

INCREASED DEMAND OF HIGH PRICED DURABLE CONSUMER GOODS DESPITE PRICE RISES

By

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Since the end of World War II the demand of high priced durable consumer goods is showing a continuous and substantial increase despite rising prices. It is possible to attribute this development to various factors¹ namely :

- a. — the increase of the worlds' inhabitants,
- b. — the increase of those working in urban centers with a residence there and a vacation house in the country side or with their permanent residence in the latter whilst commuting to their job,
- c.— the diminution of the income affected to investment as nationalisations, wage and cost increases exceeding the growth of productivity and tax increases are quite common,²
- d.— the possibility of paying by instalments even more in a depreciating currency,
- e. — the expectation of further price rises,

1. Without forgetting that in a dynamic economy the examination of the demand problems is not possible under the assumption «ceteris paribus». Cf. Maria Negrepointi Delivanis, *Economic analysis*, Vol. 1, p. 83, Thessaloniki 1968, in Greek.

2. Leading to a growing tendency even in rich countries of equalisation of income and consumption. This was formerly the characteristic of only poor and stagnant countries. Cf. M. Negrepointi Delivanis, *op. cit.* p. 17.

- f. — the possibility to employ high priced durable consumer goods for purposes which had not been considered before³,
- g. — the effort to save time both in the household and on the job,
- h. — the increase of real incomes combined with great liquidity,
- i. — the increase of the importance of the middle class as consumer and the decline of that of entrepreneurs,
- j. — considerations of prestige and the tendency to imitate,
- k. — the belief that the purchase of durable consumer goods is an investment and has not to be included in the consumption items.⁴

On the other hand the purchase of durable consumer goods may be discouraged by their quick depreciation as a consequence of technical progress and so by loss on sale, by the growing maintenance expenses, by the possibilities of robbery, by the diminution of the advantages secured when many have the same durable consumer good, by tax increases and even more when the ownership of some durable consumer goods is considered as the indisputable proof of having a certain income or a certain property, even if the person concerned has them smaller, by the extension of the life of the goods concerned except if the old models are not appreciated and have to be replaced in all those cases where social considerations have not to be forgotten. On the basis of the data available the importance of those factors diminishing the sale of high priced durable consumer goods is smaller than of those leading to increased sales. I intend to deal in part one with the former and in part second with the latter.

3. In Greece some authors believe that tractors cannot be used profitably as the property of each farmer is too small. The number of tractors increases however continuously as the farmers use them not only in the fields but also as a means of transportation for themselves, their families, their crops and their purchases which had not been foreseen.

4. Cf. M. Negreponi Delivanis, *Economic Analysis, II Macroeconomic equilibrium*, p. 47, Athens 1977, in Greek.

I

a. — The increase of the worlds' inhabitants⁵ is continuous but the demand of high priced durable consumer goods moves upwards only if those concerned have the appropriate purchasing power and are willing to use same for this purpose. This presupposes that the inhabitants of the world know the existence, the possibilities and the advantages connected with the durable high priced consumer goods involved. Of course if the appropriate purchasing power is available those producing and selling those goods will do their best in order to transmit to every body the knowledge needed in order to induce those eventually concerned to proceed to the purchase and to the appropriate use. As a rule these efforts are succesful except if religious or moral obstacles interfere or if the prevailing weather excludes the recourse to the goods involved during the whole year,⁶ or if the latter prove to be a failure even if certain marginal advantages are not excluded. It has to be stressed in this connection that very often the opinion formed about a good may be unfounded but this does not prevent unfavourable results for those who are or were involved in this production. On the contrary if adopted by the majority of those who could eventually be foreseen as buyers of the good involved profits will be forthcoming. It cannot be considered that the majority of the inhabitants of the world have enough purchasing power for the acquisition of high priced durable consumer goods. This happens mainly in the highly developed Western and Northern European countries and in North America without however expecting that every body there may buy high priced durable consumer goods. Let us stress that a certain percentage of those interested may buy second hand or in partnership according to various combinations.

b. — Whilst the simple consideration of the growing number of inha-

5.	1950	1960	1970	1975
World population in millions	2.501	2.986	3.610	3.967
Africa	219	273	352	401
America North	166	199	226	237
» South	164	216	283	324
Asia	1.368	1.644	2.027	2.286
Europe except Eur. Turkey	392	425	459	473
Oceania	13	16	19	21
Soviet Union	180	214	243	255

Cf. United Nations Yearbook (Statistical) pp. 6-7, New York 1977.

