

Special Report ◆

Free Market Capitalism And The Path To Flourishing



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INTRODUCTION

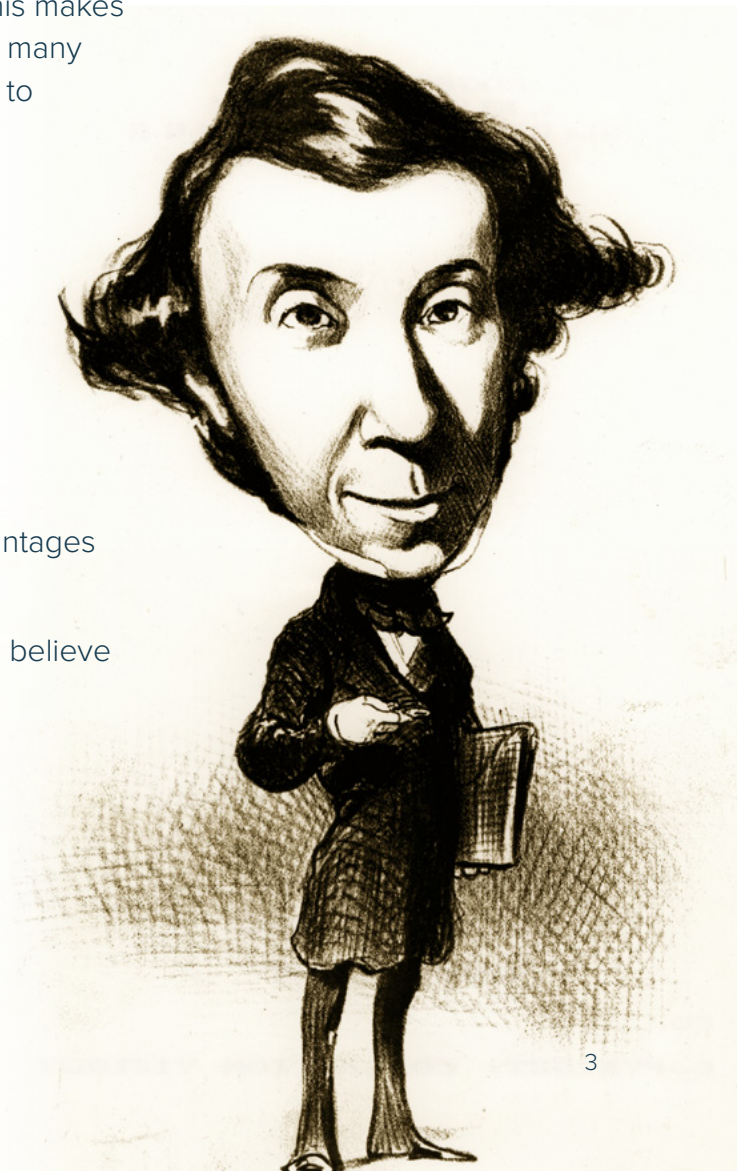
Throughout the world, the word “America” functions in many people’s minds as a synonym for “capitalism.” This owes much to the commercial spirit that permeated the American republic from its beginning, something President George Washington went to lengths to emphasize in his farewell address of 1796.

Over 30 years later, the greatest chronicler of American life and culture, Alexis de Tocqueville, expressed amazement at “the spirit of enterprise” that characterized much of the United States. Americans, Tocqueville soon realized, were “a commercial people.” The young nation teemed with people engaged in pursuing riches and creating wealth. Economic changes and upheaval were welcomed by Americans. “Almost all of them,” Tocqueville scribbled in a notebook, “are real industrial entrepreneurs.”

It is not hard to find other observers of America who have made similar comments about the role of the free enterprise, capitalist economy in lending form and character to the United States and its people. This makes it all the more curious that, over the past 10 years, so many Americans on both sides of the political aisle appear to have lost considerable faith in the power of markets to make their lives materially better. We see this reflected in bipartisan resistance to, for example, proposals to reform our increasingly unaffordable entitlement programs.

Likewise, the turn to protectionism that began in 2015, which has marked the trade policies of three presidential administrations since 2016, is indicative of many Americans’ worries about their economic future and growing doubts about the advantages of capitalism.

