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FROM VIRTUOUS CITY TO VIRTUOUS MARKETS: AL- FĀRĀBĪ'S LEGACY IN ISLAMIC ECONOMICS AND FINANCE

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ABSTRACT

This study examines al-Fārābī's ethical and political philosophy and its relevance to contemporary Islamic economics and finance. It argues that Islamic finance must move beyond a narrow focus on Sharīʿah-compliant contractual forms and be grounded instead in a comprehensive ethical framework that promotes justice, virtue, and collective well-being. Drawing upon al-Fārābī's concept of the virtuous city (*al-Madīnah al-Fāḍilah*), the study highlights the centrality of moral education and the role of the state in cultivating ethical economic behaviour. A comparative analysis with modern capitalist and neoliberal paradigms reveals fundamental differences: whereas the latter prioritise market efficiency and profit maximisation, al-Fārābī's framework foregrounds spiritual development, distributive justice, and morally guided governance. The study also examines contemporary challenges in Islamic finance—particularly the predominance of debt-based instruments—and argues that these

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shortcomings may be addressed through a renewed emphasis on risk-sharing and moral values. It concludes that integrating al-Fārābī's ethical-political insights can contribute to the development of a more just, value-oriented Islamic financial system and offer a meaningful alternative to prevailing economic paradigms.

KEYWORDS: al-Fārābī, Ethical theory, Political philosophy, Islamic economics, Islamic finance

1. INTRODUCTION

The Islamic Golden Age, spanning approximately from the eighth to the fourteenth centuries, represents a remarkable period of intellectual, scientific, and cultural flourishing in the Muslim world. Scholars and polymaths from diverse geographical and cultural backgrounds contributed to the advancement of human knowledge during this era. Fields such as theology, philosophy, jurisprudence, metaphysics, natural sciences, astronomy, medicine, mathematics, and engineering witnessed transformative developments, many of which later shaped both Islamic and Western intellectual traditions.[2]

Among the most influential thinkers of this period was Abū Naṣr al-Fārābī (c. 870–950), a philosopher, logician, scientist, and musician whose works exerted a profound and lasting influence on Islamic philosophy and beyond. Known in the Latin West as *Alpharabius*, he is widely recognised as *the Second Teacher* (*al-Muʿallim al-Thānī*), a title reflecting his systematic and creative synthesis of Greek philosophy—particularly the works of Plato and Aristotle—within an Islamic intellectual framework. Al-Fārābī was the first Muslim philosopher to construct a comprehensive

[2] Majid Fakhry, *A History of Islamic Philosophy,* 3rd ed. (New York: Columbia University Press, 2004).

philosophical system encompassing metaphysics, ethics, political theory, cosmology, and logic.[3].

His contributions to logic earned him recognition as the foremost logician of the early Islamic tradition, extending Aristotelian logic while offering original insights that influenced subsequent Muslim and European philosophers.[4] Beyond philosophy, al-Fārābī was also a distinguished scientist and an accomplished musician, authoring the seminal *Kitāb al-Mūsīqā al-Kabīr* (*The Great Book of Music*), which explores the mathematical and psychological foundations of music.[5] Nevertheless, it is al-Fārābī's ethical and political philosophy—most notably his conception of the virtuous city (al-Madīnah al-Fāḍilah)—that constitutes the primary focus of this study.

Al-Fārābī's political philosophy represents a distinctive synthesis of Greek metaphysical ideals and Islamic ethical principles. He envisions the virtuous city as being governed by a philosopher-ruler guided by reason and wisdom, in which citizens cooperate to achieve *saʿādah* (supreme happiness). For al-Fārābī, *saʿādah* entails not only material prosperity but also moral perfection, intellectual realisation, and communal harmony.[6] His reflections on governance, justice, and the moral responsibilities of leadership provide enduring normative insights for contemporary Muslim societies seeking ethically grounded models of social and economic organisation. In particular, his framework offers a compelling foundation for Islamic economics and finance, which aspire to integrate moral values, social justice, and economic functionality.

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[3] Richard Walzer, *Al-Farabi on the Perfect State: A Revised Text with Introduction, Translation, and Commentary* (Oxford: Clarendon Press, 1985).
[4] Deborah Black, *Logic and Aristotle's Rhetoric and Poetics in Medieval Arabic Philosophy* (Leiden: Brill, 1990).
[5] Henry George Farmer, *Historical Facts for the Arabian Musical Influence.* (London: Luzac and Co., 1930).
[6] Al-Farabi, *Al-Madina al-Fadila* [The Virtuous City], trans. Richard Walzer (Oxford: Clarendon Press, 1985).

This article aims to introduce and discuss the philosophical and political thought of al-Fārābī, especially concerning Islamic finance and economics. The article is structured as follows: Section 2 gives a concise overview of al-Fārābī 's life and intellectual contribution after this section, while Section 3 provides the analytical/theoretical framework: from saʿāda to virtuous markets. And it also juxtaposes al-Fārābī's ideal of a virtuous economic order against capitalist and neoliberal paradigms, providing a critical review of their ethical and structural differences. Section 4 discusses the practical relevance of his ethical-political framework for Islamic economics and finance. Finally, Section 5 presents the concluding remarks of the article, summarising the findings and pointing out the limitations of this study.

1.1. Intellectual Background and Ethical Foundations of Al-Farabi

Abū Naṣr al-Fārābī (870–950 CE), known in the Latin West as *Alpharabius* and revered as the "Second Teacher" (*al-Muʿallim al-Thānī*) after Aristotle, stands among the most influential thinkers of the Islamic Golden Age. Born in Farab in Transoxiana—most likely of Turkic origin—al-Fārābī played a pivotal role in integrating Greek philosophy, particularly the thought of Plato and Aristotle, into the Islamic intellectual tradition. His work in metaphysics, ethics, and logic laid the foundations of an Islamic philosophical worldview centred on moral perfection and the common good.

