

So, Madam Chairman, as long as one side is going to talk about effective interest and the other side is going to talk about applied interest you are going to have two battles going and they are going to be on different fields. Am I incorrect?

Dr. WOOLEY. I would agree with that.

Mrs. SULLIVAN. I think we had better go on to other subjects—we are not convincing each other on this one. With that I turn it over to Mrs. Dwyer.

Mrs. DWYER. I have just one more question. I may not phrase it very well.

Is it true that most department stores make their greatest profits on credit accounts rather than on cash or 30-day accounts?

Mr. DESHAZOR. Our studies of that certainly don't indicate that. As a matter of fact, we do not have an up-to-date audit of a cross section of all of the retailers in the country, but we did have one several years ago and that indicated that the stores did not make money in credit.

Now, it varies considerably by store. If it is all 30-day charge business they have to lose a substantial amount of money on that operation. If a portion of it does carry a service charge, and I prefer to call it a service charge, because with this average balance even in this account, and this is not an untypical account—it is a typical account—I don't believe any operation could come out with a profit on that account. So what I am saying in effect is that the average retailer, depending on the type of mix of the different types of credit balance in 30-day business, will cover varying portions of his cost of credit, but I would doubt very seriously if they would ever recover at all.

Mrs. DWYER. Why is there so much competition for credit these days?

Mr. DESHAZOR. The basic reason for that, and I think this is a fact, and you will correct me if I am wrong, Mr. Garcia, we know that the average credit customer of a department store, any store that—customers are more loyal to a store of this type than they would be to a store in which he casually shops once in a while. That is why it is important to us to build on an adequate base credit customers and you will see considerable promotion by department stores and others to build their base of credit customers because they hope—and our experience has been that these people do come in more frequently to our stores and that they do in fact shop more with us if they are on our books. That is our basic purpose. And we think it is sound.

Mrs. DWYER. Then you are saying that the industry, the retail industry, makes their profit on the merchandise rather than on their credit extensions?

Mr. DESHAZOR. Well, our whole policy, and it is similar to other companies, is exactly that, that the credit operation is a supporting function of the basic purpose of the business which is merchandising or the sale of goods.

Mrs. DWYER. You would say this applies to most of the largest retail stores of the country?

Mr. DESHAZOR. I would guess that it would apply to all of them.

Mrs. DWYER. You would guess?

Mr. DESHAZOR. I would have to say guess because I haven't read their policies, but I have read several large companies' policies, in-