bitants of the world cannot explain the increased demand of high priced durable consumer goods except if they have enough purchasing power and the appropriate knowledge the increase of the town inhabitants and of the commuters constitutes a sufficient explanation of the growing demand of durable consumer goods except if moral, religious or weather considerations prevent same. As a rule town inhabitants and commuters at least in the most developed North American, Western and Northern European countries and of course with the exclusion of the poorest are able to afford high priced durable consumer goods, know how to use them and need them on a growing scale⁷. If they are commuters, cars, and other mechanised means of transportation are most needed and most bought even if this leads to the necessity of cutting other purchases or investments. If those concerned have except their town home a vacation home they need not only a car but also twice the appropriate equipment. It is wellknown that the prosperity's progress is measured by the number of people who are able to afford a vacation house not too far from their permanent residence. The acquisition of these durable high priced consumer goods, even if expensive, is considered as first priority even if investments have to be left out⁸ or even sold⁹. Those gradually becoming town dwellers are very keen to purchase high priced durable consumer goods even if they do not know how to use them simply because their friends and their neighbours have bought same. The possibility that thus the knowledge and so the demand in the country side for high priced durable consumer goods will increase if those living there contact regularly their relatives and friends who have moved to the city is great.

c. — Independently of the keenness of the new town dwellers to purchased high priced durable consumer goods the propensity to invest is discour-

6. If this is excluded during the summer or during the winter the purchase is carried out except if the price is considered too high for half a year.

7. World figures in millions. United Nations, op. cit. pp. 335 - 6 and 332.

	Cars (passengers) production	Television receivers production	Television receivers in use	Radio receivers production
1966	150,3	19,3	33,4	78,9
1970	183,6	22,5	45,4	85,7
1975	258,1	25,2	50,9	65,6

8. Usually the elasticity of demand is very high in the high priced durable consumer goods, Cf. D. J. Delivanis, Economics, 6th edition, Thessaloniki 1971, p. 153, in Greek.

9. Sir John Hicks does not agree on the sale. Cf. Note 17.

aged by the fear of forthcoming nationalisations without the prompt payment of appropriate indemnities, of inadequate profits when wages and taxes increase more than profits independently of the tendency of firms all over the world to distribute only a small part of the profits secured in order to affect the substantial balance to investments. Saving is further discouraged by the social insurance system as thus practically every body knows that in case of illness of any member of the family the greatest part of the expenses involved will not be paid by himself.

d. — The possibility to pay high priced durable consumer goods¹⁰ is strengthened by instalment payments¹¹. That means that the price agreed will be paid on all dates except the first in depreciating currency independently of the avoidance of any liquidity risks and problems and of the advantage of using the good involved before it has been paid.

e. — The expectation of further price rises induces those considering to proceed to purchases of high priced durable consumer goods to order them at once¹². Thus price rises encourage and do not discourage new orders as it ought to be expected if the elasticity of demand was worth mentioning. This does not happen of course when incomes are rising and when new prices are expected.

f. — Very often in theory we have the tendency to underestimate the advantages connected with the utilisation of the same durable consumer good for two or even more purposes without incurring supplementary expenses. Those using the goods involved however are able to find out and those knowing about this are keen to buy even if the price has increased.

g. — Gradually human beings understand how precious time is and how much it pays to save same. It follows that all tools and generally goods which help to save time are particularly demanded even if connected with substantial expenses¹³. The growing difficulty of securing at reasonable

10. The same applies to the decision of taking long trips on the basis of a package deal and for paying the last instalment after returning home.

11. The influence of the rate of interest and of fiscal policy is not important. Cf. M. Negreponti Delivanis, *op. cit.* 1969 p. 22 with a reference to A. W. Stone and D. C. Hague, *A textbook of economic theory*, London, 1958, p. 390.

12. Cf. A. Koutsoyiannis, *Economic Theory*, Athens 1968, p. 157 in Greek. She calls this «perverse elasticity».

13. On the consequence of changed habits of consumers cf. M. Negreponti Delivanis, 1977 *op. cit.* pp. 86 - 7.

prices the appropriate staff both in the household and on the job contributes a lot to influence favourably their respective markets ¹⁴.

h. — Increased real incomes and the rising importance ¹⁵ of monopolistic elements reduce the elasticity of demand particularly when combined with the liquidity prevailing all over the world since World War II began.¹⁶ This liquidity which continues unabated but of course not without fluctuations of intensity all over the world facilitates the purchasing of high priced durable consumer goods even at increasing prices.¹⁷ The income increase may lead to increased consumption or to increased saving, as both possibilities may be justified.¹⁸

i. — Statistics show that at least in the developed countries but of course up to a certain degree in the developing countries the importance of the middle class and of aged people is growing ¹⁹. It is wellknown that both groups are showing a strong propensity to consume which in the case of high priced durable consumer goods is strengthened by the necessity to replace highly paid hired labour. In the case of cars their greater demand may be explained as they facilitate the satisfaction of demand for distant sites where a stay is helpful for the health of the town inhabitants. There is no complementarity between cars and sites ²⁰. Let me mention in this conne-

