

# Demonetization – A Step towards Corruption Free Society

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## ABSTRACT

The demonetization had a great impact on economic and society. It can reduce inflation and improve the economy as well as corruption free society. The purpose of this paper is to examine how the demonetization will help moving towards Corruption free society. The objective of the study is corruption in India and the impact of demonetization on corruption free society. It was concluded that if necessary measures are put in place and some more steps need to take to emerge as a corruption free society.

## 1. Introduction – Corruption in India

Corruption in India is a multi-headed monster, which has been shored up as much by greed and dishonesty as it is by illiteracy and lack of awareness. Making India a corruption-free country is not an overnight project, because it has to be a war fought on many fronts and battlegrounds. However, it is undoubtedly a war that we need to win, because corruption distorts resource allocation and makes a mockery of India's democracy and independence by denying equal rights to all and by diverting taxpayers' money from public use into private pockets.

From increasing deterrence and cures for this malady by escalating transparency in transactions, to effecting social change through awareness campaigns and gradual social engineering, the war against corruption in India would be time-consuming and messy. But to enable the Indian citizens to truly claim their rights and make them feel inclined to carry out their duties, the disease of corruption has to be eliminated.

Corruption in its most pervasive form destroys the faith of citizens in the institutions of state and democracy and alienates them from the government. On the flip side, a government alienated from the grassroots becomes vulnerable to forces of corruption. Thus, corruption establishes a self-sustaining system, a Gordian knot, which is difficult to untangle and requires to be slashed through by drastic measures like demonetization.

Transparency International, the global anti-corruption coalition, defines corruption as "the misuse of public office for private gain." In India, corruption flourishes via two routes – bribery, wherein private entities willingly make payments to derive unfair advantages and benefits; and extortion, wherein citizens do not get access to rights unless they pay up.

The demonetization had a great significant and immediate impact on the state of the Indian economy. It also results that demonetization helps to destroy black money, terrorism and corruption etc.

## A. Objectives

- To study about the corruption in India
- To study the impact of demonetization on corruption free society.

## B. Research Methodology

This paper is mainly based on the reviews of secondary data published in various forms like internet, articles from newspapers and reports published in different forms.

## 2. Review of Literature

1. **K.Veerakumar (2017)** In this paper, an attempt has been made to find impact of demonetization on the public. Samples of 100 respondents were randomly selected from Coimbatore District. It is found that four variables namely gender, age, annual income, occupation have significant association with the impact of demonetization. It also results that demonetization helps to destroy black money is the first ranking given by the respondents and it is followed by corruption, terrorism etc.
2. **Dinesh kumar(2017)** The objective of the paper is to explain that demonetization is done to Removing black money from currency, Stopping terror funds, Reducing fake notes and Increase cashless transactions. It also highlights points like why it is done, what is its affects in India, impact of it on social and environmental issues etc. the paper is explanatory paper. This paper concluded by identifying various pros and cons of demonetization.
3. **Dr. B. S. Kadam, Snehal B. Kadam (2017)** in this paper an attempt has been made to study the history of demonetization in various countries as well as in India. The study has been made regarding the impact of demonetization on common man, financial impact on common man, political impact, and social impact. This study is to find out various issues and challenges due to demonetization. Infrastructural issues,

consumer behaviour issues, accessibility in language, mode of payment and spending behaviour issues are the issues of demonetization in India.

4. **I.SUNDAR (2017)** this paper deals with Impact of Demonetization on Economy. It outlines the effects of demonetization on GDP growth and impact of demonetization on business. This paper makes a special note on merits of demonetization. This paper concludes with some interesting findings along with policy suggestions.
5. **Virendra B. Shahare (2017)** This study was carried out to evaluate the impact of demonetisation and cashless digital economy in the rural sector. The paper mainly reviews the secondary data published in various forms from internet, newspaper articles, and published reports. terrible on the rural people. The idea of cashless economy must be implemented taking into consideration a more holistic approach, such as strengthening legislation and capacity-building of regulators and anti-corruption watchdogs.