Although al-Fārābī wrote extensively on language, logic, and the natural sciences, these disciplines were not ends in themselves. Rather, they served a higher purpose: the cultivation of the intellect as a prerequisite for moral excellence and sound political order. This orientation is most clearly reflected in his *Iḥṣāʾ al-ʿUlūm* (*Enumeration of the Sciences*), where he presents a hierarchical

classification of human knowledge that mirrors the gradual ascent of the human soul towards wisdom.[7]

In this work, al-Fārābī begins with the linguistic sciences, which he divides into seven distinct branches: (1) the science of single words, (2) the science of compound expressions, (3) the rules governing single words, (4) the rules governing compound expressions, (5) the science of writing, (6) the science of speech and expression, and (7) prosody or the art of metre.[8] He concludes his classification with two central Islamic sciences: jurisprudence (*fiqh*) and theology (*kalām*). Jurisprudence, for al-Fārābī, is the science through which one infers legal rulings from the explicit statements of the Lawgiver in cases where no direct textual ruling exists.[9] Theology, by contrast, concerns the affirmation of revealed beliefs and practices and the refutation of opposing doctrines. Significantly, both disciplines consist of two interrelated dimensions: belief and action.

Logic occupies a central place in al-Fārābī's system, not merely as a technical instrument but as the gateway to sound reasoning, moral judgement, and just governance. His expanded conception of the Aristotelian *Organon*—which includes rhetoric and poetics—reflects his conviction that knowledge worthy of pursuit must cultivate not only demonstrative certainty but also moral perception and civic responsibility. For al-Fārābī, logic equips individuals and communities with the intellectual tools necessary to guide a virtuous social order.[10]

While deeply rooted in Aristotelian logic, al-Fārābī's approach incorporates several non-Aristotelian elements. He engaged with issues such as future contingents, the number and relations of logical categories, the relationship between grammar and logic, and alternative forms of inference. He divided logic into two broad domains—concept formation (*taṣawwur*) and assent or proof (*taṣdīq*)—and, following Arabic and Syriac traditions, recognised

[7] Al-Farabi, *Enumeration of the Sciences*, trans. Muhsin Mahdi (Chicago: University of Chicago Press, 1962), 3–5.
[8] Fakhry, *Al-Farabi*, 17–21.
[9] Ibid, 17–21.
[10] Walzer, *Al-Farabi on the Perfect State*.

eight divisions of the *Organon*. In addition to Aristotle's original components, al-Fārābī explicitly included rhetoric and poetics as legitimate branches of logic, as shown in Table 1.

Table 1: The Eight Parts of the Organon According to al-Fārābī

Division	**Explanations**
Categories	Examines single terms and their rules
Interpretation	Analyses propositions and compound expressions
Prior analytics	Identifies the rules of syllogistic reasoning
Posterior analytics	Examines demonstrative proofs
Dialectic	Addresses dialectical arguments
Sophistic	Deals with fallacious reasoning
Rhetoric	Examines persuasive discourse
Poetic	Analyses imaginative and poetic discourse

Source: Fakhry (2002), 41-42.

These divisions correspond both to different modes of expression—internal, external, or combined—and to the five modes of reasoning (*qiyās*): demonstrative, dialectical, sophistical, rhetorical, and poetic. Mathematics follows logic in al-Fārābī's hierarchy of sciences, and he made notable contributions across seven mathematical disciplines: arithmetic, geometry, optics, astronomy, music, the science of weights, and mechanics. Each of these sciences, he argued, contains both theoretical and practical dimensions, linking abstract knowledge with concrete application.[11]

Al-Fārābī's ethical writings transcend the elitist tendencies of certain strands of Greek philosophy. In *Taḥṣīl al-Saʿādah* (*The Attainment of Happiness*), he insists that intellectual realisation is

[11] Fakhry, *Al-Farabi*, 42.

inseparable from moral and civic excellence. He identifies four types of virtue—theoretical, reflective, ethical, and political—and maintains that all human beings possess the innate capacity to develop these virtues through education and moral training.[12] This universalist conception of virtue underpins his political ideal of a community oriented towards *saʿādah* (true happiness), understood as moral perfection, intellectual fulfilment, and social harmony.

This vision finds its fullest expression in *Ārāʾ Ahl al-Madīnah al-Fāḍilah* (The Opinions of the People of the Virtuous City), where al-Fārābī outlines a political order governed by a philosopher-ruler who embodies wisdom, justice, and moral integrity. In this framework, economic activity, governance, and education are inherently value-laden; they are moral instruments directed towards human perfection rather than neutral mechanisms for material gain. The virtuous ruler functions not only as a lawgiver but also as a moral educator, cultivating justice (*ʿadl*) and the common good (*maṣlaḥah*).[13]

In contrast to Plato and Aristotle, who limited the cultivation of virtue to certain social classes,[14] al-Fārābī rejects the notion that virtue is restricted by birth, wealth, or status. He affirms the essential equality of all human beings and argues that happiness arises from the proper development of bodily faculties, emotional dispositions, and rational capacities. At the core of his philosophy lies a triadic relationship between knowledge, wisdom, and justice: knowledge generates wisdom; wisdom produces virtue; and virtue culminates in social justice.[15][16].

[12] Al-Farabi, *Attainment of Happiness*, 12–16.
[13] Erwin I. J. Rosenthal, *Political Thought in Medieval Islam: An Introductory Outline* (Cambridge: Cambridge University Press, 1958).
[14] H. Fikret, and J. Amet, trans. *The Virtuous City* (Ürümqi: Xinjiang People's Health Publication House, 2006). (In Uyghur.)
[15] Fakhry, *Al-Farabi*, 92–93.
[16] Mehmet Asutay, "A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System," *Kyoto Bulletin of Islamic Area Studies* 14 (2021): 17–39.

This ethical hierarchy provides a powerful normative foundation for contemporary Islamic economics and finance. For al-Fārābī, economic behaviour—like political governance—must be oriented towards moral perfection and collective well-being rather than mere wealth accumulation. By integrating intellectual discipline, ethical virtue, and social responsibility, his vision anticipates a virtue-based political economy in which the pursuit of *saʿādah* guides individual conduct and institutional design alike. In this sense, al-Fārābī's synthesis of reason and morality offers enduring insights for re-imagining Islamic finance as an ethically grounded system committed to justice, balance, and human flourishing.[17]

2.0 THEORETICAL FRAMEWORK: FROM *SAʿĀDA* TO VIRTUOUS MARKETS

Although al-Fārābī's ethical and political works were conceived within the intellectual milieu of classical Islamic philosophy, their internal logic offers a compelling normative framework for contemporary Islamic economics and finance. Central to his thought is the pursuit of *saʿāda* (true happiness), which is embedded within a moral system that integrates intellectual perfection with ethical virtue. For al-Fārābī, happiness is not merely a private or spiritual attainment, but a collective condition realised through just institutions, sound governance, and morally guided social interaction.[18]

