



Rent Control: An Economic Abomination

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Abstract. Rent control is a public policy which fails on both normative and positive economic grounds. In the former case, it violates all canons of equity, of both right (private property rights are sacrosanct) and left (it does not promote egalitarianism, rather, often, it enriches rich tenants and impoverishes poor landlords). In the latter, it leads to inefficiency, deterioration of rental housing, reduces incentives for upkeep and maintenance, reduces labor mobility, exacerbates landlord tenant relations, promotes housing abandonment and homelessness, and misallocates resources away from residential rental units. This sovietization of housing has effects similar to the sovietization of anything else: farming, factories, industry, forestry, whatever.

Keywords: rent control, landlords, tenants, economic incentives, homelessness, deregulation

The imposition of rent control is equivalent to theft from the owners of apartment buildings for the purpose of giving their property to a selected group of renters (McGee, 1992). These recipients are determined by historical accident, not by need. Owners of rent controlled apartment buildings may have lower incomes than some of their tenants. Thus there is not even the possibility of justification of this taking as a means of helping the poor (Friedman and Stigler, 1981; Hayek, 1981). Rent control is a moral outrage not only because of its unjustified seizure of resources but also for the unjustified selection of those to whom the resources are given. Moreover, even if rent control were a means of helping the poor, there is no justification for imposing the burden of caring for them on people merely because they invested in apartment buildings rather than in other assets. If there is a justification for assisting some people with the cost of housing, there must be a more rational method of selecting both the recipients and the providers of the funds to do so (Block, 1981).

So much for the normative economic case against rent control. On the positive economic side, rent control is a disaster because it does not achieve its goal of furnishing tenants, particularly poor ones, with cheaper accommodation in the long run than would otherwise obtain in the absence of such legislation.

At the outset, this is a difficult position to defend. The rent control advocate could correctly point to lower rents, which, after all, are the initial effect of this law. Superficially, this would appear to be definitive. The landlord, say, would like to raise rents by 25%. However, the law limits him to, for example, a 5% boost. How can it be denied that rent control limits increases? Even the very appellation given this initiative would appear to make this point.

The reason is simple. Yes, in the short run, controls lower rents below the levels which would otherwise occur. This cannot be denied. However, in so doing, the law retards investment in new residential rental dwellings. This, too, can hardly be denied. After all, an investor can place his hard earned funds in any number of industries. If prices in only one of them are controlled, then, *ceteris paribus*, he will tend to turn to alternatives. In the early days of rent control the regulators noticed that virtually no new units were being built (Block, 1993; Baird, 1980, Tucker, 1990). This placed tremendous pressure on the existing rental stock. Given their initial goals of cheaper rental housing, they were forced to exempt new buildings from controls. Otherwise, there would not have been (virtually) any new units constructed. But the rents charged in this new sector were higher priced than would have otherwise occurred. And this for two reasons. First, the excessive demand for rent controlled housing spills over onto the uncontrolled sector. (Basic supply and demand analysis, shows that whenever prices are lower than equilibrium levels, demand is greater than supply; this is all that is meant by 'excessive demand.')

Second, once rent control is in effect, there is never a total guarantee that it cannot be applied to the presumably free sector, at a later date. (Indeed, New York City's experience with 'rent stabilization' is a case in point.) This, too, will tend to shift the supply curve of rental housing in the free sector to the left, thus further raising prices.

Rent controls are so cumbersome a method of reducing housing costs for tenants that the very opposite tack might more nearly achieve this goal. Suppose there were a rational housing planner who wanted to lower rents, and was limited to utilizing price controls. Would he adopt rent controls? Not a bit of it. Instead, he would go in the very *opposite* direction. Namely, he would control the prices of everything else *except* residential rental housing: food, clothing, transportation, pharmaceuticals, etc. Then, investment funds, seeking higher uncontrolled profits, would gravitate toward rental housing, the only free sector of the economy remaining, under our assumptions. With all the resulting increase in supply, rents would come down.

This scenario, of course, is somewhat hypothetical, in that it has never occurred. There is, however, an illustrative experience. In addition to allowing exemptions for new housing, regulators often do the same for luxury units, on the grounds that the rich do not need the 'protection' afforded by rent control.

