



**Episode 331- No, Progressives, Lower Tax Rates on the Rich Don't Wreck the Economy**  
**Guest: Bob Murphy**  
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**WOODS:** Well, this one is going to be particularly juicy because it's always fun to go after somebody who, well, I don't know, isn't just confused, but is taking that confusion and pretty much trying to screw up the country with it inadvertently or otherwise. I'm going to read the entire graphic that has circulated, I don't know, for over a year at least all over Facebook. People think they're really sticking it to us by circulating this thing, and apparently it's wrong on pretty much on every particular. It's authoritatively titled "A Lesson in Economic History." So let me read it to everybody in its entirety, and then we'll just go point by point. You wrote a systematic reply to the whole thing, and of course, we're going to link to that on the show notes page, [TomWoods.com/331](http://TomWoods.com/331). Here we go.

"In 1922, Republican Warren Harding dropped the top tax rate from 73% down to 25%. It kicked off a gambling, real estate, and stock market bubble that burst in 1929. Roosevelt fixed that by raising the top tax rate on the uber rich back up to over 90%. The economy boomed, and the middle class prospered." You see this is not very subtle. That was me, by the way.

"Regan dropped the top tax rate down to 28%, leading within a year to the worst recession since the great depression followed by the Savings and Loan crisis. Clinton took the top income tax rate back up to 39%, and the economy boomed." It still seems too low by their standards, though. Again, that's me.

"Bush Jr. came in to office, cut it back down, and then we got another crash and high unemployment." All right, Bob. It's true that we can go through each one of these point by point, and we should, but before we do that, I want to know what is the economic theory behind the proposition that things boom when taxes are high on the rich, but when taxes all are low on the so-called rich, you get economic crashes and Savings and Loan crises.

**MURPHY:** For sure, and I'm glad you brought that up. I think we should first explain in case we got some people—I got some pushback from our fans saying, what are you wasting your time on this guy for? It's because this thing had 60,000 plus shares on Facebook.

**WOODS:** Yeah, and that's not likes, that's shares. That's an enormous number of shares.

**MURPHY:** So to answer your question, Tom, you're right. He doesn't even have any kind of theory. I imagine what it is—you get a little hint when it kicked off at gambling, real estate, and stock market bubble. So I think if you did want to come up with some sort of theory to explain this correlation he seems to have discovered between tax rates and prosperity, it would be that if you have too low of an income tax rate, then rich people go out and just start spending money, and gambling, and investing, and they blow up bubbles.

**WOODS:** Right, if there is a philosophy behind it, I think it's basically that. So we can revisit that later. Let's go through point by point. He says that "Warren Harding dropped the top tax rate from 73% to 25% in the year 1922" – okay, that's wrong, but you can give the details – and then, "It kicked off a gambling, real estate, and stock market bubble that burst in 1929." Notice there's an actor that's left out of that story, oddly enough.

**MURPHY:** You mean of the Christians? The people who believe in the Bible? Is that what you're talking about, Tom?

**WOODS:** I am thinking in terms of the Federal Reserve.

**MURPHY:** Oh, yeah! You think the central bank would have something to do with the economy?

**WOODS:** I am thinking it might have a teensy weensy bit to do with it, but based on this summary by Thom Hartmann, the radio host who wrote this, the Fed has no apparent role in the economy, not one that's worth mentioning.

**MURPHY:** Right, and so I am glad you mentioned that, and that is, I think, the most important thing for us to mention is that—and even like supply-side economists I think fall into this trap as well, where they just focus on the top marginal income tax rate. They have a huge blind spot, and that it's why even pretty much right-wing, free-market economist like some other Chicago School types did not see what was coming in the late '20s. Whereas Mises and Hayek certainly did. It's because of what you just mentioned: the Austrians realizing it's artificially low interest rates that spur big bubbles as opposed to, I guess, in Hartmann's view, artificially low tax rates.

**WOODS:** So now let's go back to 1922 with Harding lowering top marginal tax rates from 73% to 25%. What's the actual truth to that?

