"Susan Strange saw the financial crisis coming, Your Majesty": The Case for the LSE's Great Global Political Economist

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Abstract

This paper makes three arguments. First, that Susan Strange (1923-1998), who founded the field of international political economy in the UK, is one of the principal thinkers who foresaw multiple aspects of the global financial crisis of 2008 and its aftermath. She deserves credit for her prescience but has been overlooked. Second, that Strange's insight was not a series of lucky guesses but emerged from a rich and consistent theoretical and philosophical understanding of "the political economy of the planet".[2] Third, that Strange should interest economists today and be thought of as a 'worldly philosopher' – after Heilbroner's term for the first political economists – rather than a figure in a sub-discipline of international relations. With the centenary of her birth in 2023, the time is ripe to reassess this great global political economist of the London School of Economics. It is time to put Strange back into the story we tell about financial globalisation and its discontents.

A Strange omission

Some thought history had stopped at the end of the Cold War. The global financial crisis of 2008 is one of the pivotal events which showed, if anything, it was accelerating. In the months after, economists and other policy elites scrambled to understand how the impossible had happened. The financial crisis had not erupted in a relatively under-developed region (think of Mexico in 1995 or Thailand in 1997), but inside the advanced and apparently sophisticated Western financial system.

One of the best early books to dissect what went wrong was *Fool's Gold* by the *Financial Times'* Gillian Tett. Published less than a year after the bankruptcy of Lehman Brothers, it offers both a brilliant exposé of the bankers who dreamt up the financial 'weapons of mass destruction' and an analysis of the intellectual failures behind the worst economic freeze since the Great Depression. Tett points to a "social silence" around credit derivatives which allowed the global banking system to spin almost unnoticed out of control. She despairs at the fragmentation of knowledge, the absence of "a more *holistic* vision of finance" and a lack of

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[2] John Pinder's introductory remarks for Susan Strange's talk on 'The limits of politics' at the LSE talk on 1 June 1995: "You could say that now her subject was the political economy of the planet". https://digital.library.lse.ac.uk/objects/lse:gaq423fok

generalists and “cultural watchdogs”.[3] The analysis is spot on, but Tett gets one big thing wrong.

She writes that the chain of links between the credit derivatives boom and real people was “so convoluted it was almost impossible for anybody to fit that into a single cognitive map.”[4] *Impossible? No one saw the crisis coming?* It’s a story often repeated by politicians and central bankers. It’s wrong, in part, because it overlooks a remarkable woman, a former journalist and researcher, who became one of the most influential academics in Britain in the late twentieth century: Susan Strange.[5]

Tett is not alone. Famously, Queen Elizabeth II asked professors at the London School of Economics (LSE) in 2008 why they did not notice the crisis coming. The moment has become a founding story of ‘new economics’. In the aftermath, the net was cast wide to catch those who did anticipate parts of the crisis. Many names have been put forward including Dean Baker, Steve Keen, Nouriel Roubini, Ann Pettifor, Raghuram Rajan, and Hyman Minsky.[6] But, a name that’s missing from virtually every list was much closer to home, hiding, like the credit boom, in plain sight. Strange arguably foresaw more aspects of the crisis than anyone else. Ironically, in light of the Queen’s question, she taught global economics and politics for almost thirty years at the LSE.[7]

Of all the answers to the Queen’s question from economists, commentators, and academics, one of the simplest and most truthful would have been: “The LSE’s Susan Strange saw the financial crisis coming, Your Majesty”.[8] If the Queen had got that answer, we can imagine she may have asked: “Really? How? What else did she say?” This paper offers some answers through a close reading of Strange’s writing, and of those inspired by her, ending with a call for renewed engagement with a unique and undervalued thinker.

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[3] Gillian Tett (2010) Fool’s Gold, Abacus.

[4] *Ibid.*

[5] When writing Fool’s Gold, Tett says that she “didn’t know about Strange and wished I had since it looks incredibly relevant!” She added that Strange “looks very prescient though! And deserves credit!” (personal communication with author, August 2021).

[6] See for example: Fullbrook, E. (2010), ‘Keen, Roubini and Baker win Revere Award for Economics’, in Fullbrook, E. (ed), Real World Economics Review Blog. Real World Economics Review, New York; https://rwer.wordpress.com/2010/05/13/keen-roubini-and-baker-win-revere-award-for-economics-2/ and Bezemer, D.J. (2009), “No One Saw This Coming”: Understanding Financial Crisis through Accounting Models. Faculty of Economics University of Groningen, Groningen, The Netherlands.

[7] Contrary to an often-repeated biographical myth, Strange did not come to academia after her journalism career. She began teaching at UCL at the age of 26 in 1949 – while working at *The Observer* in London – and continued in academia until her death in 1998. She left *The Observer* in 1957. She first taught part time at the LSE from 1959, and then more regularly every year from 1964 (after she left UCL) until her forced retirement due to age from LSE in 1988. She taught at the LSE for 29 years and in academia for 49 years.

[8] For other responses to the Queen see: Besley, T and Hennessy, P (2009), “The Global Financial Crisis – Why Didn’t Anyone Notice?”, British Academy Review, Issue 14 (November) and Neate, R (2012), “Queen finally finds out why no one saw the financial crisis coming”, The Guardian, 13 December 2012 - https://www.theguardian.com/uk/2012/dec/13/queen-financial-crisis-question

Did Strange really see the global financial crisis coming?

The 2008 crisis crashed not only stock prices, banking institutions, and the prospects of millions, but also economic theories - especially, the neoclassical macroeconomic theories which dominated policy-making and leading universities in the US and UK. They were bankrupted by awkward and undeniable facts. Global financial markets revealed themselves to be far more anarchic, less rational, and difficult to manage than believed. Sophisticated financial products such as derivatives made the financial system more not less risky, especially over-the-counter (OTC) trades. Senior bank managers and regulators did not understand the complex transactions. Banks – which had fought for decades for a hands-off approach from governments – had to be bailed out. The chief financial danger came from America.

What's remarkable about these unwelcome truths – ignored or denied for decades before the crash – is that Susan Strange saw them all, and repeatedly, clearly and loudly warned of the risks they posed to the global system. Strange also foresaw aspects of the aftermath: that the US Federal Reserve would be the only organisation able to provide enough dollars to keep the global economy from freezing solid. And that the rise and fall of global finance would alienate ordinary people and help fuel a right-wing political backlash.

I will take each of these claims in turn, providing supporting quotations from some of Strange's six books and over 120 articles.[9] The case is not that Strange predicted X event on Y date. Precise predictions in human global affairs are not possible, she argued, in what is an irrational, emotional and organic world, not a mechanical one. Like Hyman Minsky, who is held up as a prophet of the crash, Strange died a decade before it hit. She did, however, with stunning prescience accurately identify time and again the major trends.

