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World's Stocks Controlled by Select Few

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WASHINGTON — A recent analysis of the 2007 financial markets of 48 countries has revealed that the world's finances are in the hands of just a few mutual funds, banks, and corporations. This is the first clear picture of the global concentration of financial power, and point out the worldwide financial system's vulnerability as it stood on the brink of the current economic crisis.

A pair of physicists at the Swiss Federal Institute of Technology in Zurich did a physics-based analysis of the world economy as it looked in early 2007. Stefano Battiston and James Glattfelder extracted the information from the tangled yarn that links 24,877 stocks and 106,141 shareholding entities in 48 countries, revealing what they called the "backbone" of each country's financial market. These backbones represented the owners of 80 percent of a country's market capital, yet consisted of remarkably few shareholders.

"You start off with these huge national networks that are really big, quite dense," Glattfelder said. "From that you're able to … unveil the important structure in this original big network. You then realize most of the network isn't at all important."

The most pared-down backbones exist in Anglo-Saxon countries, including the U.S., Australia, and the U.K. Paradoxically; these same countries are considered by economists to have the most widely-held stocks in the world, with ownership of companies tending to be spread out among many investors. But while each American company may link to many owners, Glattfelder and Battiston's analysis found that the owners varied little from stock to stock, meaning that comparatively few hands are holding the reins of the entire market.

"If you would look at this locally, it's always distributed," Glattfelder said. "If you then look at who is at the end of these links, you find that it's the same guys, [which] is not something you'd expect from the local view."

Matthew Jackson, an economist from Stanford University in Calif. who studies social and economic networks, said that Glattfelder and Battiston's approach could be used to answer more pointed questions about corporate control and how companies interact.

"It's clear, looking at financial contagion and recent crises, that understanding interrelations between companies and holdings is very important in the future," he said. "Certainly people have some understanding of how large some of these financial institutions in the world are, there's some feeling of how intertwined they are, but there's a big difference between having an impression and actually having … more explicit numbers to put behind it."

Based on their analysis, Glattfelder and Battiston identified the ten investment entities who

are “big fish” in the most countries. The biggest fish was the Capital Group Companies, with major stakes in 36 of the 48 countries studied. In identifying these major players, the physicists accounted for secondary ownership — owning stock in companies who then owned stock in another company — in an attempt to quantify the potential control a given agent might have in a market.

The results raise questions of where and when a company could choose to exert this influence, but Glattfelder and Battiston are reluctant to speculate.

“In this kind of science, complex systems, you’re not aiming at making predictions [like] … where the tennis ball will be at given place in given time,” Battiston said. “What you’re trying to estimate is … the potential influence that [an investor] has.”

Glattfelder added that the internationalism of these powerful companies makes it difficult to gauge their economic influence. “[With] new company structures which are so big and spanning the globe, it’s hard to see what they’re up to and what they’re doing,” he said. Large, sparse networks dominated by a few major companies could also be more vulnerable, he said. “In network speak, if those nodes fail, that has a big effect on the network.”

The results will be published in an upcoming issue of the journal Physical Review E.

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