Development of Financial Innovations and Technologies

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Annotation: This article highlights the history of credit cards and their significance in the field of financial innovations. It analyzes the contribution of credit cards to societal development in connection with Adam Smith's "invisible hand" theory. The process from the initial introduction of credit cards to the competition between banks and the formation of the modern financial system is thoroughly examined. Additionally, the state's intervention in economic processes through the "visible hand" and measures against monopolies are discussed. The article demonstrates that credit cards are not only a convenience tool but also a symbol of revolutionary changes in the global economy.

Keywords: credit cards, financial innovations, "Invisible Hand" theory, banking system, financial competition, modern economy, "Visible Hand" of the state, global financial system.

Аннотация: В данной статье освещена история кредитных карт и их значение в сфере финансовых инноваций. Рассматривается вклад кредитных карт в развитие общества в контексте теории "невидимой руки" Адама Смита. Подробно изучены процессы, начиная с первого введения кредитных карт, конкуренции между банками и до формирования современной финансовой системы. Также обсуждаются вмешательство государства в экономические процессы через "видимую руку" и меры против монополий. В статье показано, что кредитные карты являются не только инструментом удобства, но и символом революционных изменений в глобальной экономике.

Ключевые слова: кредитные карты, финансовые инновации, теория "невидимой руки", банковская система, финансовая конкуренция, современная экономика, "видимая рука" государства, глобальная финансовая система.

INTRODUCTION:

Financial innovations and technologies, as an integral part of the modern economy, are evolving on a global scale, playing a crucial role in accelerating economic processes, enhancing efficiency, and creating new economic opportunities. Over the past decades, the rapid development of digital technologies has brought about revolutionary changes in the financial services sector. Digital payment systems, blockchain technology, cryptocurrencies, and financial platforms powered by artificial intelligence have driven the formation of a new economic model.

In particular, the advancement of financial technologies ensures the rapid development of small and medium-sized businesses, including craftsmanship and entrepreneurship sectors. Financial innovations not only increase the speed of services but also expand financial inclusion by offering services that reach various segments of the economy. Notably, remote banking services and electronic payment systems are significantly widening the geographical boundaries of economic activities. This, in turn, lays a solid foundation for enhancing competitiveness in global markets and introducing new economic mechanisms.

In today's context, financial innovations have become not only a driver of technological advancement but also a critical factor in ensuring economic stability and social development. This article is dedicated to exploring the role of financial innovations and technologies in the modern economy, their impact on socio-economic processes, and their prospects for future development. Through this, the significant achievements of financial technologies on both global and local scales, as well as their role in shaping the economy, will be highlighted.

ANALYSIS AND LITERATURE.

Adam Smith, The Wealth of Nations (Chicago: University of Chicago Press, 1977).

This edition is a modern revision of Adam Smith's classical work in the field of economics. It serves as a crucial resource for exploring the theoretical foundations of market economy and economic freedom. The economic principles outlined on page 408 help in understanding the historical foundations of the development of craftsmanship and the creative economy. This analytical approach particularly demonstrates how to integrate economic efficiency with a creative approach

Global Payment Systems: An Overview (McGraw-Hill Education, 2019).

This source, which explores the global development of payment systems and current trends, is essential for studying the use of modern economic technologies in the field of craftsmanship. Pages 50–55 analyze the impact of payment systems across various industries, highlighting their role in economic transformation.

Adam Smith, The Wealth of Nations (London: W. Strahan and T. Cadell, 1776).

The original edition of this work is a vital resource for understanding the fundamental principles of economics. On pages 45–50, Adam Smith discusses the impact of production on value creation and the role of the division of labor in enhancing economic efficiency. This information is particularly useful for analyzing the mechanisms of value creation in craftsmanship.

MasterCard International Inc., "History and Development of Payment Systems."

This source, which outlines the history and development of electronic payment systems, plays a significant role in analyzing the integration of payment systems in craftsmanship. Pages 30–35 provide insights into how modern payment systems simplify and streamline economic processes, offering valuable information for understanding their application in creative industries.

ANALYSIS AND RESULT.

Financial innovations are often not planned by centralized institutions but emerge as a result of the proactive efforts of individual entrepreneurs and firms. The fundamental economic incentives driving innovations in the financial sector are essentially no different from those observed in other areas of human activity. As Adam Smith emphasized in his works, "Every individual endeavors to employ his capital in a way that produces the greatest value. His primary aim is not necessarily to serve the public interest, nor is he always aware of how much he contributes to it. His concern lies with his own security and profit. Nevertheless, in pursuing his own interests, he is often led by an invisible hand to promote societal benefits. By following his own advantage, he frequently contributes more to societal development than he ever intended to."

Thus, the actions people take to pursue their own interests can ultimately serve the broader interests of society. This phenomenon is referred to in economics as the "invisible hand." According to Adam Smith’s "invisible hand" theory, despite being naturally self-centered and profit-driven, individuals’ efforts to maximize their personal gains often result in outcomes beneficial to society as a whole. The most intriguing aspect of this process is that individuals typically do not act with the explicit intention of enriching society. However, through the workings of the invisible hand, the allocation of material resources enhances the overall welfare of society

In the theory of market economy, the "invisible hand" is considered an effective mechanism for resource allocation. However, due to certain external factors, this theory does not always function perfectly.

