewhat ad hoc to assume illusion on the expenditure side. In fact, Buchanan does not spell out the precise mechanism whereby future generations of taxpayers are harmed by debt financing. Nor does he spell out precisely why expenditure use is so crucial. We conjecture that he has an "illusion" story of some kind in mind. He seems simply to take it for granted that future generations will be harmed by the debt financing as such and hence that some corresponding future benefit will be needed to offset that harm.

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Moreover, even if the net effect of debt financing were to reduce net bequests, we would need additional argument to explain why that is necessarily a bad thing. True, it leads the present generation to make smaller bequests than they would make if fully informed and to that extent represents a "distortion." But Buchanan elsewhere has been very critical of the effects of bequests and has argued the case for severe (and possibly totally confiscatory) estate duties. We do not seek to engage that aspect of the issue here. We simply observe that, in the absence of distortions, there will be a certain level of bequests (intergenerational transfers in the literal sense) and that public debt financing will tend to reduce that level. Presumably, no substantive judgment on whether that reduction is desirable can be made without some argument as to what the level of bequests ought to be.

In the context of the current argument, it is worth noting that the *aggregate* level of net bequests can never be negative. There must always be, at least, a stock of government bonds held as assets by the current generation that exactly equals the outstanding public debt. This is true whether the debt is internal or external, provided we include in our reckoning all bondholders, irrespective of where they live. For simplicity, we shall restrict the discussion here to the case of internal debt.[5] Consider, in the light of this, Buchanan's (1987, 372) claim that "in straightforward economic terms, the debt financing of public consumption involves an intergenerational transfer, with utility gains in financing-spending periods matched by utility losses in later periods." Now, this claim is true as far as it goes. But as Buchanan (1958) emphasized in *Public Principles of Public Debt*, we must be careful to disaggregate to appropriate levels—and here, it is clear that the claim is restricted to generations of individuals as *taxpayers*. There is, of course, an exactly offsetting "intergenerational" transfer among individuals as bond-purchasers/holders, with utility losses endured in financing-spending periods matched by utility gains in later periods. The generation as a whole may or may not be worse off. But they are worse off only if aggregate net bequests are smaller by virtue of the use of debt financing. And aggregate net bequests across the generation cannot be negative.

Furthermore, whatever the effect on bequests, there is a real sense in which, once debt financing has been used, bygones are bygones.

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Once the relevant "future" has come, when debt financing has been invoked and net bequests have been reduced to their "distorted" levels, there is literally nothing that can be done to "reimburse" that generation *qua* generation (bondholders and taxpayers taken together). "Debt default" is no solution to the problems of the "deprived" generation: It merely serves to reshuffle entitlements and obligations *within* that generation.

Taxpayers who seek renegotiation of debt liabilities with holders of debt instruments may, quite plausibly, claim that the debt has served to reduce their net bequests received. But holders of debt instruments seem likely no less to be victims of those same effects. Once debt has been used and we live under the sway of its distortions, no renegotiation, no default, can secure redress. The past cannot pay us back.

This point is the crucial one. But it can be pushed a little further. If debt financing reduces bequests, it will not reduce them equally across all individuals. Some bequestors will be more subject to fiscal illusion than others are. Some will have higher elasticities of intertemporal substitution. And so on. Different individuals in the future will suffer a larger or smaller loss by virtue of debt financing. There seems to be absolutely no reason at all to suppose that those who have suffered least from these debt-induced changes in previous generations' bequest behavior will turn out to be current bondholders. Accordingly, any argument for singling out current bondholders to make good on the fiscal sins of our fathers remains utterly obscure. Current taxpayers may have a legitimate complaint. But it is a complaint against their forbears. To hold current bondholders liable for that complaint seems totally arbitrary. It is quite simply a mistake in ethical reasoning.

4. RULES FOR AN ACCEPTABLE FISCAL GAME

None of the foregoing should in any sense be seen as a defense of debt financing. Perhaps there is a case for allowing debt in the case of a public scheme with future benefits if that scheme would not proceed in the absence of debt financing and if debt financing can plausibly be restricted to such cases. Otherwise, the claims that Buchanan makes about debt financing failing the conceptual unanimity test seem to us

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persuasive, and we certainly do not seek to contest them here. However, it is worth emphasizing that citizen/taxpayer bequestors could have good reasons for desiring to hold public debt (with its entailed tax implications) as part of their portfolios. Bequestors may wish, for example, to bequeath to their heirs "income-contingent" net assets—contingent, that is, on the income of their heirs as it will be from time to time, with a larger net bequest to those whose incomes turn out to be lower in the future. Consider A. She leaves her four sons an amount of $200,000 each in government bonds, exactly matching the discounted value of tax liabilities the public debt represents. The tax regime in place is a proportional income tax. In leaving her estate in this form, she secures a larger net bequest to the sons whose incomes turn out to be lower than average and a smaller net bequest to those whose incomes turn out to be greater than average. This is simply because the liability that attaches to the public debt is itself income contingent. If she cannot predict with total accuracy the future income paths of her sons, she may well prefer to leave each an income-contingent asset of this kind than to leave each a zero estate. Equally, she may prefer to leave an estate of $200,000 in private assets plus $200,000 in government bonds exactly matched by the tax liabilities than an estate of $200,000 in private assets alone.

