EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

FINANCE AS IDEOLOGY: THE NORMATIVE AND PERFORMATIVITY STRUCTURE OF FINANCIAL ECONOMICS

PETER KRIŠTOFÍK[1]

Abstract: *This essay examines financial economics not just as a technical science of analysis, but as a value-influenced discourse composed of philosophical assumptions and learned social values. The subject matter tends to present itself as objective and value-free, even though the dominant models promote a specific view of rationality, efficiency, and maximisation of value. Citing the philosophy of science and critical epistemology, the essay highlights how financial economics is implicated in shaping the very realities it purportedly studies – by providing the tone for expectations of human behaviour, market activity, and the validity of institutions. Through critical readings of standard models such as the Capital Asset Pricing Model (CAPM), the Efficient Market Hypothesis (EMH), and the Black–Scholes model, the paper illustrates how theory can be employed to naturalise existing power relations and institutional structures. Against this, it argues for a more reflexive and pluralistic economic thought that values its normative commitments and is open to alternative modes of thinking.*

Keywords: *financial economics, ideology, philosophy of science, epistemology, rationality, economic models, performativity*

JEL Classification: A13, B41, B50

[1]Peter Krištofík, prof. Ing. PhD., Matej Bel University, Faculty of Ecoonomics, Slovakia,
e-mail: peter.kristofik@emb.sk, https://orcid.org/0000-0002-7612-0418

1 Introduction: Methodological Foundations

Throughout a great deal of professional and academic writing, economics is presented as a science that can offer universal, objective descriptions of the operation of markets and the allocation of resources. This image was affirmatively bolstered throughout the second half of the twentieth century, when the development of neoclassical theory, supported by progressively formal mathematical methods, established a dominant orthodoxy. Within this framework, financial economics often appears as the most precise branch of the field, grounded in quantitative techniques, probabilistic reasoning, and optimisation theory.

Yet this portrayal has been steadily questioned. As with political economy – its intellectual ancestor – economics is neither free from values nor immune to the influence of prevailing social structures. The models it produces do more than depict the world; they prescribe how it should operate. They influence policy design, shape regulatory standards, and frame the decisions of both private and public actors.

Stahel (2020) has pointed out that contemporary mainstream economics functions not only as an analytical toolkit but also as a normative authority. Its core assumptions, ranging from the rationality of individuals to the efficiency of markets and the inevitability of private property, are rarely interrogated within the field itself. Instead, they are embedded in theories, policies, and institutional practices, gradually acquiring the status of self-evident truths. In the case of financial economics, the result is often an increasing detachment from social and historical realities, as models evolve towards a level of abstraction that obscures their own ideological content.

Philosophically, this tendency reflects a belief in what might be called scientific objectivism: the idea that knowledge can be generated independently of social interests and moral considerations. Critics from various traditions – critical theory, science studies, and postmodern philosophy – have challenged this conviction, showing that every discipline operates within paradigms that define not only what counts as a valid question, but also what is regarded as an acceptable answer. For economics, that paradigm has been most consistently built around the figure of homo economicus – a rational, utility-maximising individual whose behaviour is taken as the basic unit of analysis.

EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

The purpose of this paper is to reflect critically on financial economics as a form of reasoning that cannot be separated from the normative frameworks it sustains. The argument follows the ideological roots of prevailing paradigms, looks at their broader social consequences, and calls for a rethinking of the discipline's epistemological position. Finally, it advocates for a style of economic analysis that is more reflexive, more pluralistic, and more receptive to its own ethical and political aspects.

2 From Political Economy to Scientific Neutrality: A Historical Shift

Understanding the ideological origin of contemporary economic science, especially financial economics, requires looking back to its intellectual lineage. Economics of today originated in the conventional political economy, which dominated the 18th and 19th centuries. Thinkers such as Adam Smith, David Ricardo, and Karl Marx did not only have a theoretical interest in how economies function but also profound ideas on justice, property, power, and balance in society. Political economy was not a value-free science; it was intrinsically bound up with normative issues in how society ought to be structured.

