Most of us who went to school some years ago read about the company store and heard that it went out of business 40 or 50 years ago. You say it is coming back?

Mr. CAPLOVITZ. I used this as an analogy, the concept of the company store. What we find now in our urban ghettos is a kind of informal system—not completely informal, because it is bound in by installment contracts, but informal in the sense that the merchant and the customer get to know each other and call each other by their first names. A frequent practice in this marketing system I am describing is the refinancing of loans and debts. The installment books, for example, that these people have, contain a coupon that is located next to the last payment, or half way through the book, and the coupon says: "If you have gotten this far in your coupon book, you are now eligible for another loan."

And many people take advantage of that extra coupon and take out another loan.

Mr. ROSENTHAL. What kind of store are you talking about?

Mr. CAPLOVITZ. Now, that is one aspect of it. Here I am talking about the finance companies that frequently buy up that paper.

I am also talking about small loan establishments that have such a coupon, but what I intially meant is the following type of practice:

A consumer goes into such and such a store and he makes an expensive purchase. He is encouraged to bring the payments to the store and this has the function of letting the merchant get to know that consumer. He knows when his paycheck arrives; he gets to know how much rent he pays, and this allows him to exercise some control over that relationship. If, in the merchant's judgment, this person pays his debts rather regularly, he then talks that person into making another purchase, and from my own interviews with these merchants, that is a very easy thing to do. They have no difficulty convincing the person to make another purchase.

One merchant said to me that the amount of merchandise that you get somebody to buy depends solely on the amount of risk you, the merchant, want to carry, and, so, through this pattern of selling something new when the first purchase is almost paid up, the debtor is continually in debt to the local merchant.

Mr. ROSENTHAL. If I can go back a second. Assuming that the report you talked of supports of allegation you make that the rioters in Watts were discriminating in turning their most vigorous attention to the stores that had engaged in the worst practices; in your opinion is this a restraining—should this be a restraining factor against these same types of merchants in Harlem, looking forward to the day that such an eventuality might take place there?

Mr. CAPLOVITZ. I am not sure I understand your question.

Mr. ROSENTHAL. Well, if you were right in that the Watts rioters turned most of the wrath against those merchants that engaged in the most nefarious practices, and if that became a matter of public knowledge, should this not be a deterrent to merchants in other cities who engage in the same kind of practices?

Mr. CAPLOVITZ. My own feeling is that it is very hard to expect businessmen or anybody, even the medical profession at times—and here I am getting into more trouble, but it is very hard to expect groups with strong interests to regulate themselves.