In the marketplace, buyers are normally charged, not according to their ability to pay, but according to the market value of what they buy. No means test is carried out when shoppers buy groceries, nor is any investigation made into their personal wealth. Yet, in the queues at the supermarket check-outs, there is no outcry against the same prices being charged to rich and poor alike without regard to financial circumstances. You pay for what you get; that is the Law of the Market.

What the taxpayer gets depends on what the state provides. If taxation is to be based on the market principle of “paying for what you get”, the first question to be settled is “what exactly does the state provide?”

**What the State Provides**

One of the clearest answers is given by Adam Smith:

> The sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings:
>  
>  first, the duty of protecting the society from the violence and invasion of other independent societies;
>  
>  secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice;
>  
>  and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to
any individual or small number of individuals, though it may frequently do much more than repay it to a great society.

[1776, vol.II, pp.184–185]

Over the third duty, the scope for disagreement is enormous. Which “public works” and which “public institutions” are legitimate areas for government spending?¹ Over the first two duties, however, there is very little controversy. Defence and the administration of justice are the most basic branches of communal expenditure – the hall-mark of the independent sovereign state.

What the state has an obligation to provide, and what the individual is entitled to receive, is protection. A contribution towards the cost of defence and the administration of justice is, therefore, a payment for protection against external threat and internal disorder. In short, what the taxpayer pays for is insurance.

The Insurance Principle

In a market economy, insurance premiums are normally related to the extent of the cover. Deference to the Law of the Market indicates that taxpayers should be charged on the basis of the market value of whatever they have covered by the protection of the state.

An obvious difficulty, however, is that the most valuable item of all is life itself.

(a) The value of life

Although there is no recognised market test for the purchase and sale of lives, some guidance is given in the Old Testament:

The rich shall not give more, and the poor shall not give less than half a shekel, when they give an offering unto the LORD.

[Exodus XXX, 15]

It may seem astonishing that human life, which is priceless to its owner, should be valued at no more than half a shekel – half of the standard unit of currency. The equivalent of a fifty pence piece for a human life, however, puts the matter into a spiritual perspective:

Dust thou art, and unto dust shalt thou return.

[Genesis, III, 19]