

# CASHLESS POLICY AS AN INSTRUMENT TO CONTROL THE CORRUPTION

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## ABSTRACT

*Corruption is a complex and multifaceted phenomenon with multiple causes and effects, as it takes on various forms and functions in different contexts. The phenomenon of corruption ranges from the single act of a payment contradicted by law to an endemic malfunction of a political and economic system. The problem of corruption has been seen either as a structural problem of politics or economics, or as a cultural and individual moral problem. The definition of corruption consequently ranges from the broad terms of “misuse of public power” and “moral decay” to strict legal definitions of corruption as an act of bribery involving a public servant and a transfer of tangible resources.*

**Keywords:** Cashless Policy, Corruption, Control, Benefits

## INTRODUCTION

Corruption is a problem that mainly arises in the interaction between government and the market economy where the government itself must be considered endogenous. Therefore it is complex to handle from a theoretical point of view. This difficulty is underlined by the fact that data are difficult to gather, and, if available, data are often “soft”, unreliable and masked. Moreover, from an aid organization’s point of view the issue of anti-corruption may become diplomatically delicate since at least some of the stakeholders who are handling the aid instruments in the partner countries, are likely to be part of the problem.

## REVIEW OF LITERATURE

Corruption manifests itself in many forms which include fraud, embezzlement, bribery, favoritism, extortion, abuse of discretion, and conflict of interest (United Nations office of Drug Control and Crime Prevention, 2005). It is considered as a dynamic and complex social phenomenon given its changing meanings, manifestations, proliferations, and perceived impacts. Klitgaard (1988) provided a classical analysis of corruption by pointing out that acts of corruption involve three parties namely the principal, agent, and the client. The principal creates rules directed at assigning task to the agent and these rules were intended to regulate exchange with the client. However, a conflict of interest may arise between the principal and agent when each of the two actors is maximizing utility. A client may also provide opportunity for the agent to cheat. Consequently, corruption will take place when the agent colludes with the client to sideline the rules set up by the principal for personal aggrandisement. Studies show that the set of behaviours designated as corrupt are not homogenous, since, there are many forms of corruption with different types of participants, cultural and socio-economic contexts and techniques. This makes corruption difficult to define; however, many researchers have attempted to give corruption a definition with each lacking in some aspect. The most popular and simplest definition is the one given by the World Bank that “it is the abuse of public power for private benefit (World Bank, 2004). Other definitions are; it is the intentional non-compliance with arm’s length relationship aimed at deriving some advantage from this behaviour for oneself or for related individuals (Tanzi, 1995). It is seen as a function of dishonesty, a lack of integrity and the abuse of private and/or public office for personal gain.

## EFFECTS OF CORRUPTION ON SOCIETY:

**Disregard for officials:** People start disregarding the official involved in corruption by talking negatively about him. But when they have work with him or her, they again approach them by a thought that the work is done if some monetary benefits are provided. [Disregard](#) towards officials will also build distrust. Even lower grade officer will be disrespectful to higher grade officer. So even he may not obey his orders. There were even incidents where a lower grade police officer kidnapped higher grade officer for not offering him leave when asked.

**Lack of respect for rulers:** Rulers of the nation like president or prime ministers lose respect among the public. Respect is main criteria in social life. People go for voting during election not only with the desire to improve their living standards by the election winner but also with respect for the leader. If the politicians involve in corruption, people knowing this will lose respect for them and will not like to cast their vote for such politicians.

**Aversion for joining the posts linked to corruption:** Sincere, honest and hard working people develop aversion to apply for the post though they like to as they believe that they also need to be involved in corruption if they get into post.

### EFFECTS OF CORRUPTION ON ECONOMY

**Decrease in foreign investment:** There are many incidents where in foreign investments which were willing to come to India have gone back owing to heavy corruption in the government bodies.

**Delay in growth:** Due to desire to mint money and other unlawful benefits, the official who need to pass the clearances for projects or industries delay the process. A work which can be done in few days may be done in month's time. This leads to delay in investments, starting of industries and also growth. Even if started, company growth hinders as every work linked to officials get delayed due to need to provide bribes or other benefits

**Lack of development:** Many new industries wiling to get started in particular region change their plans if the region is unsuitable. If there are no proper roads, water and electricity, the companies do not wish to start up there. This hinders the economic progress of that region.

### CASHLESS ECONOMY

India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India a cashless society, with the aim of curbing the flow of black money.

Even the RBI has also recently unveiled a document — **"Payments and Settlement Systems in India: Vision 2018"** — setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long term.

#### What is a cashless economy and where does India stand?

- A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.
- India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil.
- Less than 5% of all payments happen electronically
- The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.
- Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

### BENEFITS OF CASHLESS ECONOMY

- Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
- It will curb generation of black money.
- Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets.
- In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. **This could be avoided if we become cashless society.**
- It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

### PROSPECTS FOR CASHLESS ECONOMY IN INDIA

Cashless Economy is when the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) in India.

As of now, Cashless Economy has only academic importance. The Indian Economy continues to be driven by the use of cash; less than 5% of all payments happen electronically. in India, the ratio of cash to gross domestic product is 12.42% in GDP, which is one of the highest in the world. It was 9.47% in China or 4% in Brazil. Further, the number of currency notes in circulation is also far higher than in other large economies; India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

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**BENEFITS OF CASHLESS ECONOMY**

The cashless economy has its own advantages. The transaction costs are coming down and will further go down. Once a substantial part of transactions are cashless, it would bring down the cost of printing, managing and moving money around. Further, the cashless economy automatically solves the problems of cash out on long holidays, risk of carrying currency notes etc. Further, the lesser use of cash strangulates the grey economy, prevents money laundering and increase tax compliance. Increased tax base would result in greater revenue for state and greater amount available to fund the welfare programmes. Lastly, Cash being material, can be prevented from circulation but electronic channels alleviate this friction and increase circulation of currency.

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