One of the major turning points was at the turn of the 19th century in the marginalist revolution, when new scholars like Jevons, Menger, and Walras brought a change toward mathematical formalism, individual decision-making orientation, and equilibrium conception. With this change, economic science departed from socio-philosophical contemplation toward axiomatic and formalist comprehension of economic realities. At the centre of this new paradigm was the homo economicus – an independent, rational agent who would try to optimise utility under an assumed constant set of constraints and preferences.

This transformation was not solely methodological; it was also epistemological and ideological. As Philip Mirowski (1989) points out, during the 20th century economics increasingly sought to resemble physics – searching for universal laws, abstract formal models, and predictive algorithms – thus distancing itself from historical and social contingency. Economics began to present itself as an objective, value-neutral, and exact science. Formal characteristics such as mathematical symbols, differential equations, and optimisation algorithms replaced explicit normative debates on equality, justice, or power.

However, this "scientific turn" was neither neutral nor ideologically innocent. As Stahel again emphasises, many of the foundational assumptions of neoclassical economic theory, such as the rationality of actors, the naturalness of private property, or the efficiency of markets, carry inherent normative content, even as they are presented as empirically validated axioms. What results in an axiomatized ideology[2], rather than a set of purely analytical tools.

At the same time, this development marked a growing detachment of economics from social reality and lived experience. As Mirowski (2013) writes, economics has become an "ideology with equations" – a closed theoretical system with internal logical coherence, yet with only a limited capacity to reflect the complexity and conflicts of the real world.

This raises a pressing question: can economics, particularly financial economics, still be considered a value-neutral science, or is it better understood as an ideological discipline that legitimises a specific form of social order – market capitalism, individualism, and capital accumulation? The question is increasingly urgent given the ongoing dominance of the mainstream and the marginalisation of alternative schools that offer perspectives on power, inequality, sustainability, and responsibility (Tooze, 2021).

The result is not only a methodological one-dimensionality but also a constrained perception of pluralistic perspectives that could broaden our understanding of economic processes by incorporating questions of power, inequality, sustainability, and responsibility.

3 Financial Economics as an Ideological Generalization

Financial economics today represents one of the most advanced forms of formalised and quantitative approaches within economic science. It builds upon the premises of neoclassical theory, which further develops and applies to the specific environment of financial markets. Its foundational models – such as the Efficient Market Hypothesis (EMH), the Capital Asset Pricing Model (CAPM), the Rational Expectations Hypothesis, or the Black-Scholes option pricing model – have become not only central to academic teaching, but also

[2] By *ideology*, we mean a coherent set of ideas, assumptions, and values that underpin and legitimise a particular social and economic order - often operating implicitly and presented as neutral or inevitable.

EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

to regulatory practice, investment decision-making, and financial engineering.

However, these models should not be seen as purely neutral analytical tools. As emphasised by several critical scholars, including Michel Callon, Donald MacKenzie, and Philip Mirowski, these are generalizations that conceal value-laden assumptions and normative orientations. The idea that asset prices always reflect all available information, for instance, does not only function as a hypothesis, but it becomes an implicit norm of market rationality, legitimising deregulation, the privatisation of risk, and the individualisation of responsibility.

Financial theory operates with highly idealized assumptions: agents are rational, markets are liquid, information is symmetrically distributed, and the environment is stable enough to allow for reliable prediction. While analytically convenient for constructing formal models, these assumptions also generate an illusion of scientific precision and predictive power that does not correspond to the actual complexity of the real (financial) world.

As Donald MacKenzie argues in *An Engine, Not a Camera*, financial models do not only reflect reality – they actively shape it. For example, the Black-Scholes model did not simply determine a theoretical price for options; it created expectations, standards of behaviour, and a market infrastructure that adapted to the model itself. This is what Callon (1998) terms *the performativity*[3] of economics: the idea that economic theory is not purely descriptive, but also constitutive of the world it purports to explain.

Performativity is particularly consequential in areas such as ESG finance and climate-risk modeling, where new metrics and disclosure standards do not simply measure sustainability – they define it (e.g., Bolton et al., 2022). Theories and models thus carry implicit power to decide what counts as "responsible" investment.

