

[Royal Mail privatisation shares not too cheap](#) [1]

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Around 700,000 people have applied for shares in Royal Mail, the letters and parcels business being sold off by the British government. This means that the share issue is around seven times oversubscribed, leading to calls that the government has sold the enterprise 'too cheaply'.

No, they haven't. You cannot win the politics of a privatisation sale. If you price the shares too high and nobody wants them, then the sale is a 'failure'. If you price the shares too cheaply, critics complain that the 'family silver' is being sold off at scrap rates.

It's nonsense, of course. After decades of practice, Britain and the world now knows how to organise privatisation sales. For a start, you get the financial institutions to underwrite the offer. You fix a reasonable price for the company, and get the institutions to agree to pick up any unsold shares at that price. So if for some reason the public do not subscribe for the shares, the institutions give you the money anyway. That is hardly a 'failure'. It just means that the institutions ? who hold funds and investments on behalf of the public, their customers ? buy the shares rather than the public directly.

If you pitch a privatisation share issue at a price which commentators think is a bargain, however, then huge numbers of people will scramble to get into that bargain. When newspaper and broadcast reports by respected analysts agree that the shares are likely to open higher than what people are being asked to pay for them, then it is perfectly rational for people to rush out and buy them, expecting an instant profit. That of course feeds on itself ? like the 'must have' Christmas toy, which is only 'must have' because so many people want it that supplies run out, making it even more desirable. In privatisation sales, as more and more people bid, the prospect of buyers making a profit becomes more and more certain ? so more and more of them subscribe.

Again, we have learnt how to deal with this. To overcome the political objection that rich folks are buying thousands of shares in order to turn a quick buck, we simply scale back people's allocation depending on the number of shares they requested. So everyone who asked for the minimum gets it, while people who ordered a great many shares will get less, or even none at all (which may be the case for those who have

requested more than £10,000 worth of Royal Mail shares. So buyers have to 'game' it ? working out what the likely demand might be and what allocation they might end up with if they subscribed differing amounts.

And remember that we never privatise the whole company at once. When the shares have been trading for a while, the government will know precisely at what price to unload the rest, maximising the potential yield. Clever, eh?

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