The usual response to these concerns by those who believe in free markets is to cite the superior economic growth delivered by the market system and the way capitalism steadily reduces poverty, in absolute and relative terms, over time. We point to the tremendous economic benefits delivered by American capitalism. This usually goes with stressing the obvious failures of the alternatives, such as the long-defunct command



and communist economies that dominated much of the immediate postwar world, or the sclerotic low-growth social democratic models that prevail throughout much of contemporary Europe.

Such defenses of markets are indispensable. Yet they are also not enough. The most obvious benefits of free markets are seen in the wealth and rising living standards they generally deliver when left unmolested by governments, especially those that prioritize redistribution of wealth over its creation.

But stressing these economic and historical truths also require major supplementation by efforts to raise awareness of the numerous ways markets promote human well-being in many other spheres of human life.

Be it the political realm or the vast sphere of associations that exist between the family and the state called civil society, markets contribute to many forms of individual and social growth that often go unnoticed in present-day debates about capitalism and its role in America's future.

WITHOUT MARKETS, WE ARE CONDEMNED TO STAGNATION AND AVARICE

For most of humanity's existence, material poverty has been the norm for all but a small sliver of the population. The great take-off which took us out of these conditions began in the late-18th century with the emergence of modern industrial capitalism, first in Britain and, starting in the 1830s, in the United States. These developments created the possibility for millions of men and women over ensuing generations to live lives of considerable material opportunity and comfort in economies marked by growth. This is understood as a rise in the size of a country's economy and productivity over a particular period, rather than perpetual stagnation.

Economic growth does not, of course, make all human problems suddenly disappear. Nor does it automatically translate into human happiness. We are more than simply material beings and our needs go beyond supply and demand. Nevertheless, our world would be

truly miserable without the economic growth delivered by capitalism. Zero-to-low growth rates translate into fewer jobs and diminished productivity, and an absence of the surplus capital needed to fund investment.

Capitalist economies have proved unique in their ability to drive economic growth for long periods of time. And they do so without the political authoritarianism, government intervention, massive reductions in liberty and gross misallocation of resources inevitable with state-driven efforts to produce growth.

But the unparalleled economic growth produced by capitalism does far more than keep us out of base poverty. Without this growth, we would not have anywhere near as much of the many other things we take for granted today but which were not so readily available even a century ago. These include increasingly sophisticated

technology, access to life saving and life-enhancing health care, schools, museums and universities, to name a few. Above all, economic growth provides the resources which save us from avarice and permit generosity with family, friends and people we would otherwise be unable to assist.

Philanthropy existed before the rise of capitalism, but its scope and scale were considerably lower than in our time. Even those groups that assumed special responsibilities to assist those in need, such as religious organizations, had limited resources to help individuals and groups with the financial support they needed to take the next step from subsistence to excellence.

With the rise of capitalism, this situation changed, especially in the United States.

For behind every expression of modern philanthropy, whether individual or institutional, is someone who was, thanks to the free market economy, able to create great wealth and then freely use it to benefit individuals in the present and future in an inexhaustible number of ways.

That is the story of the relationship among American capitalism, entrepreneurship, and American philanthropy, and it is no coincidence these phenomena have gone hand in hand. It is much harder to be generous to others when we lack the surplus wealth to do so. Capitalism is the only economy that has allowed us to undertake philanthropy in such depth and with a long-term perspective.



LIMITING POLITICS

Another non-economic way capitalism contributes to the general welfare of society concerns how the working of markets placed inherent limits on state power. The economic historian Emma Rothschild says, “Economic life is difficult or impossible to distinguish from the rest of life, and one’s freedom to buy or sell or lend or travel or work is difficult to distinguish from the rest of one’s freedom.”

In short, if you commit a society to a high level of economic liberty, you must accept strong limits upon the use of government power throughout the economic and non-economic sectors of society. Such limitations on state power are indispensable

if individuals and groups are going to be able to exercise agency and make the type of free choices to change the world around them and the content of their character. Absent strong commitments to economic liberty and the institutions which sustain it, political freedom becomes harder to realize, let alone sustain.

A good example is private property. Markets cannot function if people are not able to own, buy and sell goods and services or keep the bulk of the profits and income from their work and enterprise. Without the security of possession that comes with private ownership, no one will invest, engage



in exchange or start a business. At the same time, private property—as attested by figures ranging from Aristotle to Thomas Aquinas, John Locke and Adam Smith—puts down firm markers on the extent to which the state can order our lives.