**MURPHY:** Well, yeah, again, this particular one, it's not the biggest deal in the world, but his date—the reason I wrote this is because a lot of people just assumed his numbers were right and were going nuts over his crazy interpretation and lack of a theory. But his numbers are all wrong also. So for that one, the top tax rate didn't go to 25% in '22. It started gradually being reduced, but it was mostly under Calvin Coolidge's administration, and so it didn't reach 25% until the year 1925, so again, he could tweak his story a little bit, but it's just right off the bat, this thing is chock full of simple, demonstrable, historical error, and so that makes it annoying—all these people sharing it. And I guess they either don't know, or they don't care.

**WOODS:** Right, and of course, as with your critique of Piketty, it's not that this particular thing completely demolishes him in and of itself, but it makes you suspect that maybe he's sloppy with facts—just maybe. Let's go to the next thing. "Roosevelt," meaning FDR, "fixed that by raising the top rate on the uber-rich back up to over 90%, and the economy boomed, and the middle class prospered." What was your response to that?

**MURPHY:** So here, now, and I am glad you brought up the Piketty example because this is the same thing here, that in the progressive narrative, they conveniently overlook the fact that the top income tax rate was jacked up under Herbert Hoover in 1932 back up to 63%. That was an enormous increase just in one year. Why would they gloss over that fact? Because in their narrative, it's low tax rates and small government that cause booms and busts and you need a powerful, rich government to come in—I think that's part of the theory, Tom, to go back to your earlier question. I think some people would say, oh, that you need to have high tax rates because the government had to wisely invest it and worker training and infrastructure and stuff like that. So you have a healthy economy when the government is controlling the resources more than these idiot fat cats.

Now, as far as the error, he's making it sound like the reason the economy got fixed was that Roosevelt came in and then jacked up the tax rate, but it didn't get up to over 90% until the '40s when we were already in World War II. So, I mean, if he wants to say that Roosevelt didn't fix the Depression until several years later, I guess he could, but that kind of hurts his narrative, and also, Roosevelt did jack it up when he came in above what Herbert Hoover had done, and it was still—the economy was clearly in the Great Depression for many years after that.

**WOODS:** Right, in fact, let's look at—he talked about Reagan dropping the top income tax rate to 28% and Clinton raising it to 39%, and he attributes the prosperity of the '90s to that—to that 11 percentage point increase. Now, look at what happened when Hoover got into office. He took it from 25% to 63%—vastly greater increase than between Reagan and Clinton. So why didn't Herbert Hoover usher in the great prosperity?

**MURPHY:** Yeah, exactly, 1933 should have been utopia in terms of economic history, and yet, that was the worst, depending on the metrics you use, the worst year of the Great Depression. And as far as the Reagan thing too, let me just go right in that one. He says that, "Reagan dropped the top tax rate down to 28%, leading within a year to the worst recession since the Great Depression followed by the S&L crisis." So clearly he means Reagan dropped the top income tax rate 20% when he was first elected.

**WOODS:** Right.

**MURPHY:** Hartmann is here clearly referring to the early '80s recessions, but that's not true. If you go look at the actual tax history, the top rate did not go down to 28% until 1988. So Reagan was—and then on that very point, when those bad recessions happened, the top tax rate was either 70% or 50%, depending on the time you want to use, which was much higher than the 39% under Clinton that gave us this golden era. So, again, his history is just flat-out wrong. See,

it's not like a random mistake there. He had to know the top tax rate was 28%. It's not that when you come out of the womb, you know Ronald Reagan cut the top tax rate to 28%. Hartmann had to go look that up. So he clearly had the data in front of him. There's one of two possibilities. He had the numbers and the dates right in front of him and just flat-out lied, or he looked them up at some point in the past, and then when he came up with these talking points, he didn't bother to go check it. He just kind of was walking around saying, I know there was an awful recession under Reagan, and I know at some point he cut it 20%. I am just going to assume it happened within the same 12 months, and there's no reason to go and look that up. Why would I have to be accurate in my history when we're just talking about the economic policies of the country?