Within this framework, the notion of a "virtuous market" may be understood as a natural extension of the virtuous city (*al-Madīnah al-Fāḍilah*). Just as the virtuous city emerges from the alignment of political authority, moral education, and social cooperation toward the common good, a virtuous economic order arises when financial institutions, market mechanisms, and regulatory structures are governed by the same ethical principles. In this sense, markets are not

[17] Mohammad Hashim Kamali, *Ethics and Finance in Islam* (Kuala Lumpur: International Institute of Advanced Islamic Studies (IAIS) Malaysia, 2019).
[18] Al-Farabi, *Attainment of Happiness*, 12–16.

value-neutral spaces driven solely by efficiency or profit maximisation; rather, they are moral domains whose legitimacy depends on their contribution to justice, social balance, and human flourishing.

Accordingly, translating al-Fārābī's political ethics into the domain of Islamic economics entails reorienting financial practices toward the higher objectives of moral cultivation and collective well-being. When economic activity is structured to serve *saʿāda*, markets become instruments of virtue rather than mere arenas of exchange, reflecting the ethical coherence that underpins al-Fārābī's vision of a well-ordered society.

3. THE ETHICAL CORE: FROM VIRTUE TO JUSTICE

The harmonious integration of knowledge, virtue (*faḍīlah*), and justice (*ʿadl*) constitutes the ethical core of al-Fārābī's philosophy, through which human flourishing and societal well-being are nurtured. These three concepts jointly affirm that neither economic nor political institutions can be ethically neutral. Rather, they must be guided by an ethical teleology oriented toward the moral perfection of both individuals and communities. [19] For al-Fārābī, social order is meaningful only insofar as it facilitates the cultivation of virtue and the realisation of justice within a coherent moral framework.

In this respect, *saʿāda* in al-Fārābī's philosophical system is conceptually analogous to *falāḥ* in Islamic economic thought, both denoting holistic well-being and ultimate human success. However, *faḍīlah* (moral excellence) and *ʿadl* (justice) function as the operative means through which such well-being is attained. These virtues are not abstract ideals but are governed by moral values embedded within the *maqāṣid al-sharīʿah* (the objectives of Islamic law), which aim to preserve faith, life, intellect, lineage, and wealth.[20] Within this ethical

[19] M. Umer Chapra, *The Islamic Vision of Development in the Light of Maqasid al-Shariah* (Jeddah: Islamic Research and Training Institute, 2018).
[20] Hasan Zubair, "Maqasid al-Shari'ah and the Framework of Human Development," *Islamic Economic Studies* 24, no. 2 (2016): 1–27.

architecture, justice is both a moral virtue and a structural principle that regulates social, political, and economic relations.

3.1. The Role of the State and the Moral Economy

In al-Fārābī's political philosophy, the state is not merely a regulatory authority but a moral educator tasked with cultivating virtuous dispositions among its citizens. The ruler, as the embodiment of wisdom and moral insight, is responsible for ensuring distributive justice, equity, and social cooperation. This vision closely resonates with contemporary notions of the moral economy articulated by Islamic economists such as Asutay and Kamali, who emphasise that ethical governance and social justice must form the foundation of economic development and financial intermediation.[21][22]

From an al-Fārābian perspective, financial markets should therefore function as instruments that facilitate human perfection rather than mechanisms for unchecked material accumulation. Economic activity is evaluated not solely by efficiency or profitability but by its contribution to moral development and social harmony. Ethical principles such as trust (*amānah*), transparency (*bayān*), and social responsibility (*masʾūliyyah ijtimāʿiyyah*) should be reflected in financial contracts, institutional structures, and public policies.

When these virtues are actively cultivated, markets are transformed from arenas of pure competition into spaces of moral cooperation. Such an ethical orientation lays the foundation for what may be described as *virtuous markets*—economic systems that align material exchange with justice, responsibility, and the collective pursuit of human flourishing.

3.2. Conceptual Model: al-Fārābī's Ethical Framework for Islamic Finance

[21] Asutay, "Political Economy Approach to Islamic Economics," 21.
[22] Kamali, *Ethics and Finance in Islam*, 73.

Table 2 synthesises al-Fārābī's ethical categories with corresponding principles in Islamic economics and outlines their operational implications for Islamic finance and governance. This conceptual model situates Islamic finance within a holistic ethical framework that transcends mere formal compliance with legal contracts. Rather than reducing Sharīʿah compliance to technical conformity, it reorients finance as a moral instrument for cultivating ethical agency, distributive justice, and collective welfare.[23]

By integrating classical Islamic moral philosophy with contemporary Islamic economic principles, the model highlights how financial institutions, markets, and governance structures can be aligned with the higher objectives of Islam. In doing so, it transforms finance from a value-neutral mechanism into a purposeful system that contributes to human perfection (*saʿāda*), social harmony, and sustainable economic justice.

Table 2: al-Fārābī's Ethical Categories and Their Parallels in Islamic

Ethical Dimension	**Al-Farabi's Concept**	**Parallel in Islamic Economics**	**Implications for Islamic Finance and Governance**
Ultimate Purpose	*Saʿāda* (true happiness / human perfection)	*Falāḥ* and *maqāṣid al-sharīʿah* (holistic well-being)	Finance conceived as a means to moral and social welfare rather than profit maximisation
Moral Agency	*Faḍīlah* (Virtue)	Ethical leadership and self-discipline	Building trustworthy institutions; prioritising

[23] Masudul Alam Choudhury, *Tawhidi Epistemology and Islamic Economics* (London: Routledge, 2020).

			ethical conduct, accountability, and robust Sharīʿah governance
Justice	*ʿAdl* (equilibrium and fairness)	Distributive and procedural justice	Promoting risk-sharing instruments (e.g. *mushārakah*, *muḍārabah*); discouraging exploitative debt-based practice
Collective Welfare	*Maṣlaḥah* (public interest)	Social responsibility and inclusion	Developing *waqf*, *zakāh*, and Islamic microfinance to enhance equity and social cohesion
Governance and Education	*Al-Raʾīs al-Fāḍil* (the virtuous ruler)	Ethical state and institutional design	The state ensures justice, regulates markets, and nurtures moral education through policy and governance

3.3. Toward a Theory of Virtuous Markets

By integrating the *saʿāda* with the moral and institutional fabric of markets, al-Fārābī's ethical theory provides a basis for an Islamic

theory of economic behaviour. A "virtuous market," then, would be the one where financial transactions, institutional behaviour, and state policies are directed at the realisation of moral and social balance.[24]This paradigm stands in sharp contrast to neoliberal theories that centred on self-interest and efficiency, where moral purpose replaced with utilitarian gain. In practical terms, this analytical framework implies the following:

1. Ethical education and the internalisation of values should be a central priority of economic governance.
2. Islamic financial systems must integrate moral screening, transparency, and social impact into their performance metrics, rather than relying solely on legal compliance.
3. Public policies should be coherent with the core values of Islamic economics, particularly distributive justice and partnership-based contracts that enhance social solidarity.

