

Amount of Ground Rent Available for Government Support

IT IS GENERALLY admitted that there are three factors in the cost of producing wealth:

1. What has to be paid for the use of land. This is ground rent.
2. What has to be paid for labor, either of hand or brain. This is wages and salary.
3. What has to be paid for the use of capital. This is called interest, and includes more than what has to be paid to the bank for the use of money.

Interest in this sense is paid for the use of tools, houses and other forms of capital (or stored-up wealth). If we look at it a little closer, we will see that there are really only two factors in the cost of production:

1. Cost of the natural factor, namely, of land and its products—and this is ground rent.
2. The cost of the human factor, which includes wages and salary for active labor, and interest for the use of capital (which is stored-up labor).

For most of us, the cost of shelter and food are the largest items in our cost of living. House rent is most of the cost of shelter. House rent is made up of two items: ground rent paid for the use of the land on which the house stands, and interest on the capital used in building the house itself.

Suppose the house and lot are worth \$12,500 when the house is new, and suppose the lot is worth \$2,500. Then one-fifth of the rent is ground rent and four-fifths is interest. Houses depreciate about 5 per cent each year. At the end of ten years the house would be worth only \$5,000 instead of \$10,000. If the total rent remains the same, one-third of the rental would be ground rent