In 1986, Strange, then the Montague Burton Professor of International Relations at the LSE, published a book called *Casino Capitalism*. It was the year of the 'Big Bang' deregulation of London financial markets. The book argued that the past fifteen years had seen a global revolution in credit creation which impacted almost every corner of world affairs. Strange picked out the dangers of derivatives and other innovative financial products which could lead to a contagious, global financial panic: "far from stabilizing the system by damping its ups and downs, the devices such as futures markets – developed to deal with uncertainty – have actually served to exaggerate and perpetuate it."[10] She warned about increased market volatility as "new credit instruments are thought up every month, and new assets 'securitized' – which means that the banks find new ways of passing on to a speculative market the loans they have made to houseowners or businesses".[11] Although she wrote little about the US real estate market, she had her finger on the right spot.

Contemporary reviewers understood her message well enough but not all believed it. *The Economist* – where Strange started her career in the 1940s after a First in Economics at the LSE – summarised *Casino Capitalism's* message neatly: "financial innovation, she argues, has put the world economy at the mercy of Wall Street gamblers who are "playing Snakes and Ladders with people's lives"'. The book was "well written" "enjoyable" and "original", *The*

[9] May, C, (2014) "An Annotated Bibliography of Susan Strange's Academic Publications 1949-1999", Fourth Edition.

[10] Strange, S (1986), "Casino Capitalism", Manchester University Press, p. 119.

[11] *Ibid*., p. 174.

Economist said, but it criticised Strange's "misjudgements" chiefly the idea that "financial innovation is itself destabilising" and that the Federal Reserve may have to play a greater role in calming global markets.[12] In hindsight, it's an embarrassing mistake for the magazine. After the crash, *The Economist* would hold up its hands for only mentioning Hyman Minsky once during his lifetime. It has not offered a similar apology to Strange. She was only mentioned twice. The second reference was for her 1998 book *Mad Money*, in which she argued that the "erratic, unpredictable, irrational behaviour" of financial markets were best understood as a form of insanity.[13] *The Economist* dismissed the book in a few lines under the headline, "Beware of the Bears".[14]

Strange warned of the risk of sophisticated financial products in other venues too. Her address as President of the US-based International Studies Association (ISA) in 1995 is renowned for her dismissive remarks about feminist scholars. (Strange spoke her mind bluntly and was almost incapable of holding her tongue). She also told delegates, according to the published version of her speech: "The financial market dealers insist that futures, options, and other derivatives are efficient devices to protect their clients from risk and uncertainty. But it is not so certain that the system as a whole is protected – as taxpayers in Orange County are now aware."[15] Although forgotten today, the reference is to Orange County, California which went bankrupt in 1994 after losing $2 billion on a bad bet on interest-rate derivatives.[16] Her insight into systemic risk was far ahead of her time.

In *Mad Money*, Strange devoted a whole chapter to financial market innovations and the "truly phenomenal… explosion of dealing in derivatives" which allowed banks to make huge profits betting 'on margin' for themselves.[17] She also – remarkably – singled out for concern the credit default swaps (CDS), at the heart of the later global financial crisis. The story of CDSs would only become widely known after 2008 in press reports and books like Gillian Tett's *Fool's Gold*. Strange wrote: "in May 1997, credit derivatives were one of the most talked about new products in financial markets. These new contracts allowed a bank to sell off to someone else the risk that one of its borrowers might default. First thought up in New York five years before as default swaps or default options, they allowed a bank to pay an investor another kind of insurance premium for taking on the risk and becoming liable to the original lender if the borrower did not pay up – or even if its estimated ability to pay – its credit rating with one of the bond rating agencies – were to fall."[18] Perhaps the pre-crash problem was selective listening and not 'social silence' as Tett suggests.[19]

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[12] The Economist (1986), "Russian roulette." 28 June 1986, tinyurl.galegroup.com/tinyurl/5BRHv6. Accessed 11 Sept. 2017.

[13] Strange, S (1998) "Mad Money", Manchester University Press, p. 1.

[14] The Economist, (1998) "Beware of the Bears", October 17th 1998: https://www.economist.com/review/1998/10/15/beware-of-bears. Accessed 17 August 2021.

[15] Strange, S (1995) "1995 Presidential Address: ISA as a Microcosm", International Studies Quarterly, Vol 39, No. 3, (Sept.), pp. 289-295.

[16] Chicago Tribune (1994) "The $2 Billion Gamble", 19 December 1994: https://www.chicagotribune.com/news/ct-xpm-1994-12-19-9412190147-story.html

[17] Strange (1998), *op cit*, p. 30.

[18] *Ibid*, p. 31.

[19] Gillian Tett says that she "would take issue" with the idea that CDS's were widely talked about: "It may have been most talked about among a small group of financiers but not more widely!" (personal communication with author, August 2021).

Presciently, Strange warned that derivatives trades were so opaque and the risks so interconnected, that it would be almost impossible for a bank to know its exposure. It is the "OTC [over-the-counter] trading which is least transparent, in which the area of significant ignorance of what is really going on is most extensive… every deal is made in ignorance of other OTC deals. Neither of the parties knows how exposed the other is."[20] Most other commentators would only catch up when the Bear Stearns' disastrous balance sheet was revealed ten years later. Strange's *Mad Money* was published just two weeks before she died, and on its concluding page she suggested the US make the contracts for "the most bizarre and sophisticated kinds of derivatives… not illegal but legally unenforceable". Making this change would "shift the risk concerned back from the market to the risk taker – possibly giving rise to second and more prudent thoughts."[21] Characteristically, Strange was realistic enough to see that this was unlikely – that personal experience moved people more than intellectual argument. The final line of her final book reads: "Perhaps, therefore, money has to become really very much more mad and bad before the experience changes preferences and policies."[22] Although Strange did not write in great detail about the mechanics and players in the derivatives trade – as Matthew Watson writes "she never really takes the reader inside the casino"[23] – her assessment of its importance and danger are on point. In her honour, fellow LSE academic Nigel Dodd calls the toxic assets which blew up in 2008 'Strange Money'.[24]

Strange was aware too of how the internal and external regulators of the derivatives trade had dropped the ball. She saw it as "wildly foolish" to "let the financial markets run so far ahead, so far beyond the control of state and international authorities".[25] She doubted whether internal supervisors[26] or bank executives[27] understood these complex trades. The lack of understanding, she argued, was widespread leading to what she termed "significant ignorance".[28] International regulators were no better. Strange saw that the Bank of International Settlements (BIS) had, by 1996, shifted its position to allow banks to regulate themselves and "virtually thrown in the towel on capital adequacy rules [and] abandoned, in

[20] Strange (1998), *op cit*., p. 32.