By definition, my ownership of property excludes others, including government officials, from making decisions about how I use that property in peaceful ways. Minus the type of private property rights that are prerequisites for market economies, we are left with very little freedom, not least because we would find ourselves dependent on the state for economic welfare. The degree to which we are economically dependent on the government is always going to inhibit willingness to tell state officials they are unreasonably intruding upon freedom.

Another instance of an institution vital for the functioning of markets which also limits the power of government concerns the rule of law. The Nobel economist F.A. Hayek once wrote, “There is probably no single factor which has contributed more to the prosperity of the West than the relative certainty of the law which has prevailed here.” By the rule of law, Hayek meant the equal treatment of all people in a specific society by laws that are general, known in advance and applied equally to all without arbitrary discretion by government and judicial officials.

Markets rely heavily on the idea that no one may be subject to arbitrary action by the state. If government officials routinely acted in unpredictable ways, engaged in sudden mass redistributions of property and wealth or declined to enforce the provisions

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of contracts or did so in a haphazard way, capitalist economies would quickly cease to function. Instead, mass cronyism, unacceptably high levels of uncertainty and literal lawlessness would prevail throughout economic life and society more generally.

Conversely, the more we allow market economies to function in a given society, the more we necessarily commit ourselves to upholding all the provisions of the rule of law in that community. This matters not only because of the economic benefits the rule of law helps facilitate but also because of the inherent limitations on state power central to the concept of the rule of law.

The same rule of law also affirms a simple and revolutionary moral principle essential for any civilized society: that all human beings are equal in dignity, with no sub-humans, no super-humans and no individuals who enjoy legal privileges because of factors such as their sex, skin color or religious convictions. When Adam Smith described commercial societies as “decent” societies, this is at least part of what he had in mind.



MARKETS AND MORALS

One way market economies help society is by creating more chances for people to improve their lives. This also affects the morals and values of communities where markets are the main way people do business. To some, this claim sounds incongruous, not least because capitalism is consistently portrayed in virtually every form of media as having corrosive effects upon private and public morality. Capitalism, we are told, is fundamentally about greed and exploitation, and these things can only be detrimental to our willingness and capacity to pursue morally good lives.

There is no such thing as a morally perfect society or a morally perfect person. There are bad actors in any economic system, including market economies. Human fallibility and error are as old as humanity itself. There are, however, unexpected ways the market economy actively encourages people to

pursue specific habits of thought and action we call “virtues.”

In books such as “The Spirit of Democratic Capitalism,” the American economic thinker and philosopher Michael Novak described the many ways markets actively encouraged people to embrace specific virtues. Markets, for instance, rely heavily upon people cultivating their innate capacity for creativity. Human capacity for survival depends upon a unique ability to create new objects as well as discover how to use things already in existence in faster, more efficient and cost-effective ways. The created world is full of potentialities to be actualized by human reason and insight. But we must choose to turn those potentialities into realities.

Moreover, creativity is not a morally neutral activity. We can certainly question the prudence of creating any number of things. But the moral worth of creativity

is demonstrated by reflection upon its opposite—passiveness. Passivity involves being unwilling to look beyond our present circumstances, or to take responsibility for ourselves. It results in the slow suffocation of the human ability to foresee new possibilities and gradually paralyzes our imagination. In a market economy, by contrast, there is immense pressure to cultivate the habit of creativity as something that is distinctly human and separates us from every other species on Earth.

Similar observations may be made about habits like trust, prudence and civility. Markets are heavily dependent upon people trusting others every single day, including individuals we do not know and are unlikely to come to know in any substantive way. Similarly, the habit of prudence is highly valued in the dynamic conditions of capitalism. Prudence allows us to avoid the Scylla and Charybdis of recklessness and cowardice that lead respectively to either foolhardy economic ventures or an unwillingness to take any risks.

Finally, the habit of civility is actively incentivized by market economies insofar as a willingness to be respectful and polite will help facilitate peaceful economic transactions and exchanges indispensable for a free and prosperous economy.

These are the type of habits that help civilize us as people, and to the extent that capitalism encourages us to develop them, it is possible to say markets can help embrace the type of virtues that assist in making human life more humane. Yet, even in a relatively market-friendly country as

the United States, these are not the type of arguments we typically hear from large swathes of pro-market opinion.