As a result, investment in lavish accommodation increases, and its price falls, while very few modest suites are built, and their price tends to rise.¹ If the urban planners really had the interests of the poor at heart, were cognizant of basic microeconomic analysis, and had only the option of imposing price controls on housing, then they should have exempted lower class housing, and controlled the luxury variety. Then, as will now be clear, investment funds would desert the latter, and embrace the former.

On positive economic grounds, then, the problem with rent control is not that it is a 'taking,' nor unjustified, nor immoral, but merely that it is aimed in the wrong direction – given the very goals of its advocates.

Although rent controls hinder the successful operation of the free market, there are other reasons to oppose them as well. This may appear a bold and arrogant statement; however, the imposition of limits by state or local governments on private owners of apartments with regard to rents charged is a bold and arrogant breach of property rights.² As the recent experience of New York demonstrates, once imposed, they can be nearly impossible to repeal. The most sensible and obvious solution is to abolish rent controls immediately and completely whenever and wherever this can be done. Certainly cities without rent controls should be discouraged from adopting them. Where, as in New York, it is not possible to immediately eliminate them, it may be possible to phase them out through careful application of economic and political principles.

Although economists are widely thought to disagree on many policy issues,³ there is at least one area of almost total consensus. 'It is nearly impossible to find any respected economist or academic who is willing or able to defend rent controls.' (Barnes, pp. 84,5) One survey (Block and Walker, p. 140) found that only 4.7% of economists disagreed with the statement: 'A ceiling on rents reduces the quantity and quality of housing available.'⁴ Even socialist Swedish economists⁵ have bitterly attacked rent control. One such (Myrdal, 1965) asserted that 'Rent control has in certain western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.'⁶ Another case in point is Lindbeck (1972) who stated, 'In many cases, rent control appears to be the most efficient technique presently known to destroy a city – except for bombing.'⁷

One problem, on moral and also economic grounds, is that it is unjust to lay the burden of affordable housing on private apartment owners rather than on society in general (as is done in literally all other cases, e.g. food and clothing). If the objective is to maximize social utility by providing aid to renters, this could be accomplished through voluntary contributions unless one believes there is an important free rider problem. If there is a free rider⁸ problem, it would be because some of those who receive vicarious utility

from knowing that renters pay low rents would abstain from contributing. They would still get the joy of knowing that renters are subsidized. Ordinarily economists would suggest treating this problem by paying a subsidy from general tax revenues to which most if not all have contributed. After all, we don't ask the grocers and restaurateurs alone to help feed poor people, on the ground that they have foodstuffs at their command. We do not ask only the clothiers and tailors to shield the poor from nakedness, merely because they have coats, sweaters and shirts at their disposal. On the contrary, we place these burdens upon the entire citizenry. Is there something unique about shelter, in contrast with food and clothing, that justifies such different treatment of the entrepreneurs in question? Merely to ask the question is to reject this alternative out of hand.⁹

In his praise of rent control, Gilderbloom (1993, p. A 11) twice refers to it as a temporary solution: 'Rent control could bring temporary relief...' Mr. Gilderbloom later becomes even more narrow minded in his defense of this program: 'Rent control is the one plausible program that could produce short-term relief.' Furthermore, he suggests that rent control is temporary in nature. 'We realized that if we didn't step forward and put forth our case, we were going to be stuck with something [rent control] we could never get rid of' (Gilderbloom, 1993, p. A 11). This Lansing lobbyist's insightful concern is in sharp contrast with his earlier suggestion.

There is yet another difficulty. Surveys show that tenants reside in rent-controlled units twice as long as in non-rent controlled apartments. Gilderbloom's claim is that this leads to stronger social bonds and reduces neighborhood crime. On the contrary, this suggests that rent control stifles labor mobility.¹⁰ It, therefore, adds yet another inefficiency to the economy and another, hidden, cost to the implicit subsidy to renters. It may induce the renter to give up opportunities for better and more remunerative use and development of their skills and talents which would be available to them if they could afford to move. They are, in a sense, trapped by the gentle and visible hand that keeps them where they are rather than where they might do better. (For the general economic case against rent control, see Baird, 1980; Block, 1982, 1989, 1993, 1994; Block and Olsen, 1981; Downs, 1981; Grant, 1989; Johnson, 1982; Tucker, 1990.)