In sum, al-Fārābī's theoretical architecture subsumes economic rationality within moral rationality. His synthesis of virtue, justice, and collective felicity provides a compelling intellectual and ethical framework for reforming Islamic economics and finance as a genuinely transformative and value-driven system.

3.4. Engagement with Contemporary Scholarship on Islamic Economic Ethics

Over the past few decades, Islamic economics and finance have experienced a significant intellectual shift—from a predominantly legalistic focus on Sharīʿah compliance to a deeper concern with moral substance, social welfare, and value-based governance. This paradigm shift aligns closely with al-Fārābī's holistic vision of ethics, justice, and human flourishing within economic life. Several contemporary scholars have contributed substantively to this converging discourse.

[24] Asutay, "Islamic Moral Economy," 3–26.

Through extensive research, Asutay has played a foundational role in reframing Islamic finance within the broader concept of the *Islamic Moral Economy* (IME). He argues that prevailing industry practices—marked by legal formalism and the dominance of debt-replicating instruments—have eroded the ethical core of Islamic finance.[25] Asutay therefore calls for a restructuring of the industry within a moral architecture oriented toward human well-being, social justice, and sustainable development. This position resonates strongly with al-Fārābī's insistence that economic activity must serve the higher purpose of *saʿāda* (human perfection). Asutay's emphasis on *human-centred development* closely parallels al-Fārābī's virtue-based economy, in which state and institutional roles include nurturing ethical character and ensuring equitable participation in wealth creation.[26]

Kamali's *Ethics and Finance in Islam* remains one of the most systematic articulations of the ethical foundations of Islamic financial practice.[27] He argues that authentic Islamic finance must integrate *tazkiyah* (spiritual purification) alongside *ʿadl* (justice) and *amānah* (trust), thereby harmonising legal norms with moral consciousness. For Kamali, ethical finance cannot be reduced to regulatory compliance alone; it requires the internalisation of virtue and ethical awareness. This view mirrors al-Fārābī's conception of the *faḍīl* (virtuous individual) and the *raʾīs al-fāḍil* (virtuous ruler), underscoring their shared belief that sustainable economic systems depend on cultivating moral agents rather than merely enforcing rules.

Hasan extends this critique by examining the institutional structures of Islamic banking and highlighting their limited success in internalising ethical objectives.[28] He contends that Sharīʿah governance must move beyond technical supervision to embody accountability, transparency, and justice as lived values. Hasan

[25] Asutay, "Islamic Moral Economy," 3–26.
[26] Asutay, "A Political Economy Approach," 17–39.
[27] Kamali, *Ethics and Finance in Islam*, 52.
[28] Zubair, "Shariah Governance and the Ethical Foundations," 1–27.

positions *maqāṣid al-sharīʿah* as the operational framework for achieving both efficiency and equity, linking it explicitly to human development in the sense of *falāḥ* (success). His approach closely aligns with al-Fārābī's insistence that institutions and governance mechanisms must translate moral virtues into concrete policies aimed at distributive justice and social balance.

The contributions of Chapra remain central to contemporary moral discourse in Islamic economics. [29] In *Islamic Vision of Development in the Light of Maqāṣid al-Sharīʿah*, Chapra argues that material progress without moral reform inevitably produces socio-economic imbalance. He conceptualises development as a multidimensional process encompassing moral, spiritual, and material growth. Accordingly, public policy and finance must be directed toward poverty alleviation and inequality reduction. This vision closely echoes al-Fārābī's model of the virtuous state, where economic prosperity is inseparable from moral education and justice under enlightened leadership. Chapra thus offers a contemporary articulation of al-Fārābī's core principle that *saʿāda* is unattainable without moral order.

From a more meta-theoretical perspective, Choudhury advances a *Tawḥīdīc epistemological* framework that integrates knowledge, ethics, and economics under divine unity.[30] He critiques mainstream economics for compartmentalising moral and material domains and proposes instead a model of circular causation between ethical values and economic variables. This epistemological unity closely parallels al-Fārābī's fusion of metaphysics and politics: just as knowledge and virtue are inseparable in the virtuous city, morality and economics are interdependent processes in Choudhury's model, jointly oriented toward harmony and justice in society.

Taken together, these scholars converge on the recognition that ethics is not peripheral but foundational to Islamic economics and finance. They collectively advocate a transformation from form to

[29] Chapra, *Islamic Vision of Development*, 64.
[30] Choudhury, *Tawhidi Epistemology and Islamic Economics*, 88.

substance, from compliance to conscience—a transition that al-Fārābī anticipated through his insistence that governance and economic systems must cultivate virtue and justice as pathways to happiness. By engaging with these contemporary debates, the present study positions al-Fārābī not merely as a historical philosopher, but as a living interlocutor in the ongoing reconstruction of Islamic economic thought. His triad of knowledge–virtue–justice offers the moral architecture that contemporary Islamic economic frameworks continue to seek.

3.5. Al-Fārābī's Political Theory

In addition to his major contributions across diverse fields of human knowledge, al-Fārābī developed a comprehensive political philosophy, articulated most notably in works such as *Araʾ Ahl al-Madīna al-Fāḍila* (The Opinions of the People of the Virtuous City) and *al-Siyāsa al-Madaniyya* (The Civil Polity). Central to his political thought is the premise that human beings, in order to survive and attain perfection, are inherently dependent upon cooperation and assistance from others. No individual, according to al-Fārābī, can achieve the perfection they seek in isolation from political association. Human fulfilment, therefore, is inseparable from communal and political life.