[21] The full quote is: "This is a weapon that leading governments like that of the United States could use if they wished against the most bizarre and sophisticated kinds of derivatives. As mentioned in chapter 2, it is the fancy new ones that generate most profit. To make such contracts not illegal but legally unenforceable would shift the risk concerned back from the market to the risk taker – possibly giving rise to second and more prudent thoughts" from Strange (1998), *op cit*., p. 190.

[22] *Ibid.*, p. 190.

[23] Watson, M. (2016) "Introduction to Casino Capitalism", in Casino Capitalism published by Manchester University Press.

[24] Dodd, N. (2011), 'Risk, Finance, and socialized debt', The British Journal of Sociology, Vol 62, Issue 1, March, pp. 175-194. https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-4446.2010.01349.x

[25] Strange (1998), *op cit*., p. 1.

[26] "Doubt arises first over the ability of internal bank supervisors to keep up with accelerating technological change in finance" from Strange (1998), *op cit*., p. 168.

[27] "And even in the most prudent banks these days, the complexities of derivative trading are often beyond the comprehension of elderly managers." From Strange, S. (1999), "The Westfailure System", Review of International Studies, Vol 25, Issue 3.

[28] "The appreciation in financial circles of the power of those forces [financial innovation] and the analysis of their significance for regulatory policy makers are lagging far behind…" from Strange (1998), *op cit*., p. 28.

effect, the whole idea of agreed common standards of banking supervision."[29] At the time, this was written off as her tendency to exaggerate.[30] Who would argue with her analysis today?

One of the defining images of the 2008 crisis, at least for those in the UK, were the queues of Northern Rock customers snaking along high streets in the first run on a British bank for 150 years. It wasn't customers withdrawing money that sunk the Rock, but its reliance on short-term loans from the interbank money market. Although she couldn't have foreseen the details, Strange was well aware of the risk of this banking practice. In the mid-1980s she wrote, "Nor does the major threat to the system come from small depositors who might take their money away from a particular bank, but rather from the other banks who, when rumours begin to fly, refuse to extend interbank credit lines to it".[31] The dependence of banks on the interbank market was "a dark secret", she wrote, and "perhaps the most important weak point in the whole information picture".[32] It added up to a "game of Blind Man's Bluff" where creditors and governments were "blindfolded".[33] Again, what may have seemed an exaggeration of the time, now appears as prescient common sense. Strange was also aware of the danger from the shadow banking system and non-banks such as insurance companies, which was revealed in 2008.[34]

The mega bailouts of banks, firms, and insurance companies in the wake of the 2008 crash would have fascinated but not surprised Strange. She would likely have seen the bailouts as a continuation of a long trend. She regularly pointed out the US government bailouts in the Savings and Loans crisis in the early 1980s, in the collapse of Continental Illinois in 1984 (the largest bank failure in US history before Lehman Brothers), and of the US government rescue of its banks in the Mexican peso crisis of 1995 among others. All this contributed, she said, to a "belief that in the last resort the government would never let the big banks fail for fear of the effects on the US economy".[35] It was a toxic belief, she wrote, because large bank's "too-big-to-fail status actually encourages them to take more risk than they might have done without the status".[36] After 2008, this is a standard analysis, but in the 1980s and 1990s, it put Strange on the fringes of a debate.

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[29] See *Ibid,* p. 168 and p. 171. Strange did not live to see, and comment on, the work of Claudio *Borio and others at the BIS on macroprudential regulation prior to 2007/8.*

[30] See Watson, M (2016) *op cit.*, who defends Strange against critics of her "alleged tendency towards hyperbole".

[31] Strange (1986), *op cit.*, p. 160.

[32] "Perhaps the most important weak point in the whole information picture is the absence of information about interbank lending… how much a particular bank is depending at any point on the interbank market, either for deposits or from the profit from loans, is a dark secret… And the importance of this is easily seen when any bank begins to get into trouble… the extent of the ignorance on this point is important… to the whole tangled question of the global money supply." From *Ibid*., p. 141.

[33] *Ibid.*, p. 143.

[34] "The other way in which technology has got ahead of regulation is in the development of banking by non-banks." In Strange (1986) *op. cit.*, p. 54.

[35] "The US government came to the aid of US banks over-extended in Mexico and Brazil in the 1980s. The rescue of Continental Illinois in 1984 only confirmed their belief that in the last resort the government would never let the big banks fail for fear of the effects on the US economy." Strange, S. (1994), "States and Markets", Second Edition, Continuum, p. 100.

[36] Strange (1998), *op cit*., p. 189.

As we saw, Gillian Tett laments the absence before the crisis of someone with a holistic vision of finance, who could bring together the credit derivatives boom and real people in “a single cognitive map”. Strange, I would argue, from the early 1980s onwards comes closest. Much is in this passage from *Casino Capitalism*: “Because of… the ignorance among the controllers and regulators of what the bankers and speculators are up to, it must be expected that we have not seen the last financial scandal or the biggest banking collapse. Another Continental Illinois cannot be ruled out. And the outcome will be the same, that the US government has to take over liabilities and debts because the consequences for the economy at large of doing otherwise would be too great. The nationalization of banking will be taken a step further. But it is the political repercussions of this depressing economic scenario which are far more serious. When a whole generation becomes disillusioned with the economic system… there are bound to be political reactions.”[37]

Strange had a holistic vision: a powerful synthesis of economics, politics, and international relations which she helped pioneer called international political economy (IPE). In her field, she’s known as the person who argued correctly – and again presciently – that the USA was still the dominant global power in the 1980s. Her understanding of the USA’s ‘structural power’ allowed her to appreciate dynamics that baffled many economists. “The chief danger to the system has come, and still comes, from the American banks”, she wrote plainly in 1986.[38] And apparently paradoxically, in a global crisis, “only the United States can convincingly offer”, she wrote, “support against a liquidity shortage in dollars”.[39]

In the immediate aftermath of the 2008 crisis, it was the US government – the Federal Reserve – which helped to steady the global economy, more than the International Monetary Fund. Days after Lehman collapsed, the Fed struck deals with the UK, Canada, and Japan to loan them billions of dollars. To do so, the Fed revived a technique rarely used since the 1960s called a ‘credit swap line’.[40] Similar agreements had been made the year before with the European Central Bank and Switzerland. The sums were enormous. In a single week in late October 2008 the Fed lent $850 billion through swap lines and total swaps surpassed $10 trillion.[41] The credit swap network was extended to more countries and, in 2013, the Fed made it permanent. The Fed effectively bailed out the world: it became the lender of last resort to the entire global banking system. Historian Adam Tooze calls it “historically unprecedented, spectacular in scale and almost entirely unheralded”.[42] These developments over ten years after her death, are another feather in Strange’s cap. Strange knew about credit swap lines as she had studied and written about them in the 1960s and 1970s while working for Chatham House (the Royal Institute of International Affairs). Eric Helleiner has argued that the USA acted in “the manner precisely predicted by Strange in a prescient

[37] Continental Illinois was the largest ever bank failure in the US until Lehman Brothers in 2008. It was bailed out by the US government in 1984 which led to the popularisation of the phrase ‘too big to fail’ from Strange (1986), *op cit.*, p. 192.