14. Cf. A. Koutsoyiannis, *op. cit.* p. 157.

15. This may be considered as a case of cross or substitution elasticity Cf. D. J. Delivanis, *op. cit.* pp. 155 - 6.

16. Cf. P. A. Samuelson, *Economics (an introductory analysis)*, New York 1955, p. 254.

17. Cf. M. Negreponi Delivanis, *op. cit.* 1969, p. 21. She believes that the purchase of durable consumer goods may be considered as the desire of those involved to take care for the satisfaction of future needs. On the other hand Sir John Hicks, *Value and capital*, Oxford 1938, pp. 227 - 36 does not expect the sale of investments and the affectation of the proceeds to consumption. I would however add under normal circumstances. According to J. S. Duesenberry, *Business cycles and economic growth*, London 1958, p. 177, the level of consumption is influenced by the highest income of the past without interfering that the whole income has to be consumed. For further similar opinions cf. M. Friedman, *A theory of consumption function*, New York 1957, J. S. Duesenberry, *Income, saving and the theory of consumption behaviour*, Cambridge Mass. 1962 and M. Negreponi Delivanis, *Economic analysis*, 1, 2, Thessaloniki 1972, pp. 59 - 63, in Greek.

18. Cf. M. Negreponi Delivanis, *op. cit.* p. 88 referring to A. Lewis, *The theory of economic growth*, London 1963, p. 228 and L. Tarshis, *The elements of economics*, New York 1947.

19. Cf. M. Negreponi Delivanis, *op. cit.* 1972 pp. 50 and 77 P. A. Samuelson, *op. cit.* pp. 252 - 4.

20. On the importance of complementarity on the prices of both the principal and the complementary goods cf. G. Coutsoumaris, *Economic analysis*, Athens 1967, pp. 77, in Greek.

ction that the latter is paid by incomes which have already been highly taxed whilst in the majority of cases the use of durable consumer goods is not taxed ²¹.

j. — Considerations of prestige and of imitation in combination with the belief that the purchase of durable consumer goods constitutes a sui generis investment ²² contribute also a lot to the demand of durable consumer goods even if their prices increase. Their purchase does not create the impression of indulging into waste but of having recourse to the appropriate less expensive tool when compared to human labor needed for the human beings' satisfaction. It seems to follow that the spectacular increase of demand for high priced durable consumer goods may be attributed to all those factors enumerated and analysed under a-j but that the more important are :

- the increase of town dwellers with a vacation house in the country and of commuters,
- the increase of incomes,
- instalment payment,
- the expectation of further price rises.

II

As exposed in I a number of factors weaken the influence of price rises of durable consumer goods and on the contrary encourage those concerned to buy same despite price rises. On the other hand the purchase of durable consumer goods is discouraged or at least postponed by the following causes :

aa) The quick depreciation as a consequence of technical progress and the long life of the durable consumer goods ²³ induce many eventual purchasers to avoid or at least to postpone their acquisition with the hope that thus they will be able to secure later a better and more up to date model and that they will not be annoyed by comparing for a long time their old model with the more modern. The latter may be better, more useful and less expensive.

21. This does not apply to cars as their demand has now become unelastic. Cf. G. Coutsoumaris, op. cit. p. 78.

22. As a matter of fact they secure an income which as a rule is not taxed.

23. Cf. G. Coutsoumaris, op. cit. p. 84.

bb) Maintenance expenses constitute another disadvantage of durable consumer goods particularly if they are cumbersome and if appropriate carrying out is complicated, presupposes special machinery or particular experience.

cc) Robbery discourages the purchase of durable consumer goods even more when it is necessary or at least simpler to hold them out of doors as with cars. Of course insurance is available but connected with both expenses and delays.

dd) The advantages from the use of durable consumer goods may be neutralised at least up to a certain degree when many use the same durable consumer good as it happens with cars in the big cities and if cars are admitted in tourist centers.

ee) Last but not least the ownership of some durable consumer goods as cars and yachts is considered by law, specially in developing countries to be the indiscutable proof of having a certain income or the ownership of a certain capital even if it is not so. Special taxes are imposed on top in many countries.

It does not seem that the disadvantages aa-ee connected with the ownership of durable consumer goods despite their importance exercise a great influence on the majority of prospective buyers. Of course some people are induced to postpone or even to abandon their plans of purchase.

CONCLUSION

Despite some disadvantages connected with the ownership and with the use of high priced consumer goods the factors favouring the latter's purchase are both numerous and important. No astonishment is therefore justified when noticing the continuous expansion of the high priced durable consumer goods in use despite their continuous price increase.