



Press Release

The Impact of the Fiscal Cliff on Financial Markets

DECEMBER 5, 2012

All –

You've surely heard a lot about the potential impacts of going over the fiscal cliff. But what will it do to the financial markets?

The impact of the fiscal cliff on financial markets will be immediate and irreversible. That's what [a new analysis from the American Action Forum's Doug Holtz-Eakin found](#).

The Wall Street Journal [writes](#): *“If investors start to doubt that a deal will be reached, the consequences could prove severe and difficult to reverse. Such doubts could spark broad selloffs, causing consumers and businesses to retrench, damping investment and job creation. Republican economist Douglas Holtz-Eakin says in a report to be released Wednesday by the American Action Forum, the right-leaning think tank he leads, that the CBO's estimates understate the depth of a “fiscal cliff” recession next year because economic models can't fully account for financial-market effects. Stock markets declined during the financial crisis in 2008 much faster than businesses pulled back, exacerbating the corporate downturn. If lawmakers toy with going over the cliff, “I think you're going to get a sharp reaction in consumer confidence and markets,” said Mr. Holtz-Eakin, former head of the Congressional Budget Office. “You don't put those genies back in the bottle easily.”*

The paper debunks claims that the cliff is merely a slope and explains that even a temporary fall off the cliff cannot be “unwound” retroactively precisely because of the role of financial markets.

Additionally, [the AAF analysis finds that the fiscal cliff's impact on financial markets could result in a broader economic downturn as large as 3 percent of GDP](#). That downturn could “persist beyond the two quarters needed to qualify as a recession.”

Read the new analysis in our updated comprehensive [E-Book: Everything You Need to Know About the Fiscal Cliff](#).