### 3. Demonetization

Demonetization occurs when a particular type of currency is withdrawn from circulation. In such a situation, the demonetized currency ceases to be recognized as a legal tender. Demonetization means stopping a form of currency from being legal tender. That means that this currency can no longer be legally used. It cannot be used to buy things and if it is paid into the bank, your bank manager should not accept it. Demonetization can be applied to coins, bank notes and all other forms of currency. After a certain cutoff date, it is not possible to use those notes and coins to pay for things. Usually, demonetization is part of a wider process, which involves the old currency being replaced by a new one.

The Indian government has long struggled with the issue of the fake currency and black money. In 1946 and in 1978, the respective Indian governments turned to demonetization as the long-term solution to the problem. The same historical took take place in India in 2016.

On November 8th 2016, India's prime minister made the announcement of demonetization of all 500 and 1000 rupees notes. Thus, the government announced that both the Rs. 1000 and Rs. 500 would not serve as legal tender. The old 500 and 1000 rupee notes were to be deposited in bank within 31st December, 2016. That meant in the form of old 500 and 1000 rupee notes were to become useless post 31st December, 2016.

The cancelled notes were to be deposited in the bank and /or replaced with new 500 and 2000 rupees. New types of notes which are of the same currency were introduced in the market. The challenge had been the slow circulation of the new currency. Most of the banks did not have enough new currencies. Even today, this new challenge is still there and is expected to continue for a certain period of time.

Overall, demonetization is aimed at playing a critical role in getting rid of fake currency and corruption in our society. Old coins and notes being replaced with new designs: Sometimes, certain denominations of old notes and coins are replaced with newer models. In this situation, the older coins can be officially demonetized. The reasons for such move include:

- Elimination of fake notes,
- Reduce corruption, and
- Stop terror funding.

### 4. Demonetization helps in solving the fake currency problem

Business owners in India have faced a problem with the detection of fake currencies. Another problem is that the holders of fake currencies could be genuine people who innocently hold such money. Counterfeit money in India is mainly used to fund several illegal activities like terrorism.

The process of demonetization is an attempt to solve the problem of fake currency. It should be noted that the demonetization process is a banking process. In other words, people would be forced to use the banks to deposit the old notes. This is a strategic way of getting rid of fake money as the transactions take place in the banks which have machines of detecting fake currency.

### 5. Demonetization can also be referred as the process of moving people from a cash-based system to a cashless system (digital system)

Keeping hard cash is a practice that is not encouraged by the government as well as financial institutions. It is easy for people to evade taxes in an economy where people mostly deal with cash. Keeping cash out of the bank also erodes the deposit base of these financial institutions and drives the cost of credits through the roof. It means that the government has to opt for foreign sources to secure funding and in the process increase the national debt. The economic impacts of which are many and severe. Moving people to a cashless system is, therefore, a favorable economic policy for many stakeholders.

#### A. Reduce Corruption

Periodically changing the currency in circulation can do little to eliminate corruption at its source, for which it is necessary to target the very generation of unaccounted income. In order to target unaccounted income it is necessary to re-engineering the manner in which the government and citizenry interact, with a public record and independent oversight of each interaction. This is not difficult to achieve. There must be a provision for the citizen to register with the government any demand for gratification made by a member of the bureaucracy. To ensure that frivolous or malicious allegations are not made, anonymous complaints ought not to be entertained and all complaints should be made public.

