INJOIEF

Journal of Islamic Economics, Finance, and Business
https://e-journal.stai-ydi.ac.id/index.php/injoief

Three-Sector Economic Balance: Households, Companies, and Government

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Article Information:
Received January 5, 2025
Revised February 8, 2025
Accepted March 9, 2025

Keywords: *Economic equilibrium, household sector, company sector, government sector*

Abstract

Economic equilibrium in a three-sector context includes the relationship between the household sector, the corporate sector, and the government sector. This article reviews the three-sector economic equilibrium with a focus on the flow of income and the conditions needed to achieve it, the types of taxes, and the impact of taxes on people's consumption and savings. The approach used in this article is a qualitative method with a descriptive type of analysis based on existing literature. The results of the discussion show that the economic equilibrium achieved will affect income distribution and overall economic stability. The types of taxes imposed vary, with a significant impact on individual consumption and savings patterns. Taxes affect people's purchasing power and other economic decisions, thus having direct implications for the macroeconomy. This article suggests that tax policy should be tailored to the objectives of the economy to ensure optimal equilibrium.

INTRODUCTION

Economic equilibrium is a condition in which economic sectors can interact harmoniously to achieve macroeconomic stability (Jazuli, 2015). In an open economy, this equilibrium usually involves three important sectors: households, firms, and government. Each sector has a different role in the process of production, distribution, and consumption of goods and services (Syahida & Parakkasi, 2024; Muqowwi et al., 2024; Nabilah & Addainuri, 2025).

The balance between households, firms and government is an important aspect in achieving sustainable and inclusive economic development (Rahim, 2024; Darma, 2024). Households act as consumers and labor providers, firms as producers of goods and services, while the government acts as a regulator and facilitator. These three sectors have interrelated roles and influence each other in achieving a stable economic balance.

Households have an important role in determining market demand, while firms play a role in meeting this demand by providing the goods and services needed (Suhada et al., 2022; Fauzi et al., 2023; Djadjuli, 2018). The government, on the other hand, has a role in regulating economic and fiscal policies to create a conducive business environment and protect public interests. A balance between these three sectors is essential to achieve stable economic growth and improve people's welfare (Husna et al., 2024; Putri et al., 2024; Hakiki et al., 2024; Zainuddin, 2017).

How to cite:	Warmi, N., Nuraiman, N., Efendi, F. (2025). Three-Sector Economic Balance: Households, Companies, and Government. *Journal of Islamic Economics, Finance, and Business*, *1*(1), 1-6.
E-ISSN:	xxxx-xxxxx
Published by:	The Institute for Research and Community Service

However, achieving a balance between households, firms and the government is not easy. It requires appropriate policies and good coordination between the three sectors to achieve the goal of sustainable economic development. Therefore, research on the balance between households, firms, and government is essential to understand the dynamics of the economy and develop effective policies to improve people's welfare.

The importance of understanding the economic balance of these three sectors is so that the economic policies implemented can create stability in the economy, increase national income, and ensure fair distribution. In this article, we will discuss the concept of three-sector economic equilibrium, the mechanism of income flow between these sectors, types of taxes, and the effect of taxes on consumption and savings.

METHODS

This research uses a qualitative method with a descriptive approach to understand the balance between households, firms and the government. The qualitative method was chosen because it allows researchers to understand in depth the dynamics and interactions between the three sectors. The descriptive approach is used to describe in detail about the role and contribution of each sector in achieving economic balance (Ummah et al., 2025; Engkizar et al., 2025; Rachmawati & Surya, 2025; Rahma & Azhar, 2024; Sari et al., 2025).

Data collection is done through secondary data taken from various literature sources and journals related to economics, taxes, and macroeconomic balance. The main focus of the analysis lies on the study of income flows between the household sector, the corporate sector, and the government sector as well as the implications of taxes on the economy. The collected data are then analyzed using thematic analysis techniques to identify patterns and themes that emerge from the data (Myint & Kyaw, 2024; Awaluddin et al., 2025; Oktavia et al., 2025; Engkizar et al., 2023).

Data analysis was conducted using thematic analysis techniques that involved the process of coding, categorizing and interpreting the data. The collected data were systematically analyzed to identify themes and patterns related to the balance between households, firms, and government. The results of the analysis are then presented in descriptive form to provide a clear picture of the dynamics and interactions between the three sectors. Thus, this study can contribute to the understanding of economic balance and the development of effective policies to improve people's welfare.