The 2007–2009 global financial crisis revealed the fragility of models that, while mathematically consistent, failed to capture systemic risk, uncertainty, and non-rational behaviour. In such moments, financial economics faltered not only as a forecasting instrument but as a guarantor of rationality. The

[3] In this context, *performativity* refers to the capacity of economic theories and models not merely to describe markets, but to actively shape market behaviour, institutional practices, and policy frameworks.

perceived precision proved to be a technocratic fiction.

Nevertheless, they were used to inform decisions, thereby contributing to the system's fragility. Financial economics failed here not only as a forecasting tool but also as an epistemic guarantor of rationality; the illusion of reliability was revealed to be a technocratic fiction.

This leads us to a fundamental realisation: financial economics does not operate as a purely scientific discipline but rather as an ideological structure that legitimises and reproduces a specific form of capitalist rationality. As Andri W. Stahel argues, its models function as "epistemic shields" that protect market logic from societal critique, transforming normative values such as profit, efficiency, and return on investment into seemingly objective knowledge claims.

The ideological function of financial economics is also evident in the systematic marginalisation of alternative ways of thinking about finance. Ethical investing, participatory budgeting, environmental and social criteria, as well as feminist or postcolonial approaches to finance, are often dismissed as "unscientific," "emotional," or "impractical." The hegemony of financial economics is thus not merely academic – it is socio-political in nature.

It is therefore necessary to view financial economics not only as a tool of knowledge, but also as a normative instrument of world-making – an apparatus that shapes our conceptions of what is economically rational, legitimate, or a "natural" state of market relations. And it is precisely these conceptions that must be subjected to philosophical and societal scrutiny.

4 Results

One of the most pressing challenges for financial economics is its epistemological self-understanding. In most mainstream approaches, it is still implicitly assumed that economic science, including financial economics, is capable of objectively and neutrally describing reality through universal models. Yet this assumption has become increasingly problematic, especially at a time when market failures, global crises, and climate challenges can no longer be meaningfully explained within classical models of rationality and equilibrium.

EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

As Thomas Kuhn (1996) points out, scientific knowledge does not develop linearly or cumulatively, but rather through paradigm shifts – scientists do not merely agree on facts, but also on what counts as a legitimate object of inquiry and what constitutes a valid answer. In the case of economics, and financial economics in particular, we can observe the rigidity and closure of the dominant paradigm. Although there is a growing body of knowledge that calls its foundational assumptions into question (e.g., behavioral anomalies, market irregularities, ecological externalities), such findings are typically not integrated as grounds for revising core theory, but rather reclassified as "special cases" or "departures from the ideal."

This approach is consistent with the instrumentalist view of science articulated by Milton Friedman (1953), which holds that models need not be realistic, only useful. Yet this stance has led to a situation in which formal consistency is privileged over empirical relevance. Financial economics thus often remains disconnected from the complex social, psychological, and ecological realities it purports to describe.

For this reason, the need for epistemological pluralism is becoming increasingly evident. Alternative economic paradigms – such as post-Keynesian, behavioral, feminist, ecological, or institutional economics – highlight the limits of the individualistic and formalist framework and argue for the inclusion of institutions, power, value conflicts, and psychological irrationality. Likewise, philosophical and ethical perspectives remind us that definitions of efficiency, success, or risk are not value-neutral, but reflect normative visions of the good life and of just social arrangements.

One of the most compelling arguments for pluralism is the recognition that every economic decision entails a normative dimension. The selection of objective functions, assumptions, model variables, or data always involves value judgements – what we consider relevant, acceptable, or desirable. Suppressing this normative dimension fosters a false illusion of objectivity, which then becomes an obstacle to open academic and public debate.

Calls for such pluralism have grown louder in the wake of global crises and climate imperatives, with recent work in ecological and sustainable finance (e.g., Hambel et al., 2024) stressing the need for integrating environmental limits and intergenerational equity into financial theory.

Pluralism is not renouncing critical thought but being open to accepting a variety of kinds of rationality, methodologies, and social values. Pluralism also involves the need to establish genuine dialogue with other disciplines such as philosophy, sociology, political science, psychology, law, or ecology – those sciences that can enrich financial theory with other visions and horizons.