On this basis, al-Fārābī distinguishes between perfect and imperfect political associations, each corresponding to different scales of human organisation. He identifies three forms of *perfect* association—large, intermediate, and small—and contrasts them with three corresponding forms of *imperfect* association. These classifications are summarised in Table 3.

Table 3: Associations and Examples of Perfect and Imperfect States

Perfect State - Types of association	**Examples**
Large association	All human beings in the world at large

Medium association	All different nations or ethical groups
Small association	City-state within a nation
Imperfect State - Types of association	**Examples**
Large Association	Village
Medium Association	Community
Small Association	Street or family

From these classifications, it becomes evident that political association, for al-Fārābī, is intrinsically linked to the pursuit of life's ultimate objectives—whether these are true happiness (*saʿāda*), pleasure, or material acquisition. The distinction between perfection and imperfection lies not merely in scale, but in purpose and moral orientation.

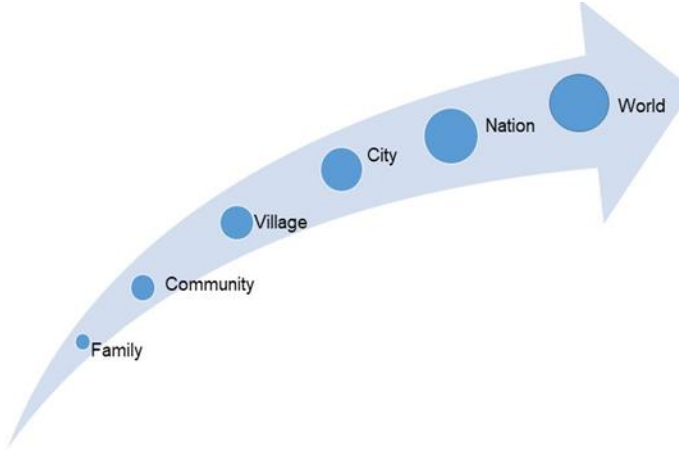

Figure 1: Perfect and Imperfect States and Their Associations

Figure 1 illustrates the hierarchical relationship between these associations. It shows that the family constitutes part of a community; communities form villages; villages combine to form cities; cities

constitute nations; and nations together form the world. From this hierarchy, al-Fārābī deduces that true happiness cannot be fully realised within associations smaller than the city. Only at the level of the city does cooperation become sufficiently comprehensive and morally structured to support the pursuit of *saʿāda*. Accordingly, a perfect city is one in which citizens cooperate and support one another in the collective pursuit of true happiness. If all cities within a nation strive toward this end, that nation itself may be regarded as perfect. Likewise, when nations collectively pursue true happiness, the result is a *perfect world*. In contrast, associations such as families, communities, and villages—while necessary—remain incomplete in their capacity to achieve ultimate human fulfilment.

Table 4 further elaborates the defining characteristics of perfect and imperfect states. It demonstrates that the purpose of human life, within al-Fārābī's framework, is not confined to the pursuit of wealth, status, or pleasure, but rather to the realisation of peace, justice, and security at higher levels of social organisation. In this vision, the family serves the community, the community serves the city, the city serves the nation, and nations collectively work toward global peace and prosperity. Perfect nations do not engage in conquest for wealth, bloodshed, or the exploitation of natural resources; instead, they cooperate to establish a world in which humanity may live in peace, security, and shared prosperity.

Table 4: Characteristics of Perfect and Imperfect States

Characteristics of Perfect State	**Characteristics of Imperfect State**
Pursuit of the ultimate happiness (*saʿāda*) of all human beings	Ignorant, wayward, depraved, renegade
Knowledge of the First Cause and its attributes	The ignorant city, whose inhabitants neither know nor conceive true happiness

Knowledge of celestial order governed by justice and wisdom	Valuing only bodily health, wealth, pleasure, or unrestricted freedom
Knowledge of human generation and the development of faculties	The city of necessities: pursuit of food, drink, shelter, clothing, and sex merely for survival
Service to society rather than narrow self-interest	The city of ignominy: accumulation of wealth as an end in itself
Collective effort to establish global peace and security	The base city: enslavement to pleasure beyond survival needs
Political order resembling a healthy body governed by reason	The honour city: pursuit of fame, glory, and admiration
Rejection of conquest for wealth or domination	The city of conquest: expansion for power, wealth, or subjugation
Clear recognition of what promotes or destroys happiness	The democratic city: unrestricted freedom without moral hierarchy

Source: Compiled by the author from various sources

In conclusion, al-Fārābī's political philosophy draws a sharp distinction between the Perfect State and various forms of Imperfect States, each embodying fundamentally different moral and intellectual orientations. The Perfect State is guided by the pursuit of *saʿāda*, wherein both rulers and citizens are committed to cultivating virtue, wisdom, and justice.[31] Citizens actively engage in understanding divine truths, cosmic order, and human nature, thereby forming an ethical society oriented toward the common good. The state functions analogously to a healthy body, governed by reason and led by a philosopher-ruler who possesses superior intellectual and moral qualities.[32] Peace, prosperity, and security, in this framework, arise not

[31] Al-Farabi, *The Virtuous City*.
[32] Muhsin S. Mahdi, *Alfarabi and the Foundation of Islamic Political Philosophy* (Chicago: University of Chicago Press, 2001).

from domination or material conquest, but from shared purpose and inner fulfilment. Imperfect states, by contrast, emerge from ignorance, moral deficiency, or disordered desires. The City of Ignorance fails to recognise true happiness; the City of Necessities is confined to survival; the City of Ignominy glorifies wealth accumulation; and the Base City is enslaved to pleasure.[33] The Honour City seeks recognition above virtue, while the City of Conquest is driven by domination. Finally, the Democratic City prioritises unrestricted freedom, allowing individuals to pursue desires without ethical or hierarchical restraint.