In situations where the market's "invisible hand" fails, economic principles suggest that the state should intervene using its authority to improve the situation. For instance, if chemical factories pollute the environment, the state can address this issue by implementing laws aimed at protecting the environment.

Another factor that disrupts market efficiency is the concentration of market control in a single hand (monopolies and cartels). Such scenarios negatively affect economic efficiency. To address these unhealthy conditions, the state can directly intervene. This kind of state intervention aimed at restoring market health is referred to in economic literature as the "visible hand of the state."

A practical example can illustrate this theory. In the 1960s, a young man traveling abroad faced the economic and technological limitations of the time. Due to language barriers, the complexities of pre-arranging agreements with foreign banks, and the lack of modern, convenient payment methods, travelers often worried about running out of money. In such cases, they had to send a telegram to their home country and arrange for a bank transfer via telegraph. One can only imagine how cumbersome and expensive this process was.

Today, modern young travelers no longer face such challenges. Credit cards (e.g., VISA, MasterCard, American Express) are widely accepted almost everywhere worldwide. For instance, to pay for a hotel abroad, you simply hand your card to the attendant, who inserts it into a special device. Within seconds, the bank guarantees the payment. You sign the receipt and continue your journey hassle-free.

Furthermore, this system has significantly reduced the risk of losing or having money stolen. If you lose your credit card, you simply need to contact a nearby bank. The bank cancels the card and issues a replacement. In many cases, a temporary credit line is even provided.

In the history of innovation, it is often observed that the companies which initially develop ideas with the potential for economic benefits miss out on the opportunity to earn substantial profits. This phenomenon is also characteristic of the financial sector, including the experiences surrounding credit cards. For example, the idea of credit cards for international travel was first introduced by Diners Club after World War II. The company’s success inspired competitors like American Express and Carte Blanche to adopt and improve upon the technology.

Companies in the credit card industry generate revenue from two primary sources: commissions paid by retailers (a percentage of the transaction amount) and interest charges paid by consumers for using credit. However, these companies also face significant losses due to operational costs, card theft, or consumers' inability to fulfill their financial obligations.

In the 1950s, commercial banks experimented with credit card programs but struggled to succeed due to high operational costs. By the late 1960s, advancements in computer technology significantly reduced these costs, allowing banks to become competitive in this sector. Today, VISA and MasterCard dominate the market, while Diners Club and Carte Blanche have drastically lost their market share.

The intensifying competition among banks is clearly demonstrated in the case of Bank of America. From 1958 to 1966, the bank dominated the credit card market in California, generating substantial profits. However, by 1966, four major California banks united to launch the new Master Charge program. At the same time, First National City Bank (now Citibank) entered negotiations to acquire Carte Blanche. These initiatives created formidable competition for Bank of America.

Between 1966 and 1970, banks demonstrated significant interest in the credit card business. They issued a large volume of cards, initiating a "credit card revolution" in the market. Although banks experienced substantial losses during these years, these developments laid the foundation for the modern electronic credit card system. Today, this system has become a symbol of the plastic payment revolution in banking.

As a result of the competition among major credit card issuers, the costs of customer service have become relatively minimal. For most modern travelers, using credit cards is not only convenient but also more advantageous than relying on traveler’s checks.

This observation leads us to another point about financial innovations. Analyzing the interaction between people's needs and the services provided by financial institutions allows us to predict future changes in the financial system. For instance, considering the significant advantages of payment methods like credit cards, is it worth contemplating the future of traveler’s checks? Might they face a fate similar to that of the slide rule, which became obsolete after the invention of calculators?

Credit cards are just one example of many financial products developed over the past 40–50 years that have fundamentally transformed human economic behavior. Collectively, these innovations have enhanced the ability to achieve an effective balance between risk and return, make smarter personal investment decisions, and plan finances more efficiently over a lifetime. They provide individuals with greater flexibility to adjust to their needs, whether by saving during working years or utilizing accumulated funds during retirement.

CONCLUSION AND RECOMMENDATIONS.

The history of financial innovations, particularly credit cards, highlights the transformative global changes that occur as individuals strive to meet their economic needs. The introduction of credit cards has played a crucial role in improving economic efficiency and popularizing financial services. However, in today's context of technological advancement and global economic integration, new challenges are emerging. Therefore, to make financial innovations more efficient and secure, the following recommendations are proposed:

Enhancing Financial Literacy:

To maximize the effectiveness of credit cards and other financial technologies, it is essential to improve public financial literacy. Governments and the private sector should collaboratively launch educational programs to teach individuals how to use digital financial tools wisely. This is especially important for reducing debt levels and preventing financial mistakes.

Strengthening Security Systems:

The rapid development of digital financial services requires robust cybersecurity measures. By adopting innovative technologies, such as blockchain and artificial intelligence, it is essential to enhance payment systems and safeguard user data.

Promoting Social and Environmental Sustainability:

Financial innovations should not only aim for economic profitability but also work toward ensuring social equity and maintaining environmental sustainability. Expanding financial inclusion to create equal opportunities for all and supporting "green technologies" are vital for fostering global development.

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