

## The Anomaly of Leading Indicator

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#### ABSTRACT

The counter cyclical strategy used to deal with the Covid-19 pandemic is through fiscal policy, government expenditure by refocusing on the health sector and economic recovery. This policy is not only carried out in Indonesia but in other affected countries. In general, government expenditure has made positive impact on GDP, but during the Covid-19 pandemic this affect became negative. Using data from 137 countries, government health expenditure has a negative impact on GDP. If government expenditure policies continue to focus on health care, it will have an impact on other sectors, ultimately negative economic growth. In addition to refocusing on health expenditure, there are also assistance programs for affected communities. Higher aid should affect the GDP, but there is no difference in GDP growth between the two groups of countries based on the percentage of income support. Government expenditure policies in each country certainly aim to maintain the stability of the country, but the policy objectives should be allocated not only curatively but also preventively by taking into account the long-term impact post Covid-19 Era.

**Keywords:** GDP, Government  
Expenditure, Government Health  
Expenditure, Income Support,  
Refocusing.

## **INTRODUCTION**

Economic growth is a reference for the development of a country, one of which is the growth of Gross Domestic Product (GDP). The results of previous research by Utz, Robert et.al (2020) Covid 19 has a negative effect on the world economy such as GDP. Efforts to deal with the impact of Covid-19 are carried out through various fiscal and monetary policies to maintain the stability of GDP growth. Fiscal policy is a popular instrument used to encourage economic growth, one of which is through government expenditure. Gemmel et al (2015) found that in member countries of the Organization for Economic Co-operation and Development (OECD) there is a positive influence of government expenditure on GDP, including health expenditures. The increase in health expenditure during the Covid-19 pandemic is inevitable, but whether it can affect the stability of economic growth. Increased government expenditure in the health sector will absorb allocations in other sectors, this can hinder economic growth

Covid 19 has not only had an impact on the health sector, during the pandemic, various business sectors were affected due to various policies to limit activities in various countries around the world. As a result, activities slowed down, there were terminations of employment and a decrease in purchasing power parity. The government seeks through various fiscal policies to minimize the impact of these restrictions, through income support for affected residents and to increase demand. Research by Junaedi et.al (2020) increasing government expenditure to deal with the Covid-19 pandemic will reduce the impact of economic growth contraction. However, the results of other studies such as Burger and Calitz (2021), Heald and Hodges (2020) obtained different results of increasing government expenditure did not affect economic growth during the Covid-19 pandemic.

So there needs to be research on new indicators that have existed but may have been ignored, or so far have not existed and are new due to covid 19. And whether government expenditure was able to boost economic growth during covid 19 in 2020. With various limitations, in this study this study is limited to whether indicators of government expenditure in the health sector are able to affect GDP Growth and policy indicators for handling Covid-19 that may have a relationship with economic growth. Considering that although since the beginning of 2022 in several countries Covid 19 has been declared endemic, but beware of similar emergency events, it is necessary to obtain new patterns of fiscal and monetary policy for economic emergencies

## **LITERATURE REVIEW**

Keynes's theory states economic growth is influenced by the role of government, government interference in the economy determines economic development. The implication of Keynes' view is that to ensure stable growth, the role of the government is needed in managing the economy through monetary and fiscal policy. Through fiscal policy, the government carries out its duties to ensure economic growth, especially through the budget, in Indonesia to overcome the Covid-19 pandemic, one of the government's programs is refocusing the budget in order to deal with the pandemic which certainly focuses on the health budget and subsidies or cash assistance for affected communities. Refocusing on health care can certainly have an impact on various other sectors, the diversion of funds is feared to interfere with other sectors such as restrictions on official travel can affect the use of air transportation and hotel accommodation. Where the tourism sector is currently dependent on domestic travel.

During the Covid-19 pandemic, the role of the government is very large, especially overcoming economic and health problems as a result of various restriction policies.

Sukartini et.al (2012) routine expenditures and development expenditures, Wagner's law applies as predicted; that the increase in government expenditure was responded to by an increase in people's per capita income. However, in some studies during the Covid-19 pandemic, there were anomalies in research results that were not usually related to economic growth and government expenditure. In Oshinubi's et.al (2021) research government expenditure based on CHE /GDP is positively correlated with the covid 19 wave and the economy, but it can be understood that government expenditure increases in the event of a covid wave or is curative rather than preventive. The same thing is also found in the research of Chandu C Viswa (2020) related to health expenditure (%GDP) with covid 19 cases. Pardhan S et.al (2020) research also shows a negative relationship between Covid 19 and GDP per capita. Koning et.al 2021 in his research obtained one of the results of the mortality rate affecting a strong negative influence on economic growth, of course, this indicator was rarely used before to measure economic growth. Based on Keynes's theory and previous research the hypothesis can be written as:

H1: Health Expenditure will make positive impact on GDP

H2: Change of Expenditure will make positive impact on GDP

H3: Health Expenditure and Change of Expenditure will simultaneously impact on GDP

H4: There is difference GDP between countries income support less than 50% of basic salary or living expenses and countries income support to 50% or more of the basic salary or living expenses

## RESEARCH METHOD

The research data was used is World Development Indicator data, independent variable data is Change of Expenditure (%GDP) and Government Health Expenditure (% Budget), GDP Growth as a dependent variable. It was then analyzed using multiple regression. The number of samples is 137 Countries that meet the required data. Then continued with the different GDP Growth test based on the Income Support classification using index a global panel database of pandemic policies (Oxford COVID-19 Government Response Tracker). Compare the differences in GDP Annual Growth between groups of countries that provide different allowance subsidies conducted Independent Samples t-Test

## RESULTS

Table 1 obtained the results of the Change of Expenditure (%GDP) and Government Health Expenditure (% Bud) has a simultaneous significant positive influence on GDP Growth. These results are in line with research in general that government expenditure will positively affect economic growth. But actually, if it partially, the effect is negatively significant, as can be seen in the table 2.