The point here is that current taxpayer/voters may have good reasons to create public debt without any desire to reduce the net consumption of their own heirs or of "future generations," more broadly. Of course, in the presence of debt illusion and related "political" failures, those "good" reasons may be outweighed by the downside risks of "inefficiently small" bequests and excessive current public spending. Buchanan's judgment seems to run along such lines. More to the point, it is his judgment as to how others' judgments would fall out behind the veil of ignorance. He is careful not to overstate the claim here: As he puts it, "There are plausible grounds for judging debt financing of ordinary public consumption to be immoral by the contractarian standard" (Buchanan 1987, 370). In fact, there may be plausible grounds for the contrary view—that it would be immoral to prevent debt financing, even for public consumption, on contractarian grounds (say, for the reason indicated above). It is perhaps hazardous to speculate as to what others' judgments behind the veil of ignorance

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might be. But, as we say, for our own part, we are inclined to the Buchanan judgment that debt financing is probably, on balance, undesirable.

However, this fact does not establish even a presumptive argument in favor of debt default. To put the point starkly, consider another aspect of the "fiscal constitution" that might be supported behind the veil of ignorance—namely, the distaste for retroactive taxation. As we see it, debt default is equivalent to retroactive taxation, imposed on current holders of debt instruments. In that sense, it is a quite specific form of "taking." And if this is so, we are confident that default would fail any plausible contractarian test.

The more general question as to whether and to what extent a current government ought to be able to bind its successors is a complex one and goes well beyond the scope of this article. However, it is an essential feature of the whole "constitutional" approach that current generations *can* bind future generations—and that *some* such constitutional binding is contractarian endorsed. We are not sure what Tocqueville had in mind in the claim that "among democratic nations each generation is a new people" or what Buchanan (1987) had in mind in using that quotation as an epigraph. But in a *constitutional* democracy, it is surely *not* the case that each generation constitutes a new polity. Government by *rules* implies an institutional order that is relatively stable over time, as indeed Buchanan's work has consistently and persuasively argued.

Of course, there can be constitutional crises. And new constitutional orders, totally distinct from the preexisting order, can emerge. But such crises do not occur *within* a contractarian framework. An issue, for example, might arise for a *new* constitutional democratic order, derived according to broadly contractarian principles, as to whether a government elected under the new order should meet the outstanding fiscal obligations of the previous despotic regime. It might be argued, for example, that bond-purchasers under that despotic regime were implicated in the regime's activities by giving the regime its financial support. Bondholders could on such grounds be thought to deserve to be penalized, along with the despot himself or herself. So, for example, the new postwar German government in 1946-1947 might, on explicitly ethical grounds, repudiate Nazi war

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debt as a means of distancing itself from the old regime. Whether doing so would be permitted or more strongly *required* by contractarian ethics is an issue that permits no obvious answer. But this is not, in any event, the general issue with which Buchanan deals, and neither shall we. Buchanan (1987, 370-71) is explicit on this point:

> Even if . . . the act of borrowing . . . may be judged immoral, there need be no implication that the act of lending to government deserves moral censure. . . . To deny these claims [to receive interest and amortization] when due seems fraudulent from the perspective of those who hold the debt instruments.

We agree.

5. DEFAULT RISK AND MORALITY

There is one further aspect of the debt default possibility that Buchanan (1987) canvasses that is worthy of brief comment. This is the idea that the moral claims of bondholders "may be mitigated somewhat when the prospect of default risk is introduced." The argument is that, to the extent that default is anticipated, the risk will be compensated for in the interest premium that the market will require.

We are suspicious of this argument. Promises are not ethically less binding because we have reason to think that the person who gives them may be untrustworthy. If the promise-giver breaks his or her promise, he or she violates a contractarian norm quite independently of the ex ante probability that he or she will violate it and quite independently of others' beliefs about that ex ante probability. A person may buy a house in a crime-ridden area and pay a lower price than he or she would if the crime rate were lower. The expectation is, say, that each house will be burgled once every 2 years on average. The buyer will be compensated for that risk in the capital cost of the house. But are we to take it that the burglar who obligingly drops in on his or her biennial visit is therefore not violating any contractarian norm? This would be a rather surprising result, if so.

Buchanan himself seems uneasy about this line of argument: "Moral argument for adherence to contracts cannot readily be made to include

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elements of return based on stochastic predictions made about such adherence itself at the time the initial contracts were negotiated" (Buchanan 1987, 371). If this remark is intended to signify misgivings about the general line of reasoning here, they are misgivings we endorse.