Within al-Fārābī's framework, these cities fall short of true perfection because they prioritise transient or superficial goals over the moral and intellectual elevation of the human soul. This contrast underscores the enduring relevance of al-Fārābī's virtuous political economy as a normative critique of both historical and contemporary socio-political and economic systems, including modern forms of market-driven governance that lack ethical orientation.[34]

3.6. Comparison of Al-Fārābī's Virtuous Economic Order with Modern Capitalist and Neoliberal Economic Models

Contrasting al-Fārābī's conception of a virtuous economic order with contemporary capitalist and neoliberal paradigms offers critical insight into the ethical foundations of Islamic economic thought. At the heart of al-Fārābī's philosophy lies the conviction that economic activity must serve a higher moral and intellectual purpose: the attainment of communal felicity (*saʿāda*). This condition is realised when individuals develop their intellectual and spiritual faculties in harmony with the collective well-being of society.[35] Economic life, therefore, is not an end in itself but a means toward moral perfection and human flourishing. Within this framework, the ruler of the virtuous city is

[33] Walzer, *Al-Farabi on the Perfect State*.
[34] Seyyed Hossein Nasr, *Science and Civilization in Islam* (Cambridge, MA: Harvard University Press, 2006).
[35] Al-Farabi, *The Virtuous City*.

tasked with guiding society toward justice, virtue, and intellectual enlightenment, a role analogous to Plato's philosopher-king in the *Republic*.

By contrast, contemporary capitalist economies—particularly under neoliberalism—tend to conceptualise the economy as an impersonal system governed by market forces and individual preferences. The individual is understood as a rational actor motivated primarily by self-interest and utility maximisation. [36] Economic success is measured through quantitative indicators such as gross domestic product (GDP), profit margins, and consumption levels. In the United States, for example, neoliberal policy orientations have emphasised market deregulation, capital-friendly tax regimes, and reduced state intervention, premised on the assumption that the "invisible hand" of the market will generate optimal outcomes.[37]

A central point of divergence between these paradigms concerns the role of the state. Al-Fārābī envisages a morally engaged and activist state, one that actively shapes the ethical character of its citizens and ensures justice within society. This vision is particularly evident in his emphasis on distributive justice, whereby each member of the community receives what is necessary to fulfil their social function and live virtuously. As Rosenthal observes, al-Fārābī regarded the ruler as a form of "divine legislator," responsible for structuring society in accordance with moral and intellectual principles.[38] Neoliberal frameworks, by contrast, significantly curtail the role of the state, restricting it largely to the protection of property rights, contract enforcement, and macroeconomic stability. The Washington Consensus exemplifies this approach, advocating privatisation, fiscal discipline, and trade liberalisation as primary

[36] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: W. Strahan and T. Cadell, 1776).
[37] David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005).
[38] Erwin I. J. Rosenthal, *Political Thought in Medieval Islam* (Cambridge: Cambridge University Press, 1962).

drivers of economic development, often at the expense of social equity.[39]

With respect to wealth distribution, al-Fārābī views extreme inequality as a serious threat to the moral integrity of society. He insists that wealth circulation must benefit not only elites but also artisans, labourers, and vulnerable groups. Contemporary neoliberal economies, however, frequently rationalise income inequality as a natural and acceptable consequence of market dynamics. As Thomas Piketty demonstrates, returns on capital have historically outpaced overall economic growth, resulting in persistent and deepening wealth inequality—an outcome fundamentally at odds with al-Fārābī's ethical vision of economic justice.[40]

Ultimately, the purpose of economic life in al-Fārābī's framework is spiritual and intellectual fulfilment. Professions and trades exist not merely to secure livelihoods but to contribute to a just and virtuous social order. This perspective resonates strongly with the *maqāṣid al-sharīʿah* (objectives of Islamic law), particularly the protection of faith, intellect, life, lineage, and property. In contrast, capitalist societies often prioritise consumer satisfaction and individual autonomy, giving rise to what Michael Sandel describes as a "market society," in which virtually all aspects of human life—including education, healthcare, and even personal relationships—are commodified.

A concise comparison between al-Fārābī's virtuous economic order and modern capitalist and neoliberal models is presented in Table 5.

[39] John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment: How Much Has Happened?* ed. John Williamson (Washington, DC: Institute for International Economics, 1990).
[40] Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014).

Table 5: A Comparison of Al-Fārābī's Virtuous Economic Order and Modern Capitalist/Neoliberal Models

Dimension	**Al-Farabi's Virtuous Economic Order**	**Capitalist/Neoliberal Models**
Moral Foundation	Grounded in virtue ethics, justice, and the pursuit of human perfection.	Grounded in self-interest, utility maximisation, and market efficiency.
Role of the State	The state is a moral and guiding force, promoting justice and virtue.	The state plays a minimal role; market mechanisms govern resource allocation.
Purpose of Economy	To support the moral and intellectual development of citizens.	To maximise wealth and efficiency; focus is on GDP, growth, and profits.
Distribution of Wealth	Advocates equitable distribution and care for the poor and needy.	Emphasizes merit-based rewards; inequality is tolerated as market-driven.
View of Individual	The individual is part of a harmonious whole, with duties to society.	The individual is a rational, autonomous agent, primarily self-interested.
Ultimate Goal	Achieving communal felicity (*sa'āda*) and intellectual/moral excellence.	Achieving economic freedom, personal success, and consumer satisfaction.

Sources: complied by author from various sources

In light of this comparison, al-Fārābī's virtuous economic order emerges as a fundamentally different paradigm from dominant capitalist and neoliberal models. His emphasis on ethical governance, distributive justice, and holistic human development offers a normative alternative that prioritises collective well-being over individual accumulation. This contrasts sharply with neoliberalism, where success is largely defined in terms of market efficiency, personal freedom, and wealth accumulation. Re-examining al-Fārābī's model within contemporary economic discourse enables scholars and policymakers to revisit the moral foundations of economic systems. The novelty of this contribution lies not merely in recovering a classical Islamic perspective, but in rearticulating it as a coherent ethical counter-paradigm to the excesses and moral austerity of contemporary economic dogmas. In doing so, the comparison enriches Islamic economics as a discipline and opens space for developing economic models that are both ethically grounded and socially committed.

