JOURNAL OF ANCCOUNTING
E-mail:arsypersadaquality@gmail.com
https://jurnal.asrypersadaquality.com/index.php/accounting

THREE SECTOR AND FOUR SECTOR ECONOMIC SYSTEMS

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Abstract

The aim of this research is to understand the economic system of three sectors. This research method uses qualitative research, literature study. Research Results: The three-sector economic system is a system that includes the household sector, the company sector and the government sector. In this system, foreign activities are still ignored, so this kind of economic system is called a closed economy. In this three-sector economic system (closed economy) the government has a role as regulator of the economy by regulating policies in the economy, namely fiscal policy, monetary policy and international trade policy. In this closed economy, the role of the government as a regulator is very important to increase the balance of national income, minimize economic disparities such as unemployment, so that people's welfare increases.

Keywords: System, Economy, Three Sectors

Journal of Accounting
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INTRODUCTION

An open economy or four-sector economy is an economic system that carries out export and import activities with other countries. In an open economy, the economic sectors are divided into four groups, namely: households, companies, government and foreign countries (Abadi & Misidawati, 2023). Carrying out international trade is an activity commonly carried out by various countries since centuries ago when various economies were still underdeveloped, they have carried out export and import trade. Export and import activities are an important part of every economic activity (Dr. Siradjuddin, SE., 2012). First, the family household sector with benchmark indicators is household consumption and investment. Household consumption expenditure has a significant influence on economic growth, consumption of both food and non-food goods always increases (Kurnia & Abadi, 2023). High household consumption is caused by high people's income, so that indirectly the economy increases, which has a multiplier effect on economic growth. Then, if we look at the investment indicators, investment has an insignificant effect and has a negative relationship on provincial economic growth in Indonesia. This is due to the impact of the global economic crisis and natural disasters in several regions in Indonesia, investment distribution is not evenly distributed across all provinces (Deksa Imam Suhada1, Dessy Rahmadani2, Masnum Rambe3, 2022). Circulation of household income flow: 1. Paying individual income taxes to the government and expenses 2. Disposable income received by households will mainly be used to purchase goods and services produced domestically. 3. Importing goods produced in other countries. 4. Save remaining unused income in financial institutions or bodies such as trading banks, savings banks and other savings institutions (Veritia et al., 2019). Second, the company sector with the benchmark indicator is labor. The number of workers matters. This positive influence can be interpreted as meaning that as the number of workers increases, the level of productivity increases so that economic growth also increases. This research is in accordance with the theory put forward by Smith which considers humans as the main production factor that determines a nation's prosperity. This shows that if someone works it will affect their income. Increasing income will affect people's purchasing power which will also increase. So that increasing the number of workers will increase people's purchasing power which ultimately increases economic growth. Third, the government sector with the benchmark indicator is government consumption expenditure.Government expenditure is one component of

expenditure, if government expenditure is high it will result in higher planned expenditure for all income. When an increase in government spending increases income, this will also increase consumption. By increasing the income obtained by the government, it will encourage economic growth. Consumption expenditure

The direction of regional macroeconomic development is shown to increase economic growth, create job opportunities and maintain price stability so that people's purchasing power does not decline. To achieve macroeconomic goals, various efforts are needed to increase economic growth which will affect the welfare of the entire community. A country's economy is driven by economic actors who generally consist of households, companies, government, and exports and imports. The economic system is very diverse, this makes the economic system be said to be a very good and orderly economic organization. Therefore, the role of government here is very important to stabilize a country's economy. Circular Flow Diagram which is a model that illustrates how interactions between economic actors produce income which is used as expenditure in an effort to maximize the utility of each economic actor. The circular flow diagram explains the flow of income in a closed and open economy. In closed and open economies, this is an economic model that is generally used to illustrate market structure and also economic activities in a country. The three-sector economy can be said to be a closed economy, because this economic system is considered closed to international traders. This is the reason why there are no export or import activities. In the three sectors of the economy, government elements are involved. The government here acts as a distributor, providing public services, such as subsidies in the form of aid or social security which are provided for certain purposes which are able to increase income for the community. The size of the government's role here depends on the economic system adopted. A four sector economy or it can be said to be an open economy. Because this economic system is considered open to international traders who want to carry out export-import activities and exchange production factors. Exports are a flow of income from a foreign economy to the domestic economy. Imports are the flow of income from the domestic economy to foreign economies.

LITERATURE REVIEW

Understanding the Three Sector Economy: The balance of national income in the sector where economic activity actors consist of two activity actors, namely households and companies (private). In the real world, they are not the only actors in economic activities, but there are other actors, namely the government. By including the

government in the analysis of national income, the analysis of national income adds another actor, namely the government. With the inclusion of the government in the analysis of national income, the analysis of national income becomes three sectors. The role of government in the economy is to provide public goods. Where, the provision of public goods requires financing. Development financing carried out by the government comes from taxes collected by the government of Rizqi, MI, & et al. (2024: 89)

A three-sector economy is defined as an economic system consisting of companies, government and households. Analysis of the three economic sectors essentially pays attention to the influence and role of the government in the economic sector. Sianipar, J. (2020: 90).