At the same time, pluralism requires institutional and pedagogical change: reforming the teaching of economics, opening academic journals to alternative approaches, and revising publication criteria to value not only technical proficiency but also epistemic reflection and societal relevance.

A financial economics that remains enclosed in its mathematical formalism risks losing the trust not only of the public but also of the broader scientific community. Openness to plurality is not a renunciation of scientific standards – it is a transformation of those standards in the name of complexity, humility, and social responsibility.

5 Financial Economics as a Normative Science: Final Reflections

Financial economics is often presented as a technical discipline that, thanks to quantitative methods and mathematical rigour, offers an objective perspective on the world of finance. However, this image is misleading. As we have demonstrated in the previous sections, financial models are built on assumptions that are not neutral but reflect specific ideological orientations. Assumptions about rational actors, efficient markets, and the prioritisation of financial returns over other forms of value are rarely subjected to critical scrutiny but are instead accepted as self-evident norms.

These norms, however, are not simply descriptive – they are performative. Financial theory shapes the reality it claims to describe. As Donald MacKenzie (2006) has argued, models such as Black-Scholes did not merely predict option prices; they actively shaped market expectations. Financial economics thus becomes a performative science – not only analysing but also co-creating economic behaviour, regulatory frameworks, and societal expectations.

This performativity is precisely why financial economics cannot be viewed as a purely analytical science. It is a normative discipline that, through its models and frameworks, promotes a specific vision of what is economically rational,

EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

successful, or permissible. Maximising shareholder value, rationalising risk through derivatives, or abstract notions of efficiency are not neutral technical solutions; they are expressions of a social philosophy that directly influences decisions about resources, consequences, and responsibility.

In addition, with escalating global crises – climatic, social, geopolitical – ever more evident is that financial rationality in older models is inadequate. These fail to capture interactions between the economy and nature, cannot answer questions of intergenerational justice, and tend to discount questions of power and inequality. To this degree, there is expanding recognition of the need to redefine the aims and instruments of financial economics in the interests of enhanced social responsibility.

From a policy perspective, identifying the normative dimension of financial economics is not an exclusively philosophical exercise. It has practical ramifications for how we design regulatory frameworks, corporate governance codes, and sustainability reporting standards. If the models we use have implicit values, then those values must be made explicit, debated, and, where necessary, aligned with long-term societal goals such as climate resilience, financial inclusion, and equitable resource distribution. Theory then serves to direct practice towards results that reach beyond profit maximisation in the short term.

From this perspective, it is essential for financial economics to:

- Explicitly acknowledge its normative dimension as not only a description, but also part of societal decision-making about what constitutes value, success, and risk;

- Embrace a pluralism of methods and ethical positions in order to expand our understanding of economic rationality beyond individualism;

- Augment its methodological arsenal with qualitative, historical, and institutional analyses, without which it is impossible to grasp systemic complexity;

- Engage in active interdisciplinary dialogue with philosophy, ethics, political science, sociology, and environmental studies – the disciplines that are critical to grasping the deeper dimensions of economic phenomena.

Financial economics can no longer pretend to stand outside society. Its models, recommendations, and premises have real consequences for the distribution of wealth, access to resources, regulatory structures, and behavioural norms. It is therefore essential that it undergoes a critical reflection of its own ideological structure. Otherwise, it risks losing the ability to meaningfully engage with a world changing faster than its models can predict.

6 Conclusion

Over the course of the 20th century, financial economics has established itself as a recognised scientific discipline. However, this institutionalisation has not occurred without epistemological and ideological consequences. Models originally intended as analytical approximations have gradually become normative frameworks that influence market behaviour, regulatory policy, and conceptions of economic rationality. Under the guise of scientific neutrality, financial economics disseminates a specific ideology – legitimising market solutions, individualism, profitability, and short-term efficiency as universal norms.