4. THE IMPLICATIONS OF AL-FĀRĀBĪ'S ETHICAL AND POLITICAL THEORIES FOR ISLAMIC ECONOMICS AND FINANCE

In contrast to neoclassical economic analysis, Islamic economics and finance do not assume that human preferences, tastes, and behaviour are fixed or exogenously determined. Rather, they are understood as dynamic and morally cultivatable. Islamic ethical norms are not merely descriptive or advisory; they are prescriptive and transformative, intended to shape and reform human conduct. This includes influencing consumption behaviour by discouraging extravagance (*isrāf*) and encouraging moderation (*iʿtidāl*).[41] Islamic economics thus seeks to balance individual welfare with collective well-being by embedding moral values and ethical education into economic life, thereby enhancing market functionality within a

[41] Chapra, *Islamic Vision of Development*.

morally sound framework. Within this paradigm, individuals are expected to subject their economic decisions to a moral filter prior to market participation. Consumers are therefore encouraged to restrain wasteful consumption and avoid unjustified claims on scarce resources. This ethical orientation reflects the broader Islamic objective of aligning economic activity with moral responsibility and social justice.

This framework finds a strong philosophical foundation in al-Fārābī's ethical theory, which conceives human beings as inherently social and moral agents whose ultimate purpose (*saʿāda*) can only be attained through the cultivation of virtue.[42] In al-Fārābī's virtuous city (*al-madīnah al-fāḍilah*), economic activity is not an end in itself but a means to support higher objectives, namely intellectual perfection and spiritual development. [43] Accordingly, the state plays a decisive role in facilitating moral transformation by establishing a political and legal order that nurtures virtue, enforces justice, and promotes public interest (*maṣlaḥah*). [44] This vision aligns closely with the core objectives of Islamic economics, which extend beyond efficient resource allocation to encompass justice, equity, and ethical conduct in economic transactions.

While both Islamic and conventional financial systems aim to enhance material well-being through resource allocation, Islamic finance places particular emphasis on spiritual and moral well-being. A fundamental distinction lies in the types of financial instruments promoted. Conventional finance relies predominantly on debt-based instruments, typically grounded in interest (*ribā*), whereas Islamic finance advocates partnership-based contracts such as *muḍārabah* and *mushārakah*, which emphasise risk-sharing and real economic activity.[45] In practice, however, much of contemporary Islamic finance

[42] Al-Farabi, *The Political Regime (Kitāb al-Siyāsa al-Madaniyya)*, trans. F. M. Najjar (Provo, UT: Brigham Young University Press, 2002).
[43] Al-Farabi, *The Virtuous City.*
[44] Mahdi, *Alfarabi and the Foundation*.
[45] Abbas Mirakhor and Iqbal Zaidi, "Profit-and-Loss Sharing Contracts in Islamic Finance," in *Handbook of Islamic Banking*, ed. M. Kabir Hassan and Mervyn K. Lewis (Cheltenham: Edward Elgar, 2007), 49–63.

has failed to realise this ideal, relying instead on the legalistic replication of conventional debt instruments under superficial Sharīʿah compliance.[46] Without the development of genuinely ethical and innovative Islamic financial instruments, the project of Islamising finance risks devolving into a derivative extension of the conventional system rather than constituting a substantive alternative.

One of the principal reasons for the limited adoption of partnership-based contracts is the agency problem arising from information asymmetry and the lack of mutual trust between contracting parties. Unlike interest-based debt, partnership contracts do not guarantee predetermined returns, thereby heightening concerns over moral hazard and opportunistic behaviour.[47] It is precisely here that al-Fārābī's emphasis on moral education becomes critically relevant. He maintains that virtues such as trust, justice, honesty, and cooperation can be cultivated through systematic ethical training, enabling society to sustain high-trust institutional arrangements.[48] For Islamic finance to operate effectively on a risk-sharing basis, it must be embedded within a social environment that internalises these moral values—a goal that necessitates coordinated efforts across education, media, and governance.

The role of the state is therefore central in institutionalising ethical norms. It is the responsibility of the state to prevent injustice, fraud, deception, contractual violations, and infringements on personal dignity and property. This can be achieved through moral education, a balanced system of incentives and sanctions, just legislation, and an impartial judiciary. In al-Fārābī's theory of the virtuous state, the ruler bears responsibility for the moral and intellectual development of citizens. Such a state enforces justice, curbs corruption, and actively

[46] Murat Çizakça, *Islamic Capitalism and Finance: Origins, Evolution and the Future* (Cheltenham: Edward Elgar, 2011).
[47] Obiyathulla I. Bacha, "The Islamic Interbank Money Market and a Dual Banking System: The Malaysian Experience," *International Journal of Islamic Financial Services* 1, no. 1 (1999): 10–19.
[48] Al-Farabi, *The Political Regime.*

encourages virtuous conduct in both public and private life. [49] This perspective resonates strongly with Chapra's argument that governments must ensure justice in economic transactions through appropriate legislation, incentives, and institutional integrity. [50] While divine sources such as the Qurʾān and Sunnah provide the moral content, effective implementation and enforcement remain the responsibility of political authority.

Despite the global expansion of Islamic finance in countries such as Malaysia, Indonesia, Turkey, and the Gulf states, the substantive ideals of Islamic economics—risk-sharing, ethical conduct, and social justice—remain largely unrealised. The continued dominance of debt-based contracts and legalistic product engineering undermines the transformative aspirations articulated by classical thinkers such as al-Fārābī and Ibn Khaldūn. Addressing these shortcomings requires a more proactive role by the state, including tailored regulatory frameworks, fiscal incentives, and the promotion of ethical norms within financial markets. Ibn Khaldūn's emphasis on a welfare-oriented state, moderate taxation, and respect for property rights closely parallels al-Fārābī's vision of just leadership that safeguards both material prosperity and moral integrity.[51]

This discussion underscores the centrality of ethics and governance in constructing an authentic Islamic economic and financial system. Unlike conventional economics, which treats individual preferences as fixed, Islamic economics emphasises the ethical formation of behaviour and consumption patterns. Drawing on al-Fārābī's ethical and political philosophy, this study affirms that human well-being (*saʿāda*) is achieved not solely through material progress, but through the cultivation of virtue, supported by moral education and state institutions.

In summary, al-Fārābī's concept of the virtuous state aligns closely with the foundational principles of Islamic economics and

[49] Al-Farabi, *The Virtuous City.*
[50] Chapra, *Islamic Vision of Development*.
[51] Ibn Khaldun, *The Muqaddimah: An Introduction to History,* trans. Franz Rosenthal (Princeton, NJ: Princeton University Press, 1967).

finance, which require a political order committed to justice, honesty, cooperation, and social welfare. Although Islamic finance theoretically promotes risk-sharing instruments such as *muḍārabah* and *mushārakah*, prevailing practices remain heavily debt-oriented. This divergence between theory and practice can be partly attributed to trust deficits and agency problems—challenges that al-Fārābī's framework addresses through ethical development and moral education. Ultimately, meaningful reform requires active state engagement in embedding Islamic moral values within legal, institutional, and educational systems. Only through this integration of ethical formation and political empowerment can Islamic economics and finance fulfil their transformative promise as a genuine alternative to neoliberal paradigms.