According to his theory, there are two important changes that occur in determining the balance of national income which are influenced by government intervention. These changes include the existence of tax levies realized by the government which is projected to be able to reduce the amount of national spending by reducing household spending and taxes which allows the government to carry out spending. This will cause aggregate spending to increase. This change has a major impact on the balance of national income. In its implementation, the three-sector economy eliminates import-export activities and is generally known as a closed economy

METHODSE RESEARCH

The research method used in this research is a qualitative research method. Qualitative research methods are approaches used to understand social phenomena in natural contexts. Several related articles and journals provide an overview of qualitative research methods. One of them is an article that discusses the use of library research as a method for collecting data by understanding and studying theories from various sources. According to Zed (2004) there are four stages of library study, namely preparing the necessary equipment, preparing a working bibliography, organizing time and reading and recording research material. Collecting data by searching for sources and constructing them from various sources such as books, journals and existing research. Library materials obtained from various reference sources are analyzed critically and in depth in order to support proportions and ideas (Mubarok & Abadi, 2020)

MEETN AND DISCUSSION

1. Three Sector and Four Sector Economic Mechanisms

Income circulation and balance in the economy of three sectors can be shown and explained as follows:



Caption:

1. Stream 1: The corporate sector makes payments to two categories. First, payments to the household sector are in the form of income from production factors. Second, payments to the government in the form of corporate taxes.
2. Stream 2: Households earn income in two ways. First, firms pay wages and salaries, interest and profits, as well as rent to households. Second, the government pays salaries and wages to households who are State Civil Apparatus (ASN).
3. Stream 3: Government income comes from taxes paid by the household sector and the corporate sector. This income is used by the government to pay salaries and wages of employees and to purchase production materials in the form of goods and services from companies.
4. The income received by the household (Y) is used to fulfill three needs, namely: (i) consumption needs (C), (ii) saving (S), and (iii) payment of taxes (T). The equation is: $Y = C + S + T$.
5. In the picture above, in practice it can be assumed that financial institutions that accommodate household savings can lend to companies that need capital.

6. Aggregate expenditure (AE) has various types, including consumption expenditure (C), investment (I), and additional government expenditure (G). The equation is: AE = C + I + G.4

2. Balance of National Income with Fiscal Policy and Subsidies

Fiscal policy refers to government actions in managing expenditure and income. One form of government's role that is very important in the Islamic economic system is fiscal policy, especially when compared to monetary policy. The implications of the prohibition of usury and the obligation to pay zakat show the importance of fiscal policy compared to monetary policy.5

Three-sector economic balance refers to a balanced relationship between the public, private and household sectors. The influence of zakat in the economy is three sectors, namely:

1. Government Sector

   Zakat receipts by the government sector can be used to finance social programs, such as social assistance, education, health and infrastructure development.
2. Corporate Sector

   In the corporate sector, companies can influence economic balance by raising zakat funds from employees and other stakeholders.
3. Household Sector

   In the household sector, zakat payments can reduce economic inequality and create a balance between people who can afford it and those who need it.

Zakat acts as an additional source of income for the government, allowing them to increase spending in these sectors and create a better economic balance. Within sectors

Fiscal policy has emerged as a key instrument for achieving national prosperity, encompassing the utilization of public spending, progressive taxation, and debt financing to realize desired goals. State revenues and expenditures are aspects that are regulated through fiscal policy. State revenue

can be obtained through tax revenues paid by the public. Apart from that, other sources of state revenue include auction results, fines, grants and other non-tax state revenue.

Government fiscal policy can be classified into two types, namely expansionary policy and contractionary policy. The definitions of these two types of policies can be explained as follows:

- Expansionary fiscal policy is an economic policy that involves reducing government revenues, such as taxes, and increasing government spending to stimulate output.
- Contractive fiscal policy is a form of government policy that aims to influence income to be greater than expenditure. The main aim of this policy is to reduce the level of purchasing power possessed by the public and overcome the problem of inflation that occurs.

The relationship between the requirements for balancing national income and fiscal policy and subsidies, the economic balance of 3 sectors, as well as the balance of lump sum and proportional taxes and subsidies, will be explained as follows:

1. Conditions for Balancing National Income with Fiscal Policy and Subsidies

   Analysis has revealed that something in an economy Achieving balance of national income requires that: "aggregate supply and expenditure must be equal. The value of the output of goods and services produced in the economy during a certain period is equal to national income (Y) in an economy that does not trade with foreign parties Expenditures carried out collectively or by several parties in the economy.

