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MARKET STRUCTURE IN ISLAMIC PERSPECTIVE: A CRITICAL EXAMINATION OF THE TERMS PERFECT AND IMPERFECT COMPETITION

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Abstract

The purpose of this study is to examine the terms "perfect" and "imperfect" competition in the market structure from an Islamic economic perspective. This study employed a qualitative approach to library research as its methodology. The results of the literature review indicate that the structure of perfect competition has a close relationship with the Islamic market concept. This proximity is reflected in the price, which is determined according to the hadith of the Prophet Muhammad by supply and demand. In addition, it is believed that perfect market competition is a market structure that can benefit both consumers and producers. Moreover, elements of imperfect competition that can oppress consumers, such as monopolies, oligopolies, and monopolistic practices, must be avoided. In Islamic economics, however, there is no concept of competition because it is synonymous with war, fighting, and dumping, so the term "competition" in the concept of market structure is inappropriate. For this reason, a new concept is required, namely the ta'awun market, in which the market in Islamic economics should be a place and a means of mutual assistance.

Keywords: Market structure, Islamic perspective, perfect competition, imperfect competition

A. Introduction

As a universal religion, Islam has governed every aspect of human existence, including worship and *muamalat*. Similarly, Islam has regulated how consumers and producers must conduct themselves in their economic activities based on sharia law. This

interaction typically takes place on the market, which is a crucial aspect of Islamic

history because it is the economic force of a nation. Their interactions are structured so that no one party's market power benefits them¹. The market is essential to economic activity because it is a place where sellers and

¹ Lidyana, N. (2016). Pasar Persaingan Sempurna dalam Islam. *Iqtishodiyah*, 2(2), 1–14.

buyers meet to exchange goods or services, or, in other words, where supply and demand meet to determine prices².

In economic analysis, the concept of the market is not limited to a specific location; rather, it relates to the market's activities and encompasses a region, a country, or even the entire world. Therefore, transactions, or buying and selling, are the defining characteristics of the market. The market's existence as both a place and a means facilitate interaction between individuals and serves as a site for economic distribution. In the market concept, the number of sellers and buyers determines the market structure, which is known as the market structure³. A market structure is a collection of factors that can influence the behavior and performance of a company, as well as the scale and type of production. There are many ways to keep prices in the market in line, and each has pros and cons depending on how the market is set up.

The market structure can be divided into perfect and imperfect competitive markets, such as monopoly, oligopoly, and monopolistic markets. Each market structure possesses distinctive characteristics. For instance, a perfect competition market is considered the best market because it provides a fair market mechanism, does not cause market distortion, and cannot take advantage of market power⁴. Similarly, a

number of scholars⁵ contend that a perfectly competitive market is the ideal market in Islamic economics.

However, based on the preceding explanation, the question arises: does Islam have a concept of "competition"? Because, within the framework of the mechanism and structure of the Islamic market, there is economic freedom that is still constrained by sharia law, without disregarding the principles of accountability and justice⁶. Moreover, Islam emphasizes mutual assistance over competition, which is synonymous with tearing each other down. In order to answer this question, the researcher will examine, from an Islamic economic perspective, the concept of perfect and imperfect competition in the market structure. This research is novel in that it critiques the concept of a perfect and imperfect competition market from an Islamic perspective, which is relatively rare. This study is anticipated to advance scientific understanding of the concept of an ideal market structure in Islam.

B. Research Method

This study employs a qualitative method with a library research approach. Qualitative research describes or explains a research outcome but does not draw broader conclusions and focuses solely on problem formulation⁷. Library research is a series of

² Afan, A. Z. (2014). Pasar Persaingan Sempurna dalam Perspektif Ekonomi Islam. *Ummul Quro*, 4(2), 88–104.

³ Karim, A. A. (2015). *Ekonomi Mikro Islami*. PT Raja Grafindo Persada.

⁴ Riyardi, A., & Mardalis, A. (2013). Promoting A Market Competition: An Islamic Perspective. Proceeding Seminar Nasional Dan Call for Papers SANCALL, 235–244.

⁵ Afan, A. Z. (2014). Pasar Persaingan Sempurna dalam Perspektif Ekonomi Islam. *Ummul Quro*, 4(2), 88–104. Islam, M. S. (2019). Elimination of Excess Capacity in Monopolistic Competition: An Alternative Approach. *International Research in Economics and Finance*, 3(1), 1–9.