The sad irony is opponents and critics of markets, ranging from outright Marxists to interventionists of various stripes, have no hesitation about invoking extra-economic arguments for their preferred economic systems. They have enjoyed great success advancing their cause by persuading large numbers of fellow citizens that, while markets may be efficient, they are irredeemably dehumanizing.

Certainly, those who support free markets must never stop emphasizing the demonstrable economic superiority of capitalism over all the known alternatives. But the ways in which the market economy contributes to the overall well-being of individuals and societies in more than economic ways cannot be emphasized enough.

And while there are no utopias in this world, markets provide the necessary resources to build a flourishing civil society and philanthropic sector, help generate institutions which play an indispensable role in keeping us free and encourage us to cultivate moral habits that are part of the path toward human excellence. Therein lies capitalism's ultimate significance, and we ignore such things at our economic, political and moral peril.

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Samuel Gregg is the president and Friedrich Hayek Chair in economics and economic history at the American Institute for Economic Research. He has a Doctor of Philosophy in moral philosophy and political economy from Oxford University, and a master of arts in political philosophy from the University of Melbourne.

He has written and spoken extensively on questions of political economy, economic history, monetary theory and policy and natural law theory. He is the author of 17 books, including *On Ordered Liberty* (2003), *The Commercial Society* (2007), *Wilhelm Röpke's Political Economy* (2010); *Becoming Europe* (2013); *Reason, Faith, and the Struggle for Western Civilization* (2019); *The Essential Natural Law* (2021) and *The Next American Economy: Nation, State and Markets in an Uncertain World* (2022). Two of his books have been short-listed for Conservative Book of the Year, and one of his books was short-listed for the 2023 Hayek Prize. Many of his books and over 700 articles and opinion pieces have been translated into a variety of languages.

He has published in journals such as the *Harvard Journal of Law and Public Policy*; *Journal of Markets & Morality*; *Economic Affairs*; *Law and Investment Management*; *Journal des Economistes et des Etudes Humaines*; *Notre Dame Journal of Law, Ethics and Public Policy*; *Oxford Analytica*; *Communio*; *Journal of Scottish Philosophy*; *University Bookman*; *Foreign Affairs*; and *Policy*. He is a regular writer of opinion-pieces which appear in publications such as *The Wall*

Street Journal; The Daily Telegraph; First Things; Investors Business Daily; The Spectator; Law and Liberty; Washington Times; Washington Examiner; Revue Conflits; American Banker; National Review; Public Discourse; American Spectator; El Mercurio; Australian Financial Review; Jerusalem Post; La Nacion and Business Review Weekly. He has served as an editorial consultant for the Italian journal, La Societa, and American correspondent for the German newspaper Die Tagespost. He has also been cited in The New York Times, The Wall Street Journal, Forbes, Time Magazine, Christian Science Monitor, the Washington Post, The New Yorker, Reuters and the Holy See's L'Osservatore Romano.

In 2001, he was elected a fellow of the Royal Historical Society, and a member of the Mont Pèlerin Society in 2004. In 2008, he was elected a member of the Philadelphia Society, and a member of the Royal Economic Society. He served as president of the Philadelphia Society from 2019-2021. He was made a distinguished fellow of the Philadelphia Society in 2023. He is also a writer at Law and Liberty and an affiliate scholar at the Acton Institute. In May 2024, he was profiled in The Wall Street Journal.

He is the general editor of Lexington Books' Studies in Ethics and Economics Series. He also sits on the academic advisory boards of the Institute of Economic Affairs, London; Campion College, Sydney; La Fundación Burke, Madrid; the Instituto Fe y Libertad, Guatemala and the Friedman-Hayek Center at the Universidad de CEMA, Buenos Aires. He also serves on the editorial boards of the Journal of Markets and Morality and Revista Valores en la sociedad industrial.

In 2024, he was awarded the prestigious Bradley Prize by The Lynde and Harry Bradley Foundation. This Prize honors scholars and practitioners whose accomplishments reflect the Bradley Foundation's mission to restore, strengthen and protect the principles and institutions of American exceptionalism.

ABOUT PHILANTHROPY ROUNDTABLE

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For more than 30 years, we have been a trusted partner to America's most influential and generous philanthropic leaders whose work advances freedom and strengthens communities nationwide. Our network shares a firm belief that private giving is the most effective tool for addressing many of society's most pressing challenges.



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