6. DEBT ETHICS AND DEBT CONSEQUENCES

Part of the motivation for Buchanan's posture on debt default, we conjecture, depends on a judgment that, were default a live option and were this fact known in advance, the capacity of governments to raise debt would be seriously inhibited. If debt financing were bad, this consequence would be good. Hence, one might hope to derive an indirect consequentialist justification for a more relaxed ethical stance on default. We do not consider this kind of indirect argument to be inappropriate in principle: Dispositions of one kind or another can often be justified by appealing to the good consequences that arise from people having them. But to the extent that this *is* a consideration in evaluating debt ethics, it seems important to make the argument explicit and interrogate it. When that is done, we think the claim is unpersuasive.

The level of actual debt financing can be conceived as reflecting an "equilibrium outcome." In determining that equilibrium, both the ethical constraints—both on default and on use of debt in itself—and the political preferences for and against debt vis-à-vis taxes and for public as against private goods are all in play and exhibit the relevant marginal equalities. Easing ethical opposition to default serves both to increase the interest cost of debt financing and to increase the attractiveness of debt financing to those who represent the interests of future taxpayers *qua* taxpayers. It is not self-evident that the balance of these two effects will mean less debt financing. It could well mean more. Consider, for example, the electoral response to the rising debt levels that Buchanan sees as such a notable feature of the late 1980s. Is it obvious that political opposition would be more intense if there was a widespread feeling that, if the debt liabilities get too high, repudiation is always an option? Would anxiety about implicit Social Security debt be so considerable if there were no ethical commitment to meeting the quasi-contractual obligations that the system embodies? Would

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not the impulse to be "generous" to the old be more extensively indulged if there were an understanding that arrangements could always be "renegotiated" (somewhat involuntarily on the part of current beneficiaries) if the system proved at some point in the future to have been *too* generous?

The answers here are not clear, we think. But it is certainly not obvious that a readier default option would serve to limit debt financing more effectively than a stricter, more conventional "contractarian" line.

7. CONCLUSIONS

Our objective in this article has been to retrace the ethics of public debt default, following the lead of Buchanan's highly arresting treatment of the issue (see Buchanan, Rowley, and Tollison 1987). There is abroad a strong intuition, apparently powered by general contractarian sentiments, that defaulting on public debt is ethically outrageous in principle and could only be contemplated in extreme circumstances. Strong intuitions ought to require strong arguments to unseat. As far as we can see, Buchanan provides no such arguments. He certainly appears much more hospitable to the possibility of debt default than one might have expected him to be, but his grounds for such hospitality strike us as thin.

Investigation of the issue is interesting not just in its own right but also because it serves to highlight a number of aspects both of the proper interpretation of contractarian ethics and of the economics of the debt. Accordingly, our conclusions fall out at two levels of generality.

First, on the narrower matter of debt default per se, there are several points to be made:

- Debt financing does not necessarily leave future generations as a whole worse off than tax financing, even when the revenue is used for current consumption.
- Even if debt financing does lead to smaller net bequests than would prevail under tax financing, this is not *necessarily* a bad thing. No judg-

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ment on this matter can be made without an independent assessment of the appropriate level of bequests.
- The claim that default risk makes default less reprehensible seems to us to be unsustainable.
- Any argument to the effect that a higher default risk would lead to less debt financing must be treated with considerable skepticism.

The *crucial* point here, however, is that any complaint that current taxpayers might have is against previous generations of taxpayer-citizen-bequestors. There seems absolutely no reason why current bondholders should be held responsible for that previous generation's fiscal actions. There is, in particular, no reason to think that current bondholders will have suffered any less in terms of reduced bequests received than anyone else. There is simply no systematic justification for default on the grounds that debt financing hurts the future, assuming that it does. Default is not a cure for the disease!

This is not all there is to this story, though. There are two more general points that emerge from the discussion that bear on contractarianism more broadly. These are as follows:

1. Contractarian logic requires a language of debt renegotiation, not of debt default.
2. Because veil of ignorance methods seem in this instance to have diverted attention from the role of actual parties to actual contracts, questions arise naturally as to the contractarian authority of the veil of ignorance approach.

Where does this leave us? First, it leaves us with our initial intuitions intact. As far as we can see, debt default has no place within a contractarian scheme. But in addition, it leaves us with an anxiety about the proper interpretation of contractarian logic and the role of veil of ignorance methods within that logic. Because those methods have become paradigmatic in the "constitutional contractarian" tradition of scholarship that Buchanan represents, and because that tradition has become so influential in modern political economy, there may well be a case for revisiting a number of that tradition's core elements and submitting them afresh to systematic scrutiny.

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NOTES

1. The precise extent and richness of which is being revealed in the current release by the Liberty Fund of the *Collected Works* in 20 volumes.

2. See Buchanan, Rowley, and Tollison (1987, 361-73). The chapter is republished in the *Buchanan Collected Works* (vol. 14, 519-33). Page references here are to the original version.

3. Most especially his *Public Principles of Public Debt* (Buchanan 1958).

4. For a more detailed treatment of the latter possibility, see Brennan and Buchanan (1980).

5. Country of residence of the bondholders might of course be of some relevance to the politics of debt default, but here our concern is with the ethics of renegotiation. The ethical significance of international boundaries is not, we take it, the matter at issue here.

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