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⁶ Rahmi, A. (2015). Mekanisme Pasar dalam Islam. *Jurnal Ekonomi Bisnis Dan Kewirausahaan*, 4(2), 177–192.

<https://doi.org/10.26418/jebik.v4i2.12481>

⁷ Sugiyono. (2007). *Metode Penelitian Kuantitatif Kualitatif dan R&D*. Alfabeta.

tasks involving the collection of library data, the reading, recording, and processing of research materials. The data used in this study are secondary data, namely data provided by specific institutions, and the author was not required to collect them⁸. Documents and previous literature such as journals, historical documentation books, and other literature related to the concept of perfect and imperfect competition markets serve as the secondary data for this study.

C. Result and Discussion

According to the findings of a literature assessment, a completely competitive market is the ideal market in Islamic economics⁹. Ibn Taymiyyah argues that there is a similarity between the notion of a market that is fully competitive and the notion of an Islamic market, where the market in Islam is required to meet the following standards¹⁰. The market should, first and foremost, be open to everyone. Therefore, forcing people to sell their things without being required to is an act of unfairness, which is forbidden. Second, sufficient knowledge of the products and market forces is required to make an informed decision. Third, monopolistic components of the market need to be eliminated in order to forbid any kind of collusion between groups of suppliers and customers. Fourth, when product forgery, fraud, and other forms of fraud occur in the presentation of these goods, product

homogeneity and standardization are strongly advised. Fifth, Islamic principles condemn any deviation from complete economic freedom, including lying and using the wrong scales. It can be seen that these mechanisms lead to the characteristics of a perfectly competitive market.

In contrast, the notion of a market with imperfect competition is incompatible with the Islamic market mechanism, which is governed by the following fundamental principles¹¹. First, as stated in Surah An-Nisa verse 29, all transactions must begin with a voluntary agreement between each seller and buyer. Second, it must be based on fair competition in which cheating, such as hoarding, is prohibited (*ihthikar* or monopoly). Thirdly, uphold integrity by strictly prohibiting all forms of fraud. The fourth principle is openness and fairness, which requires both sellers and buyers to act in an open and honest manner.

In a perfectly competitive market, particularly a monopoly market, Karim¹² argues that the presence of a single seller, the absence of competitors, or the lack of market competition are not prohibited in Islam. Anyone can engage in commerce, regardless of whether he is the only seller or one of several. However, the practice of hoarding (*ihthikar*) is prohibited. The establishment or control of private monopolies, which may be detrimental to society, is prohibited by Islam. Therefore, it is prohibited for producers to hoard goods for the sole purpose of

⁸ Sekaran, U., & Bougie, R. (2016). Research Method for Business Textbook: A Skill Building Approach. In *John Wiley & Sons Ltd*.

⁹ Afan, A. Z. (2014). Pasar Persaingan Sempurna dalam Perspektif Ekonomi Islam. *Ummul Quro*, 4(2), 88–104. Islam, M. S. (2019). Elimination of Excess Capacity in Monopolistic Competition: An Alternative Approach. *International Research in Economics and Finance*, 3(1), 1–9. <https://doi.org/10.20849/iref.v3i1.568>. Riyardi, A., & Mardalis, A. (2013). Promoting A Market Competition: An Islamic Perspective. *Proceeding*

Seminar Nasional Dan Call for Papers SANCALL, 235–244.

¹⁰ Ulhaq, M. Z., & Achiria, S. (2018). Pemikiran Ibnu Taymiyyah tentang Mekanisme Pasar. *Iqtishodia: Jurnal Ekonomi Syariah*, 3(1), 58–71.

¹¹ Irawan, M. (2015). Mekanisme Pasar Islami dalam Konteks Idealita dan Realita (Studi Analisis Pemikiran Al-Ghazali dan Ibnu Taimiyah). *Jebis*, 1(1), 67–78.

¹² Karim, A. A. (2015). *Ekonomi Mikro Islami*. PT Raja Grafindo Persada.

manipulating the market's supply in order to increase prices and obtain greater profits, as this practice will harm consumers. However, producers are permitted to stockpile goods for inventory purposes, such as erratic weather that can disrupt the distribution of goods¹³.