[38] Strange (1986), *op. cit.*, p. 161. See also p. 175.

[39] *Ibid,* p. 166.

[40] Tooze, A. (2018) “Crashed: How a Decade of Financial Crises Changed the World”, Allen Lane/Penguin.

[41] *Ibid.* pp. 213 and 214.

[42] *Ibid.*, p. 203.

analysis 25 years before the crisis."[43] At the time, however, few people listened. *The Economist* in 1986 branded Strange's insight that the power of the Federal Reserve was likely to increase "a fantasy".[44]

Finally, few will fail to see echoes of recent tumultuous, strongman politics in Strange's insight that without corrective action, the public will either switch off from politics or follow a populist leader "who will wrap a hodge-podge of social prejudices in a package of phoney history and phoney science that arouses strong and violent nationalist emotions".[45] Or in her warning that the "increasing concentration of wealth" excluding so many could make "the desperation of the 1930s" she knew from her childhood "just a small foretaste of social reactions in the twenty-first century". Just last year, Robert Skidelsky echoed this warning: "Future historians," he wrote, might see "financial-led globalisation as the root cause of the tribulations of the twenty-first century".[46] Have we not yet seen money at its most mad and bad?

Strange has only received scattered praise for her stellar record. Her LSE colleague Fred Halliday praised her "prophetic insight" in 2008 and Susan Sell has written of how Strange "warned us about this [the 2008 crisis] years ago".[47] Mostly she has been ignored. James K. Galbraith has complained that economists who were right on the financial crisis have been overlooked. "They are not named. Their work is not cited. Their story remains untold. Despite having been right on the greatest economic question of a generation—they are *unpersons* in the tale".[48] He names twenty-two economic thinkers who got it right, but Strange is not one of them.[49] She is still an unperson.

Strange did not get everything right, of course, and many aspects of her work have dated. Reading *Casino Capitalism* takes you back to a world where the USSR exists, and *Mad Money* to when Japan, not China, was the biggest threat to US dominance. Strange deserves to be honoured as one of the principal thinkers who foresaw the global financial crisis of 2008 and its immediate aftermath. But, did this prescience emerge from genuine insight or a series of lucky guesses? If genuine, what was the framework that knit her thinking together?

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[43] Quote from Germain, R (ed.), (2016) "Susan Strange and the Future of the Global Political Economy", Routledge. See Helleiner, E, "Still an extraordinary power after all these years: the US and the global financial crisis of 2008" in Germain (2016).

[44] The Economist (1986), *op. cit*.

[45] Strange (1986), p. 192

[46] Skidelsky, R. (2021) "What's Wrong With Economics?", Yale University Press. Strange does not get a mention in the 200-page book.

[47] Halliday, F (2008), "The revenge of ideas: Karl Polanyi and Susan Strange", Open Democracy, 24 September; Sell, S (2014), "Ahead of her time? Reflections on Susan Strange's contributions to contemporary political economy", for a workshop on Susan Strange at Princeton

[48] Galbraith, James K. (2009) "Who are these economists, anyway?", The NEA Higher Education Journal, Fall. Italics as per the original.

[49] Galbraith says that his list is "far from comprehensive. *Ibid.*

How did she see it coming? Strange's 3D glasses

There is a paradox at the heart of Susan Strange's reputation. Despite being acknowledged as a forceful and influential intellectual who "was almost single-handedly responsible for creating 'international political economy'… in Britain",[50] she's often dismissed as a journalist rather than an academic: a "naïve empiricist" who had no real theory.[51] Benjamin Cohen, in his history of IPE, largely dismisses her ideas.[52] Matthew Watson writes: "If Strange is to be viewed as a trailblazer, it is often said, then it is for a style of IPE for which the trail has gone cold."[53] Her legacy in economics – orthodox or heterodox – is virtually non-existent. The portrayal of Strange as a shallow thinker is a misreading of, and an injustice to, her work. Strange's prescient, and uncelebrated, insights into the global financial crisis emerged from a coherent cognitive map: they were no fluke.

Strange's way of looking at the world helped her foresee the crisis in a number of ways. Foremost, because she gave no credence to the idealised model-world of neoclassical and neoliberal economics. In an article called 'The Bondage of Liberal Economics' published in 1986, she wrote: "I do not take too seriously the pretensions – or most of the conclusions – of the liberal economic doctrine. On the contrary, I am beginning to think that some of these concepts and ideas actually impede understanding and mislead people in their perception of the main problems confronting the world today". She advises students "to devote more of their time to reading economic history and less to learning how to decipher the algebraic equations so beloved by the economists."[54] Similar quotations can be found throughout her work.[55] She saw more clearly, she suggested, because she took off the glasses of mainstream economics, which distorted the vision of so many of her contemporaries inside and outside academia. In her final analysis, she saw neoliberal economics "specifically, monetarism and supply-side economic logic" as a "concealing ideology" providing a rationale for "national policies serving special interests".[56] The interests, we would say today, of the 1%.

What makes Strange relevant, though, is that she didn't just critique the mainstream macroeconomics of the day, she analysed how it erred and put forward a new, alternative framework. Time and again in Strange's writing, she criticises international economics – and other theories of global affairs – as "far too narrow". Mainstream economics, she argued, was too narrow as it artificially excluded politics, institutions and power from its analysis. It took the social structure of the economy for granted. Also, even in the late twentieth-century, most economic thinking was national, ending at the state's boundaries, and not global. Strange's

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[50] Brown, C (1999), "Susan Strange – a critical appreciation", Review of International Studies, 25, 531-535.

[51] "As a result Susan can easily be mistaken for a naïve empiricist driven by strong moral convictions." from Palan, R. (1999), "Susan Strange 1923-1998: A Great International Relations Theorist", Review of International Political Economy, Vol 6, No 2, (Summer), p. 122.

[52] Cohen, B.J. (2008), "International Political Economy: An Intellectual History", Princeton University Press.

[53] Watson, M (2016) *op cit.*, p. viii.

[54] Strange, S. (1986b), "The Bondage of Liberal Economics", SAIS Review, 6, 1, (Winter/Spring).

[55] For example, in Strange (1994), p. 116, she writes, "There is a bankruptcy of ideas and theories in the profession of economics…".

[56] "In the period covered by Mad Money, the concealing ideology has been that of liberal economics and specifically, monetarism and supply-side economic logic." From Strange, S (1998b) "What Theory? The Theory in Mad Money", CSGR Working Paper, No 18/98, December.

response to these shortcomings, her attempt to construct a new way of looking at the world, can be seen most clearly in her theory of structural power, which she compared to 3D vision.

