President's Plan Would Undermine Potential GDP

"Initially the plan would stimulate aggregate demand significantly by raising disposable income, boosting equity values, and reducing the cost of capital. However, the tax cut also reduces national saving directly while offering little new, permanent incentive for either private saving or labor supply. Therefore, unless it is paid for with a reduction in federal outlays, the plan will raise equilibrium real interest rates, "crowd out" private-sector investment, and eventually undermine potential GDP."

–Macroeconomic Advisers, LLC
January 10, 2003