

Aristotle vs. Plato: The Distributive Origins of the Cold War^[1]

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Abstract: Competing definitions of justice in Plato's *Republic* and Aristotle's *Politics* indicate the existence of two distinct economic systems with different normative priorities. The three-class society of the Platonic economy (guardians, auxiliaries, producers) gives rise to guardians who by virtue are expected to enforce output targets on producers directly or through auxiliaries. The three-class society of the Aristotelian economy (rich, middle, poor) requires the emergence of political institutions through efficient constitutional arrangements and that way facilitates distribution both in favor of the poor and the middle in the presence of free labor (slavery). In the Aristotelian economy, the middle class is better off than in the Platonic economy (auxiliaries), because it benefits both from distribution and influence in the deliberative branch of the city-state. I argue that the equilibrium solutions of the Platonic and Aristotelian systems provide the normative foundations for the distinction between socialism and capitalism in the 20th century.

Keywords: Plato, Aristotle, central planning, market mechanism, political regimes, economic systems, Soviet Union, United States

JEL Codes : D63, P11, P14, P16, P21, P26, P52

Russian Revolution & the Soft Budget Constraint

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Abstract: Russia's introduction into the gold standard in 1897 fueled its industrialization program, as it facilitated the massive entry of foreign capital into domestic industry. We model industrialization as an infinite horizon game between government and elites. Elites can oppose the government proposal for industrialization and make its implementation costly *ex-ante* or can accept it. If the government proposal passes, then external liquidity becomes available for the financing of industrialization projects. Adverse weather conditions lead more peasants to cities. Massive urbanization rates of peasants and a centralized financial system facilitate the emergence of soft budget constraints in favor of the elites and may therefore facilitate social conflict *ex-post*. A middle class emerges, when there is a hardening of budget constraints and inefficient elites are replaced by new entrepreneurs from the working class.

Keywords: industrialization, financial system, soft budget constraint, reform, Russian revolution, stochastic games

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