The argument that rent control will reduce crime by building stability is certainly open to challenge. Indeed, far from reducing crime, rent control is likely to make criminals of ordinarily law abiding citizens and to foster a disrespect and a disregard for law. Rent control makes a black market in apartments and illegal payments such as key money and very large security 'deposits' common. It may also lead to discrimination, both legal and illegal,

by the apartment owner or manager on the basis of a variety of characteristics of renters.

It is often claimed that rent control helps the poor. What are we to make, then, of the woman who has a cozy one-bedroom apartment two blocks from one of the most beautiful beaches in the world (Santa Monica) for which she pays \$425 a month while she continues to live on the East Coast (Materna, 1993)? As she says, she would be crazy to give it up even if she only spends one week a year there. The fact is that many of those aided by rent control are far from poor.

In Michigan, the state government managed to pass legislation forbidding any municipality in the state from enacting rent controls. This law was enacted so as to nullify a ballot measure that would have instituted rent control in Detroit. Thus Michigan was saved just in time: 'We've seen what rent control does in New York and elsewhere. Detroit has enough problems without rent control' (Barnes, 1989, p. 84). After exhausting efforts at the local and federal levels, passing legislation at the state level was the only route left. '... the route through the state capitols is easier because it is less tied to purely local interests because the influence of the big cities, where the laws usually get passed, is diluted' (Barnes, 1989, p. 85).

Rent control deregulation does exist,¹¹ but in general, efforts in this direction have been unsuccessful. What can be done? As Wolkoff (1990, p. 261) states,

Proposals to end the iron grip of rent control must gain the acquiescence of existing tenants, be acceptable to property owners, and quickly show the advantages of a deregulated market. Further, proposals must contribute to solving the problem of affordable housing.

This complex set of requirements for deregulation to succeed may lead to a modest compromise. And, since in this case, the burden of proof lies with the deregulated market, the solution must show results rapidly.

Most previous attempts to eradicate rent control lacked at least one of the above criteria. For example, in 1971 New York City passed the Vacancy Control Law. This enactment provided that as soon as an apartment became empty, it could be rented at market prices with no regulation. The reason for vacancy decontrol's failure was that it worked too slowly. Too few tenants gave up their leases to rent controlled units. Therefore the housing market was divided between high market rents and low regulated rents. Few of the anticipated advantages of deregulation were realized (i.e., more mobility, better building maintenance, new supply) Thus, vacancy decontrol, although an idea whose time had come, did not work, because of the lack of incentives of the part of tenants to leave rent controlled units.

A step in the wrong direction is mediation between tenants and landlords. In 1991 Cambridge's Rent Control Subcommittee put forth this proposal. It was the result of the growing trend established in 1990 by the American Bar Association Standing Committee on Alternative Dispute Resolution (ADR). The focus of mediation and ADR programs is to use mediation, arbitration, conciliation, and various other such procedures, in attempts to quickly, efficiently, and creatively, solve landlord tenant disputes (Kempers, 1994, p. 420).

ADR mediation has enjoyed a substantial amount of success in some areas where disputes which might otherwise have gone to court are solved with less formal and less costly proceedings. There is, of course, nothing wrong with fair compromises built on shared interests and mutual benefit. After all, that is what free trade is all about; the realization of gains on the part of both trading parties. In the case of trade, however, neither party is in a position to use force or the threat of force to gain advantage over the other. The problem with mediation in the rent control case is that this situation no longer applies. The landlord is not a willing party to the commercial arrangement, due to the coercion of rent control.¹² Mediation may provide short term relief to the disputing parties, but does nothing to solve the underlying problem. Why attack the symptoms when we have the means to attack the disease (rent control) itself?

Some contend that quasi-market principles can help.¹³ This is seemingly achieved through property rights. Property rights include the right to use property oneself or to rent, sell, give, or bequeath property without restriction on the terms which may be arranged with another willing party. In this view, assigning property rights creates a mechanism for allocating apartments to those who value them most and allows suppliers of housing services to respond to variations in demand (Wolkoff, 1990, p. 263). This scheme would work if the ownership of property rights were clearly defined. Court decisions and the further development of rent control laws have gradually shifted property rights from landlord to tenant.