Strange's 1988 book *States and Markets* is the most complete exposition of her theory. As Chris May, who complied her bibliography writes, "this is Strange's defining book, one about which the rest of her work revolves."[57] Conventional international thinking focused on relational power: the ability of a state to force another to do its will. Structural power is different. It is the ability of a powerful state to define the rules of the game that everyone plays. Strange explained structural power with an analogy of men controlling women through "social status, legal rights and control over the family money".[58] Strange didn't invent the idea of structural power, but she did popularise her novel take. Structural power, she argues, is how insights from economics, politics, international relations, and other disciplines can be synthesised and the interconnections seen. Her theory identifies four forms of power – which she calls structures – in the global system. These are security, production, financial, and knowledge. These four structures underpinned her analysis ahead of the 2008 crisis.

The security structure was traditional international relations (IR). Strange thought the field of IR, like economics, was far too narrow. She explained this, as usual, through history, looking at the context of the field's development. IR had emerged in the first half of the twentieth century, she explained, in response to two horrific world wars and the threat of a third. Its primary area of study, therefore, had been state power, conflict and war. It often overlooked the dynamic role of markets, technology and the growing power of non-state actors such as multinational corporations. Strange fought this "totally unreal separation" between politics and economics from both sides, on and off the page her entire adult life.[59] Security and order were powerful forces but anyone who fixated on them alone was left with a distorted, one-dimensional view.

You cannot understand global affairs without paying attention to economics, Strange argued. Economics was so important it merited two separate but interlinked forms of power: the production and financial structures. The production structure she defined as "what is produced, by whom and for whom, by what method and on what terms".[60] It is the traditional focus of Marxist and radical economic thinkers. Yet again, Strange argued that this school of thought was too narrow and often neglected the other structures, especially finance.[61] The financial structure focuses on money. More specifically on how the power to create credit is used or misused "feeding on itself rather than nourishing the real economy".[62] The financial structure was often overlooked by most observers, Strange argued, including thinkers inspired by Marx and Gramsci and neoliberal economists who had a rose-tinted view of banks as "intermediaries". For her, finance, not trade, was the key to understanding the global political economy.

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[57] May, C, (2014), p. 27.

[58] Strange (1994), *op. cit.*, p. 37.

[59] From Strange, S (1983), "Structures, Values, and Risk in the Study of the International Political Economy", p. 210, in Barry Jones, R.J. (1983), "Perspectives on Political Economy", Continuum.

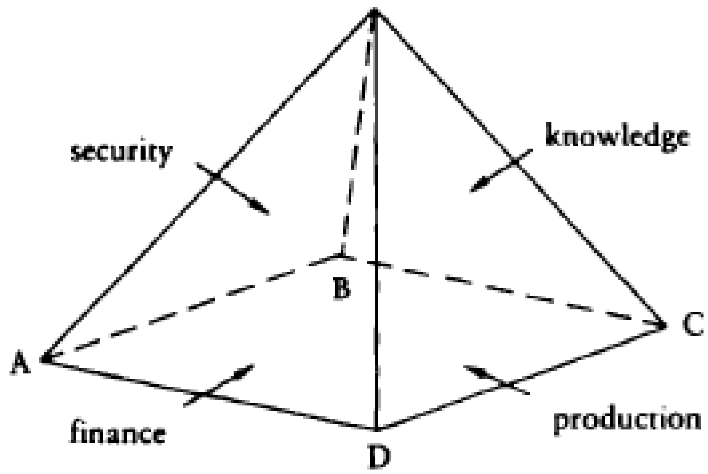
[60] Strange (1994), *op. cit.,* p. 64.

[61] Strange writes that she wants to "build on the fundamental point of Marxist structuralism" by adding three "new – or at least, hitherto neglected – structures" in Strange (1983), *op. cit.,* p. 209.

[62] Quote from Cox, R.W. (1996) "Take six eggs: theory, finance, and the real economy in the work of Susan Strange" in Cox, R.W. with Sinclair, T. (2012) "Approaches to World Order", Cambridge University Press.

The fourth and final piece of Strange's theory of structural power is the knowledge structure: the broadest and most philosophical of her forms of power including everything from belief in religious salvation, the scientific method, and advances in high-tech industries. The knowledge structure includes "what is believed (and the moral conclusions and principles derived from those beliefs); what is known and perceived as understood; and the channels by which beliefs, ideas and knowledge are communicated – including some people and excluding others."[63] It was also the structure that pushed up to and beyond the limitations of Strange's reading in philosophical debates, and perhaps where there is most scope for further work.[64]

Figure 1: A diagram of Strange's four power structures model as a pyramid.



Source: States and Markets (1998)

Which of these four structures is dominant? Followers of Marx would likely answer the production structure, followers of Foucault the knowledge structure, traditional IR scholars the security structure. But Strange visualised the structures not stacked on top of each other like a layer cake, but a "four-faceted triangular pyramid" – where each structure is "supported, joined to and held up by the other three."[65] (see Figure 1) Neither security, production, finance, nor knowledge is dominant. If only the political economy of the planet was so simple! She argued that you can see these structures in families and small human groups as well as in global affairs.[66] Her theory was like a pair of 3D glasses, she claimed. By looking at a problem from the perspective of all of the structures and their interactions, she said, you could see a "three-dimensional picture".[67] It allowed her to analyse Strange's see-saw – the

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[63] Strange (1994), *op. cit.,* p. 119.

[64] *Ibid*., p. 136: "Well aware of my own limitations, I have made no reference in the course of this brief survey of the knowledge structures of the international political economy to the active debates conducted by philosophers… They are debates with roots going back at least to Nietzsche, Hegel and Weber, and some would say to Plato and Aristotle."

[65] *Ibid*., p. 26.

[66] *Ibid*., p. 26.

[67] Strange (1983), *op. cit.*, p. 210.

swinging back-and-forth of power between states and markets which she identified as the key dynamic of the twentieth century.

Strange's 3D glasses were crucial in helping her identify the risks and trends which would burst into popular consciousness with the crisis of 2008. Economist Dirk Bezemer surveyed twelve economists and commentators who did see the 2008 crash coming and identified several shared elements of their "common underlying analytical framework". These include: "the distinction between financial wealth and real assets", a concern with debt and the power of credit, and systemic risk.[68] Strange shared all these. She was not mesmerised by the prevalent macroeconomic and financial models such as the efficient markets hypothesis or the Black-Scholes derivatives model. Her vision was holistic and global, not partial and national. She knew that finance and the creation of credit were deeply political not just technical. Strange saw that finance was locked in a dance with the security structure: reliant on state power while being able to reinforce or undermine that power (just think of bailouts, bond markets, and global tax evasion). She knew that finance was linked to, but not bound by, the production structure. She was well aware that credit creation could be revolutionised by technological advances in the knowledge structure or permissive regulation leading to 'overbanking'. She understood that financial markets were held up by societal beliefs and trust – crucially in the value of money – not just laws and statutes. And, finally, from her deep historical knowledge, she was aware of the importance of constraints to the creation of credit and of the role of a lender of last resort, as well as the global power the United States wielded in all four structures. Strange saw the financial crisis coming because she was studying the real world in all its complexity, not the neat and predictable world imagined by economic modellers working in the tradition of Paul Samuelson.