**WOODS:** Let's back up, by the way. I do want people to know that when we talk about the Federal Reserve as maybe having a teensy-weensy bit to do with any of this, on the show notes page I will link to an episode of this show where we talk in detail about that. I had David Howden on some time ago, and he went through and explained the Austrian theory of the business cycle. You can't just pretend there's no central bank, and that's it's all fiscal decisions that are leading to all these different outcomes. There is an elephant in the living room, but the progressives general don't want to talk about it—almost never. It's like it's not even there, and these are the people who are supposed to question authority. Yeah, question authority except the most important authority that's sitting right there.

**MURPHY:** What's interesting is, if you hate rich people in the private sector and bankers and tycoons and stuff, well, a lot of Austro-libertarians would be totally in sync with you if you were talking through the mechanism of the Federal Reserve. But that's the one area that they don't hate rich people in the private sector.

**WOODS:** Yeah, exactly. They make this huge exception. I have a chapter in *Real Dissent*, my new book, on exactly trying to figure out what's so progressive about the Federal Reserve that the progressives would seem to like it so much or at least think it can be ignored. I want to read, if I may, a passage with regard to the Savings and Loan thing. This is from my book *Rollback*. Just to explain why it's a bit rich, if I may use that word, to claim that the Savings and Loan crisis occurred just because apparently tax rates came down. This is actually what happened. Here's what I have in here—because a lot of our listeners are too young even to remember the S&L crisis. But you had these savings and loan institutions where they were giving out mortgage loans, and they got hit very, very hard in the '80s, and they wound up being bailed out.

Well, here's what I wrote. "First, so-called deregulation of the S&Ls began under Jimmy Carter, not Reagan. I say so-called because as with most measures trumpeted as deregulation, it was not really deregulation. All throughout the process of alleged deregulation, the S&Ls' deposits continued to be covered under government deposit insurance. Deregulation means the removal of government involvement and control. Does this sound like the removal of government involvement and control? To the contrary, it gave us the worst of both worlds.

Now this government-guaranteed institution was permitted to take greater risks while taxpayers remained on the hook for any losses—not exactly the free market at work. Under the government-established rules, the S&Ls could charge 6% on 30-year mortgage loans and could offer depositors 3%. Since most depositors had nowhere else to go, they had to content themselves with a mere 3% return. But with the advent of the money market mutual fund, ordinary people suddenly had the chance to earn higher returns than S&Ls could pay and began pulling their money out of S&Ls in droves. Consequently, the S&Ls wanted permission to offer higher interest returns for depositors.

“So ‘deregulation’ allowed them to do so. Had the original government requirements remained in place, the S&Ls would have gone under then and there. A consensus began to form that in order to save the S&Ls, their government-established loan and deposit interest rate requirements, as well as the kinds of loans they could make, had to be modified in light of the impossible conditions under which these institutions were then being forced to operate. The S&Ls needed to be permitted to engage in riskier investments than 30-year mortgages at 6%. Notice it’s the free market’s fault when the government modifies the government-established rules of a government-established institution while deposits continue to be guaranteed by the government. Maybe the S&Ls should have gone under in 1980. Perhaps they really did have an impossible business model. There is no non-arbitrary basis for deciding one way or the other, since the S&Ls were never genuinely subject to a market test. The government husbanded and cartelized the S&Ls and stood ready to bail them out after that. Yet the string of failures continues to be blamed on deregulation and the market.” Do you think that’s about the summary of the story?

**MURPHY:** I think so. That was from *Rollback*, you said?

**WOODS:** Yeah.

**MURPHY:** For your listeners, I should just mention, that’s my favorite Tom Woods book, if they are trying to decide which one to get.