Table 1. Simultaneous Test

Model	F	Sig.
Regression	9.791	.000 <sup>b</sup>

Table 2. T-Test

Variabel	B	Std. Error	t	Sig.
HealthExpend (X1)	-0.185	0.102	-2.208	0.029
ChangeExpend (X2)	-0.260	0.001	-3.108	0.002

Change of Expenditure (%GDP) is the increase in government expenditure based on its percentage of GDP when compared to the previous year. This variable describes an increase in government expenditure compared to the previous year, in this study government expenditure in 2020 compared to 2019. Should there be an increase in government expenditure, GDP can be corrected positively, but result of this research the effect is negative. The allocation of government expenditure in 2020 focused on dealing with the Covid 19 pandemic, for handling health and socio-economic impacts of the affected communities. This means that government expenditure has a negative impact on economic growth.

Result on this research government health expenditure (% Budget) has a significant negative impact. This means that the greater the percentage of health allocation costs, the lower economic growth, this may be related to refocusing which reduces other expenditures. This policy becomes a hard decision if the government does not divert the budget to health, the death rate will increase. However, seeing the impact, the allocation of government expenditure focused on handling COVID-19 cannot be carried out continuously, due of it will reduce the allocation of funds to other sectors.

Hence the role of community compliance in carrying out health protocols is needed so that the government's budget can be distributed to other sectors

In addition to government expenditure in the health sector, taking into account the impact of restrictions or lockdowns, several countries provide subsidies to support people's living costs through various programs. Each country has a different response in this regard. Using the Oxford COVID-19 Government Response Tracker's Income Support data, Income support is government assistance to meet basic living needs for workers or people who have lost their source of income, in Indonesia called direct cash assistance. Income Support is classified into two groups, namely the group of countries with assistance of less than 50% of basic salary or living expenses and the second group of assistance amounting to 50% or more of the basic salary or living expenses. This policy is of course aimed at dealing with the economic problems of the community so that they still have purchasing power to meet the needs of life, this can also stimulate the economy. The results of the different tests can be seen in the table below:

**Table 3. Independent Samples Test**

		t-test for Equality of Means			
		t	df	Sig. (2-tailed)	Mean Difference
GdpGrowth	Equal variances assumed	-0.793	131	0.429	-0.69734
	Equal variances not assumed	-0.859	131	0.392	-0.69734

Based on the results of independent sample test, there is no difference in GDP growth between the two groups of government expenditure for income support. This means that between countries that provide income support above 50% for basic living costs, and the government that provides income support below 50% does not have different the country's economic growth during covid 19 pandemic. This result is different from several previous research results related to the impact of income subsidies on economic growth.

However, consideration of other factors can also affect the results of this different test, including the effectiveness or misdirected of the distribution of appropriate beneficiaries.

## **DISCUSSION**

Facing an unfavorable economic situation, the government generally uses fiscal and monetary policies. Fiscal stimulus in several previous crisis conditions proved to be able to reverse the situation or commonly called counter cyclical policy. In fiscal policy there are two activities that can be done, namely through state revenues or state expenditures. Covid 19 in 2020, is the cause of the economic slowdown in almost all affected countries, fiscal policy through state expenditure is expected to overcome the pandemic and the socio-economic impact. However, it turns out that government expenditure policies that focus on health statistically have a significant negative effect on GDP growth. So, if this policy is carried out continuously, other sectors besides health will be neglected, and the economy will be hampered.

In addition to focusing on health sector expenditure, realizing the socio-economic impact on society, several countries have made assistance policies for economically affected communities. However, through a comparative test, there is no difference in GDP growth between countries whose government policies provide assistance (income support) above 50% of lost income or basic living costs and countries whose policies provide assistance below 50% of income. This is when compared to normal conditions, government expenditure policies should usually have a positive impact on economic growth, but it is different from the conditions of the covid 19 pandemic. So, it can be concluded that the message given by covid 19 is a message of change, change is not just how to change how to interact, how implementing a new normal in society, but also changes in looking at economic indicators and policies. This means that the government's fiscal policy does not automatically become counter cyclical, the real counter is the active role of the community in carrying out health protocols and adapting to new ways of life, new ways of doing business with the help of technology. Fiscal policy can no longer be used as a superhero in dealing with economic problems, so that every society has a role. Therefore, the next policy must be preventive in both the economy and health. For example, by allocating funds for technology development and research, so that technology is more affordable and well educated for its use for community economic activities. Support for research can make a country more independent and ready to face other changes in the future

## **CONCLUSION**

Fiscal policy is one of the instruments that can be used to increase economic growth. However, during Covid-19, an increase in government expenditure as one of the fiscal policies effect a decline in economic growth. This can be because most of the government expenditure by refocusing on the health sector. This policy is not only carried out in Indonesia but in other affected countries. Based on 137 countries, government health expenditure has a negative effect on GDP. If government expenditure policies continue to focus on health care, it will have an impact on other sectors, ultimately negative economic growth. In addition to refocusing on health expenditure, there are also income support programs for affected communities. Higher aid should affect the GDP, but there is no difference in GDP growth between the two groups of countries based on the percentage of income support. Government expenditure policies in each country certainly aim to maintain the stability of the country, but the policy objectives should be allocated not only curatively but also preventively by taking into account the long-term impact post Covid-19 Era.

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