For many, however, Strange's theory is unsatisfactory. It has been criticised as imprecise, too descriptive, and lacking in analytical rigour.[69] The broad focus on power and politics means that much of the technical, mathematical model-building work – which gained prominence in economics and politics during her working life – was impossible in the framework. Strange saw the structures as "organic" developing and decaying over time and did not believe that global change "can be reduced to a single set of factors ranked in predictable order of importance".[70] Strange never provided a timed prediction of a financial crash. This would have excluded her under Bezemer's selection criteria. Strange would have responded that precise predictions of the global system are impossible with any theory. The future does not yet exist, she thought, and is made by our actions in the present. She was sceptical, wrote Robert Cox, of "the grander notions of theory… whose adepts conceive it as the revelation of the inner essence of the universe, the deep and abstract explanation of everything."[71]

Strange argued that embracing humbler theoretical aims would save much confusion, effort, and money. Her touchstone was empiricism and the real world. She berated colleagues for distorting "the facts of life" to fit them into theories rather than adjusting the theories to the facts.[72] She tried to impress on both her students and her six children "to distrust ideologies –

[68] Bezemer (2009), *op. cit.*

[69] Palan, R. (2015), "Foreword" in Strange, S. (2015), "States and Markets", Second Edition, Bloomsbury Revelations.

[70] Strange, S. (1996), "A Reply to Chris May", Global Society, Vol 10, No 3.

[71] Cox (1996) *op. cit.*

[72] See for example, Strange (1994b), 'Wake up, Krazner! The world *has* changed', in Review of International Political Economy, 1:2, Summer 1994.

but to respect the evidence".[73] A lack of specific predictions about global affairs, then, was a feature not a bug of Strange's way of seeing the world. The desire for it, she argued, was a "wild goose chase" based on muddled thinking that failed to see the difference between physics and society.[74] The social scientist's search for truth "is not best served by aspiring to the unattainable or promising that which cannot in the nature of things be delivered."[75]

Where does Strange belong today? Back on the open range

Strange's work defies neat categorisation. It was a difficult to know where it fit even during her lifetime. "Uniquely," Ronen Palan wrote shortly after her death, Strange's reputation was equally high in "IPE, political economy, geography, business studies and international law".[76] Why, then, should economists, and others outside IPE, read her? For one, as she had a remarkably consistent focus: Randall Germain estimates that from the 1960s to the 1980s, 75% of her published work was on money and finance.[77] Summing up Strange's career, Robert Cox wrote, "the focal point of her interest lies in the relationship of states to global finance."[78] Clearly, economics played a central role in her thinking, even if her eclectic historical approach places her outside mainstream or perhaps even heterodox macroeconomics.

Strange worked with many economic thinkers from across the spectrum throughout her career. From their time at *The Observer*, she knew *Small is Beautiful* author E.F. Schumacher.[79] While Strange was at Chatham House, she met and exchanged letters and papers with the economist Robert Triffin, an expert on the international monetary system.[80] Here she also worked alongside Italian economist Marcello de Cecco. Around the same time, she met economic historian Charles Kindleberger – author of the celebrated *Manias, Panics, and Crashes* – whose 'hegemonic stability theory' helped inform how she saw the USA's global economic role. She worked with former journalist and economist Fred Hirsch, whose work on the social limits to growth has been revived by political philosopher Michael Sandel.[81] She knew also Kenneth Boulding, an early evolutionary economist, who provided one of her references for the LSE Chair. That's not to mention all the academics within the IPE tradition and its neighbouring fields which she corralled, and inspired, with impressive energy across Europe, North America, and Japan.

[73] Strange, S. (1989), "I Never Meant to be an Academic*", in Joseph Kruzel and James N. Rosenau (eds), "Journeys Through World Politics", Lexington Books, pp. 429 – 436.*

[74] Strange (1994), *op. cit.*, p. 16.

[75] *Ibid.*, p. 16.

[76] Palan, (1999), *op. cit.*, p. 122.

[77] Germain, R. (forthcoming).

[78] Cox, R.W. (1996), *op. cit.*

[79] "I knew Fritz quite well through our shared involvement with *The Observer.*" from Strange, S. (1996), *op. cit.*

[80] Letter from Strange to Triffin on 3 August 1966 in the Chatham House Archives: "I need hardly add how grateful I am personally for your comments and criticism of my paper and on the problem as a whole; they have made me seriously re-examine a good deal of what I had in mind to write and have been most stimulating."

[81] Sandel, M.J. (2012), "What Money Can't Buy", Penguin, pp. 120-121.

Her work engaged with a wide range of economic ideas from Friedman to Keynes. Keynes she credits with developing "the only coherent, rigorous and influential theory concerning the conduct of financial markets". His *General Theory* she says approvingly is more a "sociological theory than a purely economic one".[82] But the problem with Keynes – and his later followers such as Hyman Minsky – and Friedman and the monetarists is that both theories were "myopic", she said, as they "stop short at the frontiers of the state". Economists need to think "globally instead of just nationally."[83] Strange was so far ahead of her time that her insights fit neatly with those in Adam Tooze's *Crashed*, a 2018 history of the financial crisis. The global financial crisis blindsided experts steeped in a "familiar cognitive frame of [national] macroeconomics" inherited from Keynes which Tooze calls an "island model". What was missing was an "interlocking", "macrofinance" view.[84] Strange provides an interlocking view.

Strange's reading was broad. She admired economic thinkers who recognised "the impossibility of divorcing politics from economics" such as Joseph Schumpeter and Karl Polanyi.[85] She frequently referenced George Soros's 'reflexive principle'. She also dug back into the work of Chicago School economist Frank Knight to build her understanding of risk in the money system. She integrated the insights of right-leaning business historians such as Peter Drucker and left-wing radicals like Immanuel Wallerstein. The list could go on. The point is Strange was open to and deeply engaged with economic thinkers from across the ideological spectrum. Palan notes the "great injustice" of ignoring her theoretical engagement: "Susan was widely read and perfectly aware of a great diversity of theoretical traditions."[86]

Strange wanted IPE to be an "open range," accessible to people of all national and disciplinary backgrounds. Her life's work, Robert Cox says, challenged "the dividing and enclosing practice that is characteristic of academic disciplines".[87] She did not see herself belonging to the field of international relations. It was her bold ambition that IPE would replace both international economics and international relations. That never happened. It is ironic, then, that she is seen by some as a historical figure in a sub-discipline of international relations. Even in her lifetime, the field she created, IPE, was re-enclosed. It was taken over, Cox writes, by "new orthodoxies" and "new hierarchies" which have tended to exclude her. "Susan Strange never gave them her official blessing. They never succeeded in taming her iconoclasm".[88] It is time to let Strange loose on the open range.