Table 6 synthesises the foregoing discussion into an operational framework that translates al-Fārābī's ethical–political philosophy into a model for Islamic finance and governance. It demonstrates how key Farabian categories—*saʿāda*, *faḍīlah*, *ʿadl*, *maṣlaḥah*, and *al-raʾīs al-fāḍil*—correspond to the objectives of *maqāṣid al-sharīʿah* and inform institutional design within Islamic economics. The framework emphasises that finance in Islam is not merely a technical mechanism for capital allocation, but an ethical enterprise aimed at cultivating virtue and achieving collective felicity.

This model performs three key analytical functions. First, it bridges metaphysical ethics and practical governance, integrating normative ideals with institutional application. Second, it operationalises al-Fārābī's moral hierarchy across three levels: individual virtue (micro-ethics), institutional justice (meso-ethics), and societal welfare (macro-ethics). Third, it illustrates that economic *saʿāda* emerges from the harmonisation of these levels through ethical education, equitable policy, and socially responsible finance. In this sense, the framework offers a philosophical justification for transforming Islamic finance from a form-driven industry into a

morally grounded economic system, echoing contemporary reformist scholarship by Asutay, Kamali, Hasan, Chapra, and Choudhury.[52]

Table 6: Al-Fārābī's Ethical–Political Philosophy as an Operational Model for Islamic Finance and Governance

Ethical Category (Al-Farabi)	**Meaning / Function**	**Corresponding Principle in Islamic Economics**	**Operational Application in Islamic Finance and Governance**
Saʿāda (True Happiness)	Ultimate end of human existence; moral and intellectual perfection	*Falāḥ* and *Maqāṣid al-Sharīʿah* – holistic well-being and balance between material and spiritual needs.	Measure performance through human development and maqāṣid-based indicators
Faḍīlah (Virtue)	Moral excellence cultivated through education	*Tazkiyah al-nafs* and professional ethics	Promote trust (*amānah*), transparency, and ethical Sharīʿah governance
ʿAdl (Justice)	Social and economic equilibrium	Distributive and procedural justice	Prioritise risk-sharing contracts; discourage excessive leverage

[52] Asutay, "Islamic Moral Economy"; Kamali, *Ethics and Finance in Islam*; Chapra, *Islamic Vision of Development*.

Maṣlaḥah (Public Welfare)	Collective interest over private gain	Social inclusion and sustainability	Strengthen *zakāh*, *waqf*, and Islamic microfinance
al-Raʾīs al-Fāḍil (Virtuous Leadership)	Moral–intellectual governance	Ethical state responsibility	Implement value-based regulation, incentives, and financial literacy

5. CONCLUSION

This study has examined the ethical and political philosophy of Abū Naṣr al-Fārābī and demonstrated its continuing relevance for contemporary Islamic economics and finance. By critically engaging his conception of the virtuous state (*al-madīnah al-fāḍilah*), moral education, and the intrinsic relationship between knowledge, virtue (*faḍīlah*), and justice (*ʿadl*), the paper has shown that Islamic economics cannot be sustained through Sharīʿah-compliant instruments alone. Rather, it requires a comprehensive ethical and institutional framework that cultivates moral agency, distributive justice, and the common good (*maṣlaḥah*), ultimately oriented toward human flourishing (*saʿāda*).

The comparative analysis with modern capitalist and neoliberal economic models highlights a fundamental normative divergence. Whereas contemporary economic paradigms prioritise market efficiency, profit maximisation, and individual autonomy, al-Fārābī's framework situates economic life within a higher moral teleology, where material activity serves intellectual, spiritual, and social perfection. Economic institutions, in this view, are never morally neutral; they are instruments either of virtue and justice or of moral decay. This contrast reinforces the distinctiveness of Islamic

economic thought and its potential to offer a principled alternative to dominant neoliberal orthodoxies.

The study further demonstrates that core Islamic financial instruments grounded in partnership and risk-sharing—such as *muḍārabah* and *mushārakah*—presuppose a morally cultivated society. Their marginalisation in contemporary Islamic finance, and the prevailing reliance on debt-based and form-driven instruments, reflect not merely technical constraints but deeper ethical and institutional deficiencies. Al-Fārābī's emphasis on moral education and virtuous governance provides a compelling explanation for this gap between theory and practice, suggesting that authentic Islamic finance cannot flourish without sustained efforts to cultivate trust, justice, and ethical responsibility at the societal level.

Central to al-Fārābī's political philosophy is the eradication of injustice, fraud, deception, and moral transgression across all spheres of life, including economic and financial activity. This resonates strongly with the Islamic prohibition of *ribā*, *gharar*, and unjust enrichment, and underscores the necessity of a financial system grounded in transparency, equity, and social purpose. The study therefore highlights the critical role of the state—not merely as a regulator, but as a moral agent responsible for shaping ethical governance, enforcing just laws, and fostering a financial culture oriented toward public welfare rather than narrow self-interest.

At the same time, it must be acknowledged that this research is primarily conceptual and philosophical, drawing on classical texts rather than empirical analysis of contemporary financial systems. Al-Fārābī's ideas were articulated within a vastly different historical context, and their application to modern, globalised economies requires careful reinterpretation and contextual adaptation. Nevertheless, this limitation does not diminish the value of his ethical insights; rather, it points to the need for future research that translates his moral architecture into concrete institutional reforms, policy frameworks, and evaluative metrics for Islamic finance.

In sum, this study positions al-Fārābī not merely as a historical philosopher, but as a vital intellectual resource for the reconstruction

of Islamic economics and finance. His synthesis of knowledge, virtue, and justice provides a missing moral architecture for moving Islamic finance beyond legal formalism toward a genuinely value-driven system. By integrating ethical cultivation with institutional design and governance, al-Fārābī's vision offers a robust foundation for transforming Islamic economics into a holistic moral economy capable of addressing the ethical, social, and spiritual challenges of the modern world.