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Who’s Very Important?

By PAUL KRUGMAN

“Is there a V.I.P. entrance? We are V.I.P.” That remark, by a donor waiting to get in to one of Mitt Romney’s recent fund-raisers in the Hamptons, pretty much sums up the attitude of America’s wealthy elite. Mr. Romney’s base — never mind the top 1 percent, we’re talking about the top 0.01 percent or higher — is composed of very self-important people.

Specifically, these are people who believe that they are, as another Romney donor put it, “the engine of the economy”; they should be cherished, and the taxes they pay, which are already at an 80-year low, should be cut even further. Unfortunately, said yet another donor, the “common person” — for example, the “nails ladies” — just doesn’t get it.

O.K., it’s easy to mock these people, but the joke’s really on us. For the “we are V.I.P.” crowd has fully captured the modern Republican Party, to such an extent that leading Republicans consider Mr. Romney’s apparent use of multimillion-dollar offshore accounts to dodge federal taxes not just acceptable but praiseworthy: “It’s really American to avoid paying taxes, legally,” declared Senator Lindsey Graham, Republican of South Carolina. And there is, of course, a good chance that Republicans will control both Congress and the White House next year.

If that happens, we’ll see a sharp turn toward economic policies based on the proposition that we need to be especially solicitous toward the superrich — I’m sorry, I mean the “job creators.” So it’s important to understand why that’s wrong.

The first thing you need to know is that America wasn’t always like this. When John F. Kennedy was elected president, the top 0.01 percent was only about a quarter as rich compared with the typical family as it is now — and members of that class paid much higher taxes than they do today. Yet somehow we managed to have a dynamic, innovative economy that was the envy of the world. The superrich may imagine that their wealth makes the world go round, but history says otherwise.

To this historical observation we should add another note: quite a few of today’s superrich, Mr. Romney included, make or made their money in the financial sector, buying and selling assets rather than building businesses in the old-fashioned sense. Indeed, the soaring share of the wealthy in national income went hand in hand with the explosive growth of Wall Street.

Not long ago, we were told that all this wheeling and dealing was good for everyone, that it was making the economy both more efficient and more stable. Instead, it turned out that modern finance was laying the foundation for a severe economic crisis whose fallout continues to afflict millions of Americans, and that taxpayers had to bail out many of those supposedly brilliant bankers to prevent an even worse crisis. So at least some members of the top 0.01 percent are best viewed as job destroyers rather than job creators.

Did I mention that those bailed-out bankers are now overwhelmingly backing Mr. Romney, who promises to reverse the mild financial reforms introduced after the crisis?

To be sure, many and probably most of the rich do, in fact, contribute positively to the economy. However, they also receive large monetary rewards. Yet somehow $20 million-plus in annual income isn't enough. They want to be revered, too, and given special treatment in the form of low taxes. And that is more than they deserve. After all, the "common person" also makes a positive contribution to the economy. Why single out the rich for extra praise and perks?

What about the argument that we must keep taxes on the rich low lest we remove their incentive to create wealth? The answer is that we have a lot of historical evidence, going all the way back to the 1920s, on the effects of tax increases on the rich, and none of it supports the view that the kinds of tax-rate changes for the rich currently on the table — President Obama's proposal for a modest rise, Mr. Romney's call for further cuts — would have any major effect on incentives. Remember when all the usual suspects claimed that the economy would crash when Bill Clinton raised taxes in 1993?

Furthermore, if you're really concerned about the incentive effects of public policy, you should be focused not on the rich but on workers making $20,000 to $30,000 a year, who are often penalized for any gain in income because they end up losing means-tested benefits like Medicaid and food stamps. I'll have more to say about that in another column. By the way, in 2010, the average annual wage of manicurists — "nails ladies," in Romney-donor speak — was $21,760.

So, are the very rich V.I.P.? No, they aren't — at least no more so than other working Americans. And the "common person" will be hurt, not helped, if we end up with government of the 0.01 percent, by the 0.01 percent, for the 0.01 percent.