Long before that, Chapra¹⁴ argued that monopoly was prohibited in Islam because it was an unfair practice that enriched a small number of individuals at the expense of the majority. According to him, justice in Islam necessitates the absence of fraud, uncertainty, speculation, and monopoly or monopsony, which means that all business practices that lead to the exploitation of buyers or sellers or the restriction of fair competition must be effectively prohibited. In addition, monopoly effectively restricts trade, despite the fact that Allah SWT has sanctioned buying and selling for everyone. The monopoly market engages in price discrimination, i.e., selling the same product to different consumers at different prices. Such conduct is forbidden in Islam. Governments must therefore determine monopoly prices and the maximum price that can be charged¹⁵.

To reduce the negative impact of monopolies, the government can implement the following policies: establishing regulations to prevent the formation of monopolies; establishing rival companies in the market to compete with monopolistic companies; importing goods to create competition for these monopolistic

companies; and establishing special regulations for businesses, such as setting a price below the monopoly price, determining the optimal output for the community, or taxing monopolistic businesses.

In addition to monopoly, monopolistic markets in a perfectly competitive market do not adhere to Islamic principles. Islam¹⁶ argues that this market structure is more realistic than others with imperfect competition. The majority of products on this market are used to satisfy daily necessities and are monopolistically competitive. In actual situations, it is impossible to eliminate this type of market structure. Consequently, an effort must be made to harmonize Islamic principles with monopolistic competition and to correct the conventional treatment of this actual market structure. Thus, Islam¹⁷ proposes an alternative model of monopolistic competition that eliminates excess capacity. In this alternative model, companies are incentivized to produce at socially optimal levels, thereby eliminating excess capacity.

As companies freely enter and exit a monopolistic market, supernormal profits will be lost. Therefore, the necessary amount of net cash incentives that must be provided to firms to maintain a socially optimal level of output will maximize welfare because firms will produce at the lowest possible cost and consumers will be able to purchase the greatest quantity at the lowest possible price. Even though the market is monopolistic, optimal resource allocation is guaranteed. At

¹³ Al Arif, M. N. R. (2016). Monopoly and Ikhtikar in Islamic Economics. *Shirkah: Journal of Economics and Business*, 1(3), 299–310. <https://doi.org/10.22515/shirkah.v1i3.37>

¹⁴ Chapra, M. U. (1990). Towards a Just Monetary System. In *JKAU: Islamic Econ*

¹⁵ Ali, M. A., Rahman, M. K., Rahman, M., Albaity, M., & Jalil, M. A. (2015). A review of the critical factors affecting Islamic market mechanisms in Malaysia. *Journal of Islamic Marketing*, 6(2), 250–267. <https://doi.org/10.1108/JIMA-05-2014-0039>

¹⁶ Islam, M. S. (2019). Elimination of Excess Capacity in Monopolistic Competition: An Alternative Approach. *International Research in Economics and Finance*, 3(1), 1–9. <https://doi.org/10.20849/iref.v3i1.568>.

¹⁷ Islam, M. S. (2019). Elimination of Excess Capacity in Monopolistic Competition: An Alternative Approach. *International Research in Economics and Finance*, 3(1), 1–9. <https://doi.org/10.20849/iref.v3i1.568>.

equilibrium, output is produced at the lowest possible cost, and consumers pay the lowest possible price that covers only the marginal cost of the product, i.e., price equal to opportunity cost. In the long run, inputs are utilized to capacity, so there is no resource waste, and the firm earns an average profit. On the basis of the preceding explanation, it can be concluded that all aspects of the proposed model of Islam¹⁸ adhere to the principles of the Qur'an and As-Sunnah, thereby protecting the rights of consumers and producers.

Is there a term for "competition" in Islamic trade? Because the word "competition" is defined as preceding and juxtaposed with "fight" and "war" in the Great Indonesian Dictionary, and the concept of such competition departs from the conventional economic system based on the scarcity paradigm. According to the conventional view, scarcity results from limited resources that cannot satisfy limitless human needs¹⁹. In addition, conventional economics does not differentiate between needs and wants. Therefore, people will do whatever it takes to satisfy their needs, including competing for business advantage, which implies competition for their welfare and frequently harms others. Similarly, in the concept of a competitive market where sellers are only motivated by profit, those who can enter and exit the market are wealthy individuals, whereas those who are impoverished cannot meet their needs. Therefore, this usage of competition in the concept of market structure must be criticized.