Despite working in universities for fifty years, Strange was always an insider-outsider academic. Even in the 1970 paper that made her name, she skewered colleagues for "building intellectual card-houses and playing academic word-games".[89] Twenty-five years

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[82] Strange, S (1998b), op. cit., p. 10.

[83] Full quote: "The fact is that the vision of both Keynesian economists and monetary economists appears to be so myopic that theories stop short at the frontiers of the state, or the water's edge. Neither can see beyond. If either doctrine could be applied globally instead of just nationally, it might make some sense and produce some results." From Strange, (1994), *op. cit.,* p. 117.

[84] Tooze (2018), *op. cit.*, pp. 8-12.

[85] *Ibid.*, p. 15.

[86] Palan, (1999), *op. cit.,* p. 123.

[87] Cox, (1996), *op. cit.*

[88] *Ibid.*

[89] Strange, S. (1970), "International Economics and International Relations: A Case of Mutual Neglect", International Affairs, Vol 46, No. 2, p. 315.

later, when she returned to the LSE to give a speech, her message was similar. The problem was not just in the world of global affairs and finance but also inside university walls. The problem was the walls. As she said: just as companies have to restructure in the face of globalisation so do universities: "we have to start thinking about how we break down the old walls between the social sciences and do things differently." She went on "most social science hasn't yet caught up with the times nor with the truly revolutionary nature of social and economic globalisation."[90] Another twenty-five years have passed and the revolution has yet to come.

Her mistake was, perhaps, to think that it could happen inside the gated communities of academia. Conceiving of Strange outside IPE, even outside academia, might be a liberation. She could then be judged not as a wayward IPE scholar, but a global thinker with a deep historical, even philosophical, approach to understanding "the political economy of the planet".[91] Her clear writing style, dislike of jargon, and distrust of grand theory and algebra as a way of understanding global affairs could be seen as strengths. It harks back to the first modern political economists. Indeed, Randall Germain considers Strange a "critical classical liberal" working in the tradition of Adam Smith.[92] Inspired by Robert Heilbroner's term for the original political economists, we should see her as a 'worldly philosopher'.

What can we do with this prescient, spiky late twentieth-century worldly philosopher? Strange's work offers abundant research opportunities in two directions. First, bringing her writings into dialogue with thinkers outside of IPE. There has yet to be a detailed study comparing Strange's work with that of Hyman Minsky.[93] Or a paper examining how Strange's theory of structural power compares with a similar four-pronged framework of power put forward by her contemporary at LSE, the sociologist Michael Mann.[94] Strange could also be put into dialogue with contemporary economists such as Paul Krugman, who have written on similar topics but taken decades to wake up to the influence of politics and power in economic affairs.[95] Another line could explore to what extent Strange's work can be understood as a continuation of the historical or institutional school of economics which flourished in German, America, and Britain in the late nineteenth.[96] Her structural power framework could be taken in new directions by exploring how the presence or absence of patriarchal and/or structural racist beliefs in a society's knowledge structure influences the other structures and, therefore, global affairs. Strange's focus on the human condition as central to global affairs suggests her

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[90] Susan Strange's talk on 'The limits of politics' at the LSE talk on 1 June 1995.

[91] John Pinder, in *Ibid.*

[92] Personal communication with author.

[93] See my brief article Dyer, N. (2019), "The Financial Crisis Was a Minsky Moment but We Live in Strange Times", Naked Capitalism & Economic Questions, February.

[94] Michael Mann's model of power is known as the "IEMP model" where the four prongs are: ideological, economic, military, and political.

[95] Adam Tooze (2021), "The Gatekeeper", London Review of Books, Vol 43, No, 8, 22 April. https://www.lrb.co.uk/the-paper/v43/n08/adam-tooze/the-gatekeeper

[96] Strange often quoted historical school thinkers such as Georg Simmel, Max Weber, and Joseph Schumpeter. Like them, she has been falsely caricatured as not having a theory. Many of Strange's orientations fit with Richard T. Ely's account of the main elements of the historical school: a rejection of the method and premises of classical economics, a concern for historical development and context, an organic conception of economic life and society, concern about corporate power, acceptance of the role of the state etc. See Ely (1884) "The Past and the Present of Political Economy", John Hopkins, Baltimore, pp. 43-51.

work could be examined and broadened out in dialogue with philosophers such as Mary Midgley, another insider-outsider academic.

Second, there is much work to apply Strange's thinking to contemporary developments in the global political economy. What insight does Strange's work have on claims that reforms have made OTC derivatives safer? How do her core concepts of structural power, casino capitalism, top and negotiated currencies, trilateral diplomacy, significant ignorance, and the state-market see-saw relate to global affairs today? Some of this has been started with the global financial crisis and its aftermath.[97] Other work has begun mapping Strange's structural power onto the rise of China.[98] This is just a start: both could be carried much further. Other areas where Strange's 3D glasses might help clear the fog are free trade and protectionism, the reform of economics, the role of the US Federal Reserve, and the regulation of multinational corporations. Her framework could also be used, in dialogue with ecological economists, to illuminate our response to the climate crisis. The year 2023 will be the centenary of her birth: a fitting time for Strange to be read afresh.

Several societal and economic trends demonstrate a need to return to Strange. Younger generations – who came of age since the global financial crisis – are questioning the basic assumptions of economics and the global economy. They are facing up to global problems, such as ecological breakdown, and paying greater attention to power and the need for structural change. Strange's approach to power in the global political economy could appeal. In economics, leading figures such as Nobel laureate Paul Romer have spoken against the misuse of mathematical models to conceal truth and intellectual stagnation stemming from deference to senior figures.[99] Strange's more radical hostility to algebra that is blind to power and her willingness to call out the academic "barons" seems again essential and urgent.

Strange's fight against conventional thinking in global finance and her fight to reform academia are similar. Both rested on a diagnosis of the problem which was holistic, ranged widely and swam against the tide of opinion. Both were "uncomfortable for vested interests" in business and in academia who benefited from the status quo.[100] Both were passed over. Nevertheless, she showed remarkable tenacity and energy to push on when she was almost the only senior female in the field. She could cause a stink, but after her death in 1998, it was easier for both the financial and academic worlds to ignore or downplay her ideas. Can we still afford to? Most commentators on global affairs admit the West is lost in new territory without a reliable map. We could do worse than finding again the lost trail blazed by Susan Strange and seeing where it leads.

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[97] See Germain (2016).