While it is true that these shifts have not actually transferred the ownership of the apartments, they have virtually eliminated the ability of apartment owners to establish rental terms including price, length of contract, and choice of tenants. The result is that the ownership of property rights remains vague, ill defined, and attenuated. Although it would seem reasonable to assume that those who own the apartments (e.g. the landlords), in turn own the rights to those apartments, such is not the case where rent control is in effect.

Let us first consider the scenario proposed by Wolkoff and then subject it to critical analysis. In its simplest form, this scheme involves the buying and selling of property rights. This property rights trade, however, is to be

restricted to landlords and tenants in order to speed the decontrol process (for we have seen the results yielded by a good idea which is slow acting). Assuming that the tenant owns the property rights (the right to remain in a rent controlled unit), he may sell them to the landlord at any price he can get. If the landlord chooses not to buy them, the unit remains rent controlled. If the landlord buys the rights, he is free to charge any price he chooses. Through this trade, apartments may be efficiently allocated and dealt with on an individual basis. Thus, if the owner can reach a deal with the tenant to purchase the property rights, he may rent to whomever he chooses at whatever rent he can get. If no deal is reached, the tenant reserves the right to continue to rent the apartment under the regulated terms.

The results from this quasi 'free trade' of property rights will please all bargaining parties in so far as the parties themselves have control over the outcome and the results reflect the decisions of these parties. Wolkoff takes his proposal one step too far though. He proposes a tax on capital windfalls (basically taxing away a portion of the 'profit' realized by tenants upon settling with the owners). The revenues collected would then go into a fund to provide affordable housing opportunities for low-income households. To spend all of this effort aimed at decontrol and then tack on a measure which supports a process similar to rent control will, moreover, prove futile. The only net 'gain' would be to shift the burden of low-income housing provision from a private factor (landlords) to a semi-private one (the very settlements or deals which the proposal itself is trying to promote).

Rent control, by definition, constitutes an in-kind transfer in the form of housing. But cash is typically more valuable than an in-kind transfer. 'Although the estimates of recipient valuations vary, recipients are found to value one dollar of housing services approximately the same as \$0.75 cash (Wolkoff, 262). If an agreeable deal can be reached in the purchase of property rights between tenant and landlord, the exchange will occur in the form of cash. If cash is worth 25% more than its equivalent in housing, then tenants and landlords together will necessarily be 25% better off through decontrol. But the Wolkoff proposal is subject to a more radical critique. He is in effect advocating that we make explicit what is only implicit in rent control: that the tenant is actually a 'partner' of the landlord in the ownership of what was previously the latter's sole property. Just as the Mafia uses the threat of force to insert itself as a 'partner' in some firms, so does this law gain for the sitting tenant the status of his 'partner,' a sort of partner of the landlord.¹⁴

If so, why limit ourselves to allowing the landlord to 'buy out' the tenant? Why not reverse the process, and allow the tenant(s) to end up owning the entire property, after a side payment is arranged? Perhaps the inner logic of the latter suggestion is too much for even Wolkoff to stomach. The problem with

this suggestion is that it aims in the wrong direction. Rent control is in effect a theft of property from the landlord, on behalf of the tenant. Elementary justice would consist of a return of this property from the tenant back to the landlord. Wolkoff, instead, proposes to make even more fully effective this rapacious transfer, by legally recognizing it. Let us consider an analogy. Slavery, too, was an unjustified transfer of property rights in human persons from the slave to the slave owner. If we were to apply 'the Wolkoffian policy,' we would not free the slaves (e.g., straight out give them back their rightful property; themselves).¹⁵ Rather we would set up a 'quasi property right scheme' where for a payment, the slave could attempt to purchase his freedom. But this sort of manumission was not what abolitionists such as Garrison were advocating. They favored outright return of stolen property, based on the moral case for the sanctity of private property rights. We would do well, today, to borrow a leaf for rent control not from Wolkoff, but from these earlier champions of property rights.

If it is not possible to completely and immediately rid those cities which have them of rent controls, there may still be paths towards decontrol. Just as a doctor's first attack on an infectious disease is to stop its spread, our first focus is to do everything possible to prevent cities or states from adopting various forms of rent control. Given that rent control is akin to an infectious disease, it may be necessary to attack it cautiously, so as not to disturb the body in which it exists.

