

# **Crowding Out Capitalism: An Introduction**

**Klaus Hagendorf**

[eurodos@gmail.com](mailto:eurodos@gmail.com)

**Université Paris Ouest – Nanterre, La Défense, January 2011**

Crowding out Capitalism is a term in the theory of Historical Materialism referring to a) the process of the historical transition of human society from the capitalist mode of production to the socialist mode of production, b) to the strategy of the labour movement in its struggle for emancipation or c) in a more narrow sense to the economic policy as part of this strategy.

The discovery of this process of crowding out capitalist institutions as being fundamental to the transformation process, constitutes a major improvement in the theory of Historical Materialism as it clarifies the political, economic and social conditions to be fulfilled in order to progress towards Socialism. It is much more specific on the tasks to be accomplished by the working classes than the traditional Leninist view according to which the revolutionary communist party organises the socialist revolution and seizes political power and only afterwards the socialist institutions are established.

In contrast, crowding out capitalism is a functional approach to the process of establishing democratic control over all social life, in particular to the economy. It is the systematic replacement of capitalistic institutions by democratically controlled institutions. Most important is the democratic supply of capital funds as it is this the ultima ratio for the existence of capitalism. As this function is taken over by the labour movement capitalism ceases to exist. But this is only the core aspect of the transformation process.

In general the struggle for economic democracy is at the heart of the crowding out of capitalism. As such this vision is very akin to the Third Way approach but as the Third Way constitutes an anti-communist approach to economic democracy, crowding out capitalism is the modern communist approach.

The concrete forms of the strategy evolve from the struggle against exploitation and unemployment and for the optimal use of labour and other economic resources. The struggles for an ecological sustainable economic development are an integral part of this strategy. The tendencies of the production processes taking on a more and more social and public character, especially in the new economy, are calling for the democratic control of the newly occurring Commons especially in information and communications as well as programming.

Economic democracy aims at all levels of economic life, the company, the financial system, the region, education and macro-economic policies. The central issue is the democratic control of economic resources and the democratically organised supply of capital funds. It is the magnitude of new investments which is at the heart of full-employment policies. These funds must and can be provided for by the labour movement out of wage income and they also can and must be placed under democratic control. The formal proof of the necessity for crowding out capitalism is found in the article [A Critique of the Cold War Definition of Labour Values](#). It is based on the fact that capitalism cannot maintain an economic development along the golden rule path. This is due to capitalists consumption out of profits which causes the market rate of interest being higher than the steady state rate of growth of the economy. The higher market rate of interest hinders the optimal development of the productivity of labour and leads to an excessive monopolistic exploitation of the labour classes, to monopolistic unemployment and to state monopolistic imperialism.

Crowding out capitalism does not at all extinct the entrepreneur. On the contrary, the supply of capital funds remains an accounting game without the active and creative engagements of the economic entrepreneurs. When social justice requires the progressive taxation of wealth and income the strive for higher productivity of labour calls for the active support of those who contribute to social and economic progress. There is no contradiction between creative economic and social progress and democratic control. On the contrary they are mutually enforcing each other.

Historically the labour movement has again and again developed initiatives with the aim of establishing economic democracy, most notably in the Scandinavian countries as well as in West-Germany in the 1960ies as known as “Mitbestimmung”, “Vermögensbildung in Arbeitnehmerhand”, public investment funds etc. These efforts have been frustrated partly because they have been undertaken as anti-communist reforms but also only to often by ultra-radical revolutionary oppositions accusing those reformers as collaborators of capitalism. Recent history has proven this to be a disastrous agitation. It is true that wealth and income are highly unevenly distributed and monopolized but this does not hinder in itself Labour to progress. The real issue is to struggle for this economic and social progress and to establish the democratic control over the economy in a peaceful way and in the spirit of international solidarity.

Paris, 22.1.2011

Klaus Hagendorf