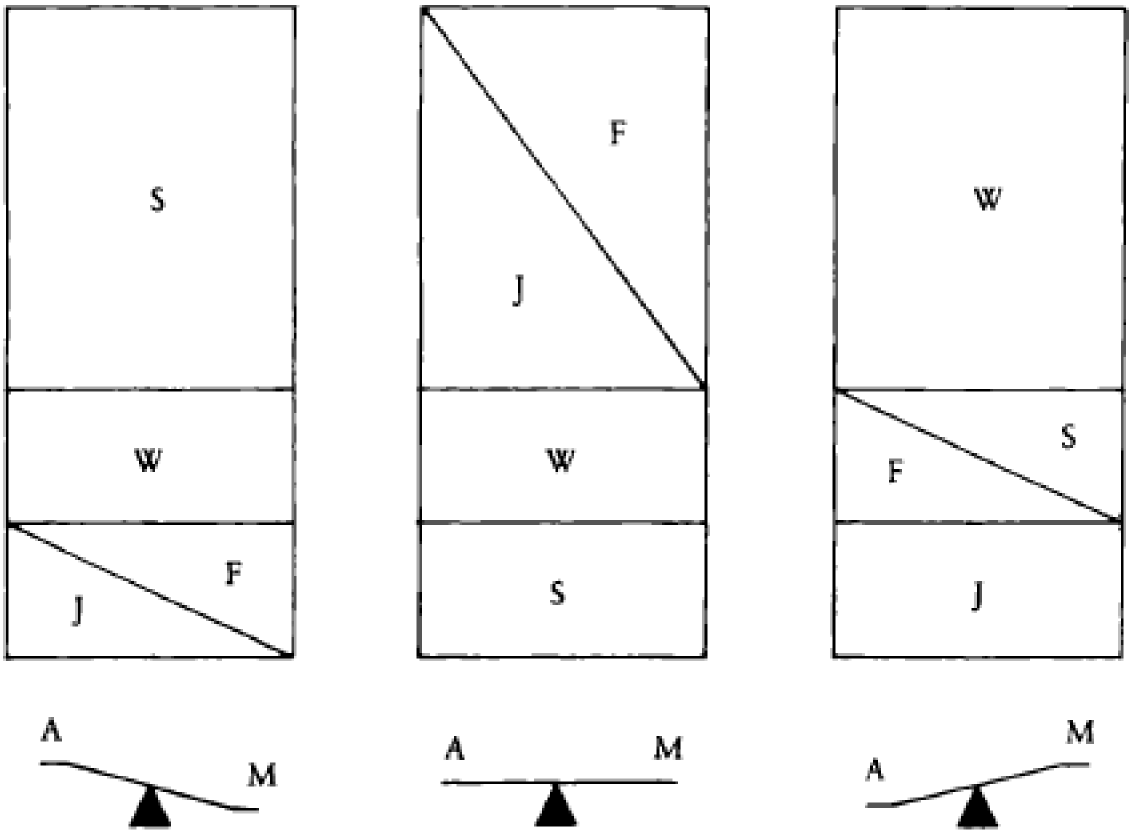
[98] See for example Malkin, A. (2020), "The made in China challenge to US structural power", Review of International Political Economy, https://doi.org/10.1080/09692290.2020.1824930 and Dian, M. (2016), "Does China Have Stuructural Power?", The Journal of Northeast Asian History, Vol 13, No 2.

[99] Romer, P. (2016) "The Trouble With Macroeconomics", the Commons Memorial Lecture of the Omicron Delta Epsilon Society.

[100] Susan Strange 'The Limits of Politics', talk at the LSE in 1995: "The implications of redefining politics in this way, of enlarging the limits of what we understand as politics may be uncomfortable for vested interests both in government, in business, and perhaps even in the universities. As I said in the beginning, I think universities, like firms, are going to have to think about restructuring in the way they operate and the way they are organised."

Figure 2:

Strange's diagram representing different value preferences of three societies where S=security, W=wealth, J=justice, and F=freedom. These lead to the different outcomes in Strange's see-saw, below, where A=authority and M=markets.



Credit: States and Markets (1998)

Ultimately for Strange, the political economy of the planet comes down not just to structures, but also to values. Long before social psychologist Jonathan Haidt popularised the idea, Strange argued that neither the political left nor right had a monopoly on values. Strange admitted that her structural power approach was both politically to the left and right of her mainstream colleagues. To the left, as it grew from a structural perception of the world system inspired by Marxism, and to the right as she was sceptical of international organisations and saw nation-states as "final determinants of outcomes".[101] The great advantage of her theoretical openness is that it can accommodate, she wrote, "men and women of all political persuasions and predilections, whether realist and traditional or radical and neo-Marxist."[102] It still offers the possibility of a framework for a realistic, non-utopian dialogue in angry times.

[101] Strange, S. (1982) "Cave! hic dragones: a critique of regime analysis", International Organisation, 36, 2, Spring. Strange scepticism of the power and importance of international organisations continued throughout, but her belief in the centrality of states was challenged by the rise in power of multinational corporations and global finance which she explored in 'Rival States, Rival Firms' (1991) and 'The Retreat of the State' (1995).

[102] Susan Strange, 1983, *op. cit.*, p. 209.

She focuses on four basic values that individuals, groups, and societies seek: wealth, security or order, justice, and freedom (see Figure 2). Just as a cook can mix the same ingredients in varying proportions to create cakes, pancakes, or cookies, she says, human groupings combine values in different proportions to produce a range of societies. It is not hard to think of societies that prioritise wealth and ignore justice (or even vice-versa) and others that venerate order and quash freedom and so on. Similar to an argument made by Deirdre McCloskey, Strange criticised mainstream economics for being primarily built around the value of maximising wealth, and often ignoring or denying the other values. The explosive growth in the size and power of global financial markets, she argued, was due partly to an erroneous (in her view) prioritisation of wealth above other values. Strange often pointed out that there were always trade-offs: the four basic values interact and can conflict with each other. The prioritisation of values in society is not fixed: there is no one, universal, magic formula.[103]

Pay attention to your own preferences and leanings, your own values, Strange taught with her "desert island stories".[104] Observe how values are embedded, sometimes hidden, in different schools of thought, and understand that they are not universal nor uncontroversial. Strange's admirable openness to which values should be prioritised feeds her theoretical, epistemic humility. So many economic and political theories are built on a fixed conception of human nature, but Strange does not dictate one. It was the only honest response, she thought, to the diversity of opinion on the nature of the human condition. Strange was humble enough to set before others not "a set menu, not even an *à la carte* menu, but the ingredients for you to make your own choice of dish and recipe. This is partly because I believe profoundly that the function of higher education is to open minds, not to close them."[105]

Let's open our minds to Susan Strange, a worldly philosopher with remarkable insight into financial globalisation, and put her back into the story. Her real-world, historical approach contains some of the ingredients for a recipe for better economics.

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[104] See Strange (1994), *op. cit.*, p. 1.

[105] *Ibid.*, p. 9.

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