As we have shown, this situation calls for critical philosophical reflection. Financial economics is not a science in any neutral sense – it is a system of thought that organizes social expectations, prescribes what is considered "rational," and, in its performative effects, influences reality itself. Ignoring this reality generates epistemic and societal ignorance, which becomes notoriously apparent in times of financial, ecological, and social crises.

The future of financial economics, therefore, cannot lie solely in refining models within the existing paradigm. It requires a paradigmatic shift: from closed formalism to open plurality; from pseudo-neutrality to normative transparency; from isolated expertise to interdisciplinary dialogue. It requires the return of philosophy to economic thinking – not as an add-on, but as an integral component.

If financial economics is to remain relevant, it must ask not only "what is," but also "what ought to be" and "whom do we serve?" Not in the sense of moralising, but as an expression of epistemic humility and intellectual responsibility. That is where its true scientific, social, and philosophical significance lies.

EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

Acknowledgement

This paper was supported by grant scheme VEGA 1/0120/25 “Research on paradigms and determinants of management and implementation processes of ESG in the context of the required financial performance of companies and changes resulting from the CSRD directive”.

REFERENCES

[1] Bolton, P., Halem, Z., & Kacperczyk, M. (2022). The Financial Cost of Carbon. *Journal of Applied Corporate Finance, 34(*2), 17-29. https://doi.org/10.1111/jacf.12502

[2] Callon, M. (ed.). (1998). *The Laws of the Markets*. Oxford: Blackwell.

[3] Chang, H.-J. (2002). *Kicking Away the Ladder: Development Strategy in Historical Perspective.* London: Anthem Press.

[4] Fine, B. (2002). *The World of Consumption: The Material and Cultural Revisited* (2nd ed.). Routledge.

[5] Friedman, M. (1953). The Methodology of Positive Economics. In *Essays in Positive Economics*, 3 – 43. Chicago: University of Chicago Press. https://doi.org/10.1017/CBO9780511581427.002

[6] Hambel, C., Kraft, H., & van der Ploeg, F. (2024). Asset Diversification versus Climate Action. *International Economic Review, 65*(3), 1323-1355. https://doi.org/10.1111/iere.12691

[7] Horkheimer, M. (1972). *Critical Theory. Selected Essays*. New York: Herder and Herder.

[8] Kuhn, T. S. (1996). *The Structure of Scientific Revolutions* (3rd ed.). Chicago: University of Chicago Press. https://doi.org/10.7208/chicago/9780226458106.001.0001

[9] Lawson, T. (1997). *Economics and Reality*. Routledge. https://doi.org/10.4324/9780203195390

[10] Mackenzie, D. (2006). *An Engine, Not a Camera: How Financial Models Shape Markets*. Cambridge, MA: MIT Press. https://doi.org/10.7551/mitpress/9780262134606.001.0001

[11] McCloskey, D. N. (1998). *The Rhetoric of Economics* (2. ed.). Madison: University of Wisconsin Press.

[12] Mirowski, P. (1989). *More Heat than Light: Economics as Social Physics, Physics as Nature's Economics*. Cambridge University Press. https://doi.org/10.1017/CBO9780511559990

[13] Mirowski, P. (2013). *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown*. Verso.

[14] Sayer, A. (2011). *Why Things Matter to People: Social Science, Values and Ethical Life.* Cambridge University Press. https://doi.org/10.1017/CBO9780511734779

[15] Soros, G. (2010). *The Soros Lectures: At the Central European University*. PublicAffairs.

[16] Stahel, A. W. (2020). Is economics a science? *Real-world economics review,* (94), 61 – 82. Available on: http://www.paecon.net/PAEReview/issue94/Stahel94.pdf

EKONOMICKÉ ROZHĽADY – ECONOMIC REVIEW, 2025, 54(3), 164 ─ 176
https://doi.org/10.53465/ER.2644-7185.2025.3.164-176

[17] Tooze, A. (2021). *How Covid Shook the World´s Economy*. Allen Lane.

[18] Van Horn, R., Mirowski, P. & Stapleford, T. A. (eds.). (2011). *Building Chicago Economics: New Perspectives on the History of America's Most Powerful Economics Program.* Cambridge University Press. https://doi.org/10.1017/CBO9781139004077