2. Three Sector Economic Balance

Covers three different purchasing categories: household consumption or consumption (C). The government or government (G) and investment companies or invest (I) jointly buy products and services. So that the following conditions lead to balance in a 3-sector economy: Combined supply I = Aggregate Expenditure, or Y = C + 1 + G The flow of income for households will be generated by the activities of the business sector in creating products and services (salaries and wages, interest, and profit, as well as rent), and the value of these flows will be equal to national income (Y). Three things will be done with household income: financing consumption (C), encouraging saving (S), and paying taxes (T). Thus, the following parallels apply based on the current three sectors of the economy's income streams:

$$Y=C+S+T$$

The explanation above has shown that it is balanced, so the following equation is true:

$$Y=C+I$$
$$+ \quad G.$$
$$C+I+G$$
$$=C+S$$
$$+T$$
$$I+G=S$$
$$+T$$

If C (consumption) is reduced from each half. The three sectors I and G in the economy are new sources of income that are injected into the system. S and T are leaking. As a result, the injection of balance sheet leaks is another restriction imposed by the three-sector economy. The following conditions must be met in a three-sector economy for balance to be achieved10

3Y-C+1+G, I+G-S+T

3. Balance with Fiscal Policy (Lump Sum and Proportional Tax) and Subsidies

   Income tax can be imposed using two rates, namely proportional tax and progressive tax. Proportional tax refers to a tax rate system that is applied with a fixed tax rate for all income levels. The reduction in welfare caused by taxes will be lower when leisure is included in the tax base to achieve the same tax revenue. The reduction in labor effort is reduced due to avoiding the substitution effect of tariffs. The effect produced by this tax is similar to a lump sum tax, namely without the economic loss caused by deadweight loss. However, in practice, implementing this system is quite challenging due to the difficulty of measuring the value of free time. When using progressive tax rates, marginal tax rates will increase as income increases. Income tax is said to have a progressive rate when the tax percentage (relative to income) increases with higher levels of income11.

   The government not only collects taxes but also gives back to society through transfers and gifts. With the Yd-Y-T+Tr formula, transfer payments will change people's disposable income, which will ultimately change balanced national income. As it happens We distinguish two scenarios for the three-sector economic model: a multiplier scenario with a proportional tax T-TO + Y (endogenous) and a multiplier scenario with a lump sum tax TTO.12

4. The Role of Government in Three Sectors of the Economy

The three-sector economy consists of consumer households, producer households, and the government. One of the processes of government and society as an effort to manage existing resources

through collaboration between government and the private sector is the meaning of economic development. This is the aim of creating jobs and encouraging growth in an area. So, this makes the government and society play an important role in solving macroeconomic problems. The government's role here is aimed at improving community welfare, as well as developing the regional economy by forming collaboration between the government sector and the private sector. This is useful for the growth of new jobs so that it can trigger economic growth in an area.

Economic growth is the rate of growth formed from various economic sectors which indirectly describes the level of growth that occurs and is an important indicator for regions to evaluate the success of development.13

One form of government rationality in the economy is responsibility. The responsibilities carried out by the government are not only external in scope, in other words limited to protection or security systems, but the responsibilities carried out by the government must be part of the community program. Without participation from the government sector, this would not be possible. The government is considered capable of guaranteeing security even if problems occur in the economy.

The role of government in Islamic economics has a very solid basis, in the Islamic view this is interpreted based on the following arguments:

1) Consequences of collective obligations (fardh – kifayah)

   The government is the holder of the mandate given by God to carry out tasks together which aim to create the benefit of humanity. In this way, the government automatically becomes the public's trustee. The concept of fardh kifayah refers to all the interests of society which, if carried out by one person, invalidate the obligations of other people to carry them out. In this case what is meant is related to meeting the need for types of

transportation, level of education, quality of medical services and others. The government has an important role in implementing its duties due to the failure of society to carry out its duties. It is possible that society's failure is caused by several things, including: lack of information, violations of morals, lack of human data sources. On this basis, it is important for the government to take over this task for the sake of shared prosperity and justice.

2) Market failure in achieving falah

The role of government has a big influence on the economy in various sectors. The size of the government's role in the economy itself depends greatly on the economic system used. In a liberal economic system, the role of government is less than optimal, whereas in a socialist economic system, the role of government is seen as very dominant. If we look at Indonesia, which is a country that adheres to a mixed economic system, here the role of the government is quite important in the economy. The government is a government institution tasked with supervising economic activities so that they continue to run stably. The role of government in economic activities

CONCLUSION

The three-sector economic system is a system that includes the household sector, the corporate sector and the government sector. In this system, foreign activities are still ignored, so this kind of economic system is called a closed economy. In this three-sector economic system (closed economy) the government has a role as regulator of the economy by regulating policies in the economy, namely fiscal policy, monetary policy and international trade policy. In this closed economy, the role of the government as a regulator is very important to increase the balance of national income, minimize economic disparities such as unemployment, so that people's welfare increases.

Meanwhile, in the economic system, the four sectors are a system which includes the household sector, the corporate sector, the government sector and the foreign sector. In this four sector economic system there are export

and import activities so this system is called an open economy. This open economic activity can be in the form of trade in goods and services, technology exchange, and so on. In this four-sector economy, the government's role remains the same as in the three-sector economic system to maintain economic stability and fair distribution of income. Apart from the role of the government here, there is also the role of the external sector which is equally important in establishing economic cooperation in the form of trade and investment, as well as establishing diplomatic relations. Import-export activities like this really color the modern economy today.

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