According to Islam²⁰, a perfectly competitive market has greater

socioeconomic implications. This is because real competition does not exist in a perfectly competitive market. Considering that the vast majority of buyers and sellers exchange identical goods, prices in perfect competition are also determined by supply and demand. There is nothing that can create competition between sellers. Therefore, that the concept of perfect competition is acceptable within the Islamic economic system. According to the Hadith of the Prophet Muhammad PBUH, this is the case.

From Anas bin Malik, he said: "The price (in the market) has soared during the time of the Prophet Muhammad. They (the companions) said: "O Messenger of Allah, set a price for us". He, (PBUH), said, "Indeed, it is Allah who controls (the price), who provides sustenance, who makes it easy, and who sets the price. I really hope to meet Allah and no one (may) ask me to do something wrong in matters of life and property." (Narrated by Abu Dawud).

The aforementioned hadith confirms that price regulation is left to a free market mechanism as opposed to government intervention. Prophet Muhammad peace be upon him (PBUH) denied the people's request to set the price because the market price reflected Allah's will, *sunnatullah*, or the law of supply and demand. In light of this, Islam accords the market an important economic position.

The Islamic market during the reign of Caliph Umar ibn al-Khattab is an example of a perfectly competitive market. At the time, Umar was walking through the dating

¹⁸ Islam, M. S. (2019). Elimination of Excess Capacity in Monopolistic Competition: An Alternative Approach. *International Research in Economics and Finance*, 3(1), 1–9. <https://doi.org/10.20849/iref.v3i1.568>.

¹⁹ Triono, D. C. (2011). *Ekonomi Islam Madzhab Hamfara*. Al-Azhar Press.

²⁰ Islam, M. S. (2019). Elimination of Excess Capacity in Monopolistic Competition: An Alternative Approach. *International Research in Economics and Finance*, 3(1), 1–9. <https://doi.org/10.20849/iref.v3i1.568>.

market when he discovered a vendor selling below market price. Umar gave the seller two options: either increase the price until it matched the market price, or leave the market.

In Islamic economics, however, the market should be a means and vehicle for helping each other (*ta'awun*) based on their respective abilities, not for competition. Individuals who can or cannot afford to purchase have the option to enter or exit the market. People who cannot afford goods can get free goods from *infaq*, alms, and zakat funds. In addition, Islam distinguishes between needs and wants, so individuals can only purchase it when they have a need for it and sell it when there is a profit to be made. Then, in Islamic economics, the determination of profits should not be too high or too low for the market, as this can harm the market. This mechanism has been designed in such a way that it departs from the concept of sustenance regulated by Allah SWT and will never miss the target stated in Surah Hud verse 6, which reads, “*And there is no creature on earth but that upon Allah is its provision, and He knows its place of dwelling and place of storage. All is in a clear register.*”

When prices in the market are no longer determined by market forces but rather by distortions like hoarding, scarcity, and other factors, the government must intervene to normalize market prices. This is done in

accordance with the market concept of mutual help (*ta'awun*). Furthermore, by ensuring the accessibility of public goods, market intervention can contribute to the development of justice. The government cannot, however, set prices if the market is free to operate²¹. In contrast, the Islamic concept of the market must uphold morality (fair play), honesty, transparency, and equity. If these values are used, there is no justification for rejecting market prices.

D. Conclusion

According to Islamic economics, the market should be a way for people to help each other (*ta'awun*) based on their respective abilities, rather than compete. For this reason, the Islamic market concept is devoid of competition. Although given the freedom to interact, both producers and consumers must adhere to the sharia framework by upholding morality, honesty, openness, and justice in order for the Islamic market to achieve its goals of becoming an economic force with implications for enhancing the welfare of the populace. This study is anticipated to advance scientific understanding of the concept of an ideal market structure in Islam. This study is limited in its ability to illustrate the ideal market structure in Islam. Therefore, this is an opportunity for further researchers to continue discussing the results framework and Islamic market concepts based on mutual aid.

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