One possibility would be to strengthen vacancy decontrol, perhaps by compelling all tenants to vacate, or pay full market value, after a five year period. But even this is not fully just – no one, after all, could reasonably advocate a five year transition period for the release of slaves. What about property rights violations during this half decade? A better policy, if it can be implemented, is to follow the referendum path laid by Massachusetts on rent control (and by California on affirmative action and marijuana legalization): a vote by the entire state as to the legitimacy of this taking (Epstein, 1985) from the landlords. Perhaps in this way this moral blot can be removed permanently.

Rent control is an economic abomination for its indirect effects on people's moral development as well as for its direct effects. It encourages illegal payments and charges which foster a disrespect for law in general. People, therefore, become more willing to accept, and even to engage in other illegal activities in cases where the law may support legitimate objectives. We find, therefore, that rent control is itself unjust and that it leads to the increased acceptance of further unjust actions. For these reasons it is accurate to term rent control an economic abomination.

Acknowledgements

The authors would like to thank an anonymous referee for over a dozen helpful criticisms and requests for further elaboration. This referee should be credited for a careful and conscientious job, which vastly improved the quality of the paper.

Notes

1. The suspicion then arises that there is something intrinsic in the capitalist system which hurts the poor and helps the rich; e.g., that the market cannot supply goods and services to the less well off. But nothing could be further from the truth. Surely, mass production, for which free enterprise is highly renowned, has been a great boon for the poor. It has created relative cheap cars, t.v. sets, shoes, etc. (see on this Mises, 1966).
2. It is in effect a 'taking.' On this see Epstein, 1985.
3. For an alternative view, see Block and Walker, 1988, and Frey, et al., 1984.
4. See also Frey et al., 1984.
5. Virtually a redundancy.
6. Myrdal, Gunnar, 'Opening Address to the Council of International Building Research in Copenhagen,' 1965; cited in *Dagens Nyheter* (Swedish Newspaper), 25 August 1965, p. 12; also cited in Rydenfelt, 1981, p. 224.
7. Cited in Rydenfelt, 1981, p. 213.
8. For a critique of this doctrine, see Hoppe, 1993.
9. The point is, there is nothing which distinguishes food and clothing, on the one hand, from shelter on the other. All of them are usually seen as 'necessities' not just the latter. The poor are typically lacking in all three, not merely housing.
10. Suppose a renter is on the margin between moving to another city for a better job and standing pat. Now introduce rent control. If it has the effect expected of it by Gilderbloom, this law will serve in effect as a tax on moving, or, equivalently, as a subsidy for reducing labor mobility.
11. Massachusetts in 1994 is a case in point.
12. Perhaps an analogy will help clarify this point. A similar situation obtains in labor management relations. According to much labor law, and judicial findings, it is required of the employer that he 'bargain fairly' with the employees. This holds even if his desire is not to bargain at all, but rather to fire them all. On the other hand, no such requirement is imposed on the workers. They are free to quit, even all together, at any time. 'Divorce,' then, is an option for only one, not both parties. Thus, it can be said of mediation between the two that it is voluntary for one, but imposed on the other.
A similar situation holds with regard to landlord tenant relations. Here, too, one side is compelled to bargain; e.g., the landlord cannot summarily force the tenant to vacate his property. But this does not apply to the other side; that is, the tenant can leave at any time, with no permission needed from the landlord.
13. There are numerous other schemes which make use of attenuated or quasi market principles. These include school vouchers, flexible exchange rates, tradable emissions rights, and ITQ's for fishing. None of them deserve the honorific 'market principles'.

14. This is part and parcel of what it means for there to be a 'taking,' given from the landlord to the tenant. For example, without rent control, the market price of a suite might be \$800 per month. With this legislation in effect, the rent controlled rent might be, say, \$300. If so, then the tenant is in effect a 5/8ths (or 62.5%) 'partner' of the property owner, much to the detriment of the latter.
- Clearly, the owner of the apartment house will lose \$500 in this case. This is the opportunity cost he foregoes. But the tenant need not gain this entire amount. It all depends upon the value he places on this dwelling. For instance, if he values it at \$350 (sufficient for him to be willing to rent it for \$300) then while the landlord loses the \$500, the tenant gains only \$50, giving rise to a dead weight loss of \$450.
15. No one contends that Wolkoff would apply his policy to slavery. However, sometimes the basic premises of a proposal are clarified by transposing them to an entirely different context.

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