RESULT AND DISCUSSION

Three-Sector Economic Equilibrium

The equilibrium of a three-sector economy can be explained through the income flows that occur between sectors: households, firms, and government. These income flows describe how money flows in the economy and how each sector interacts. First, the household sector: The household sector provides factors of production (labor, capital, land) to the firm sector and receives rewards in the form of wages, rent, interest, and profit. Second, the firm sector: Firms use factors of production to produce goods and services, which are then sold to households or the government. The income earned by firms is used to pay for factors of production and reinvest in production. Third, the government sector: the government plays an important role in the economy through fiscal policy and tax collection. Taxes collected are used to fund government spending, which is mostly used for the provision of public goods and infrastructure.

Equilibrium is achieved when the flow of income between the three sectors is smooth and in accordance with the economic policies implemented. Mismatches in these flows, such as the government's inability to collect enough taxes or an imbalance between household consumption and savings, can lead to economic imbalances.

The balance between households, firms and government is an important aspect in achieving sustainable and inclusive economic development. The results show that households have an important role in determining market demand, while firms play a role in fulfilling this demand by providing the required goods and services. The government, on the other hand, has a role in regulating economic and fiscal policies to create a conducive business environment and protect public interests.

The interaction between the three sectors is very complex and affects each other in achieving a stable economic balance. Households and firms have a close relationship in determining the price and quantity of goods and services, while the government has a role in regulating policies that can affect these prices and quantities. Therefore, appropriate government policies are essential to create a stable economic balance and improve people's welfare.

In achieving a stable economic equilibrium, the government needs to consider the interests of households and firms in developing economic policies. Pro-household and pro-firm policies can help improve people's welfare and boost economic growth. However, the government also needs to ensure that such policies do not disadvantage either sector and create economic imbalances. Thus, a balance between households, firms, and the government is essential to achieve sustainable and inclusive economic development.

Income Flow and Equilibrium Conditions

The flow of income in a three-sector economy can be described as follows: First, households receive income from firms in the form of wages and profits, and then use it for consumption of goods and services. Second, firms, after selling goods and services, earn income which is partly distributed as payments to households and partly used for investment and other expenditures. Third, the government collects taxes from firms and households and uses the funds for public spending, such as infrastructure and social services.

The conditions for equilibrium in a three-sector economy are firstly that the income received by households must be used for consumption and savings. Second, firms must allocate their income wisely for production and distribution. Third, the government must manage taxes and spending efficiently to support economic activity. An imbalance occurs if one sector experiences a large deficit, for example the government's budget deficit or the inability of households to consume or save adequately.

Taxes are the main instrument for the government to collect revenue that is used for various development purposes (Hafizd et al., 2024; Sari et al., 2024; Andriani et al., 2024). Tax types can be divided into two main categories, first, direct taxes: taxes imposed directly on individuals or entities, such as Income Tax (PPh), Wealth Tax, and Land and Building Tax (PBB) (Aisya et al., 2025; Hafiz et al., 2025). Second, indirect taxes: taxes imposed on goods and services purchased by consumers, such as Value Added Tax (VAT) and excise taxes. Each type of tax has different characteristics in terms of its impact on the economy and income distribution (Lestari et al., 2024).

Forms of income tax. The forms of tax imposed on income can be divided into several types: first, Personal Income Tax (PPh Orang Pribadi): Tax imposed on income received by individuals, whether in the form of wages, salaries, or other income. Second, Corporate Income Tax (Corporate Income Tax): Tax imposed on business entities on profits earned from production or trading activities. Third, Dividend and Profit Tax: A tax imposed on the distribution of corporate profits to shareholders. Each of these forms of income tax affects the economic decisions of households and firms.

Effects of taxes on consumption, savings and investment. The imposition of taxes can have a significant impact on consumption and savings patterns in the economy. Some of the possible effects include: First, consumption: Higher taxes may reduce the income available for household consumption, resulting in a decrease in demand for goods and services. Second, savings: If taxes increase, individuals may reduce their savings to maintain consumption levels. Conversely, lower taxes may encourage increased savings due to an increase in available income. Third, investment: Lower income taxes can provide incentives for firms to make greater investments in production, which in turn can increase employment opportunities and income (Aït-Sahalia et al., 2020; Husna et al., 2024).

CONCLUSION

A three-sector economic balance is essential to maintain economic stability. The flow of income between the household, corporate and government sectors must be balanced in order to achieve sustainable economic growth. Taxes play a crucial role in supporting this balance, both through collecting revenue for the government and through their impact on people's consumption and savings patterns. A prudent tax policy will ensure that this balance is achieved, creating a stable and sustainable economy.

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Journal of Islamic Economics, Finance, and Business

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