Corruption is of two types – collusive and coercive. Collusive corruption is generally not talked about much as both parties are comfortable with it. Paying a small amount to a conductor for a berth in a train suits everyone. A contractor does not mind paying a mutually agreed sum to officials for

getting unauthorised deviations. A judge may agree to acquit an accused for a fee. A tax evader may willingly give a few lakhs to the appellate tax authority rather than pay huge amounts of penalties to the exchequer. Ingeniously, collusive corruption is referred as speed money, convenience fee, facilitation expenses or departmental overheads. The bribe giver willingly offers gratuity to the official for out-of-turn favour. Many businesses thrive on such dealings. No one complains. Demonetisation may not be able to rule out collusive corruption as it is a win-win situation for both the bribe giver and the bribe taker.

### **B. Stop Terror Funding**

The financial hit likely to be taken by a terrorist group is closely linked with its cash reserves, the ability to retain liquidity in a business where terror groups choose to invest and the ease of reconverting these assets into liquid money. Groups in Northeast India and the CPI (Maoist) operating in the Naxal affected areas of the country are likely to be hit the most, as a large proportion of their financial reserves are more likely to have been held as cash. Further, investments in property will become relatively difficult to liquidate to recreate funds for organisational support mechanisms.

In contrast, Pakistan and J&K-based terror groups, while impacted, will be able to recuperate faster as they are financed by the Pakistani State, rich donors in West Asia, voluntary collections in Pakistan, FICN or drug money. None of these can be impacted in the long term to an extent that terror organisations are unable to sustain themselves. However, the impact will certainly be felt in the immediate and midterm future, wherein, the cash available for sustaining activities, like civil disobedience in Kashmir Valley, will be sucked out of the terror economy.

Though demonetisation can potentially create the necessary conditions for combating the finance of terrorism and is an important step in the fight against the finance of terrorism, it is neither the first nor the last if the interlinked threats of corruption, crime and the finance of terrorism have to be controlled.

### **6. Success of Demonetization - Discussion**

In the backdrop of the RBI's report stating that 99 per cent of the demonetised cash had come back into the banking system, the government today released data to substantiate its claim that note ban has achieved all its objectives.

#### **A. India's Highest Ever Detection Of Black Money**

- Scrutiny of suspected 18 lakh accounts done
- Cash deposits worth Rs 2.89 lakh crore under investigation
- Advance data analytics tools identified 5.56 lakhs new suspect cases

- 4,73,003 suspicious transactions detected
- Undisclosed income worth Rs. 29,213 crore detected and admitted.
- Black money worth Rs 16,000 crore did not return post demonetization
- 21 per cent reduction in currency in circulation

#### **B. Unprecedented Increase In Tax Compliance**

- 56 lakh new tax payers added
- Number of returns filed increase 24.7 per cent compared to 9.9 per cent in previous year
- Advance tax collections of personal income tax grow at 41.79 per cent over same period of last year
- Personal income tax under self-assessment tax grow at 34.25 per cent over same period last year.

#### **C. Cleansing India's Financial System**

- Transactions of more than three lakh suspected shell companies under the radar
- 2.1 lakh shell companies de-registered
- Around 450 companies delisted and 800 untraceable companies to be further delisted.
- More than 400 benami transactions identified and market value of properties attached more than Rs 800 crore

#### **D. Slew Of Benefits To The Country**

- Deposits in the banking system increased around Rs 3 lakh crore
- Additional liquidity helped reduce interest rates by 100 basis points
- Digital payments increase by 56 per cent from 71.27 crore transactions in October 2016 to 111.45 crore transaction in May, 2017
- More than one crore workers added to EPF and ESIC system post-demonetisation.
- Bank accounts opened for about 50 lakh workers to get their wages credited directly in their accounts

### **7. Conclusion**

The demonetisation can well trigger a recession, while not entirely addressing the black economy. This will also affect Reduce the corruption, and Stop terror funding. This demonetisation is not likely to impact the structure, level and incidence of corruption in India. A well-planned demonetisation system can prove beneficial for any economy. However, in case of mishandled support, this may also cause problems. Hence, a public support must be sought for the overall success of this policy. Post demonetization in November 16, the Indian government is monitoring the release of the new currencies and make sure that only the legal currencies are in circulation.

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