**WOODS:** Oh, thank you, Bob, I appreciate that.

**MURPHY:** Basically, Tom has been coasting since that book came out, but—

**WOODS:** (laughs) Oh, that’s right.

**MURPHY:** Let me just point out something else here, too. And it’s part of the narrative. He says how it was Harding—put a (sic) there because it was really Coolidge as well—“cutting the top tax rates that caused the bubble in the 1920s, and so that’s the reason there was a crash in ’29, right? It’s because it was a silly policy that fueled the bubble. But then when he’s talking about Clinton, he says Clinton took the top income rate to 39%, and the economy boomed. So he’s talking about the ’90s here. That’s like the NASDAQ tech bubble and also dot-com boom, and so then how come the Clinton bubble that then crashed is not Clinton’s fault? How come we don’t get mad at Clinton for fueling that? We know it’s Bush’s fault for coming in, and notice that

even in terms of their own narrative it makes no sense that George W. Bush comes in and then right away there's crash on his watch. If you wanted to blame the *housing crash* on George W. Bush because of his deregulation, okay, I mean, there's a superficial plausibility there, and you would need to read *Meltdown* by Tom Woods or something to figure out why that's wrong, but here, even on his own terms, that makes no sense. There's a big boom under Clinton, Bush comes in and right away there's a crash. There's no way to give a cause and effect there within this guy's worldview. But if he's not even constrained by when the dates of things happened, clearly, he's not going to worry about overall meta-logical consistency.

**WOODS:** No, that's certainly true, and also, how far down did he push it? Didn't he just push it down to like 35% or something?

**MURPHY:** Yeah, don't quote me on that. I think you're right, but I don't remember off the top of my head, but yeah.

**WOODS:** It was not a substantial cut at all. Certainly not enough. If you're going to claim that's what caused it—that's what caused a crash that it came out by a few tiny percentage points. Again, with the tax rate going from 25% to 63% under Hoover—a vastly greater difference, and that didn't seem to turn the economy around. How can they attribute the economy going in the dumps a matter of four percentage points? What is the deal? And again, that's right. There is no culprit. There is no mention of the dot-com bust here at all, which went bust before George W. Bush even got in. There's no mention of it. It doesn't even exist because, of course, they can't account for that because you had higher taxes on the rich, so there can't be a boom. Again, where's the Federal Reserve in all of this?

**MURPHY:** Yeah, I think at least we can be grateful that George W. didn't cut tax rates down to the 50% that they were in 1982 because then we would have had, you know, a really awful recession. So we'd at least be glad that that didn't happen.

**WOODS:** All right, listen, what I am going to do on the show notes page [TomWoods.com/331](http://TomWoods.com/331) is link to your fantastic takedown of this piece so that, you know, all you guys will have it on hand when you see this idiotic thing circulating. Also, so that you guys will understand better the real truth. Not just to use it as a bludgeon, but so that you'll understand better how the world works, and that it does not work the way the progressives say it does. I know this is a shock to my listeners. Bob, any parting thoughts?

**MURPHY:** Yeah, I think, well, let's try to have our own team be better than this. So if you're on Facebook and see some meme that you love the message of, but you realize there's a misstatement of fact, or whatever, at the very least, when you share it, say something like, now, this one point is a little off, or something, or even better yet, try to only share memes that are full of nothing but true statements. That's really what you want to shoot for.

**WOODS:** Well, indeed. That is good advice for everybody—for every scholar—that you got to—and by the way, Bob, you are too modest to admit it, but you are the great example of this. You

will very often say, now, look I admit that in this case the conclusion isn't exactly jumping off the page, and there is some nuance here. You don't go around saying my opponent is obviously a blithering idiot, and we have a clear-cut conclusion here. Sometimes we have some ambiguity, and we have to sift through it and be honest about it, and you are a great example of doing exactly that. So as always, I appreciate your time. I know everybody's going to love this episode. This is one of my favorites of all time. Maybe when we're in a rush, we do our best work. Maybe that's what it—when we're leisurely, we get sloppy. We both have to—we're both under a time crunch, and we're really great. Thanks again, Bob.

**MURPHY:** Thanks for having me, Tom.