

**Table 1:** *Full Sample*

	alo	ahi	dlo	dhi	rlo	rhi
mean	13.6	21.2	3.7	5.6	4.1	3.5
sd	12.9	33.9	3.5	6.6	2.2	2.0
count	83.0	126.0	83.0	126.0	83.0	126.0
<i>N</i>	209					

**Table 2:** *Pre-World War II*

	alo	ahi	dlo	dhi	rlo	rhi
mean	11.9	9.4	2.7	2.8	4.8	3.5
sd	9.8	9.1	1.9	2.2	2.3	2.1
count	52.0	90.0	52.0	90.0	52.0	90.0
<i>N</i>	142					

**Table 3:** *Post-World War II*

	alo	ahi	dlo	dhi	rlo	rhi
mean	22.9	47.8	6.9	11.8	3.0	3.5
sd	21.4	55.3	5.1	9.4	1.3	1.9
count	35.0	32.0	35.0	32.0	35.0	32.0
<i>N</i>	67					

**Table 4:** *Summary statistics for the Treatment'' variables''*

	(1) All		(2) Financial		(3) Normal	
	mean	sd	mean	sd	mean	sd
Excess credit measure	0.47	2.17	1.26	2.51	0.24	2.01
Observations	154		35		119	

**Table 5:** *Unconditional Paths, Normal v. Financial Bins*

	(1) Year 1	(2) Year 2	(3) Year 3	(4) Year 4	(5) Year 5
Normal recession	-2.046* (0.184)	-0.0498 (0.311)	1.954* (0.447)	3.251* (0.601)	4.531* (0.664)
Financial recession	-2.666* (0.343)	-3.097* (0.578)	-2.469* (0.832)	-0.897 (1.119)	1.029 (1.236)
Norm	173.00	173.00	173.00	173.00	173.00
Fin	50.00	50.00	50.00	50.00	50.00
p_diff1	0.11	0.00	0.00	0.00	0.01
Observations	223	223	223	223	223

Standard errors in parentheses

Dependent variable: log real gdp per capita

+  $p < 0.10$ , \*  $p < 0.05$

**Table 6:** *Unconditional Paths, Normal v. Financial Bins with Hi-Lo Excess Credit*

	(1)	(2)	(3)	(4)	(5)
	Year 1	Year 2	Year 3	Year 4	Year 5
Normal recession	-2.046* (0.186)	-0.0498 (0.310)	1.954* (0.436)	3.251* (0.583)	4.531* (0.663)
Financial recession, lo boom	-3.971* (0.737)	-2.149 <sup>+</sup> (1.231)	-2.306 (1.729)	1.452 (2.313)	3.821 (2.628)
Financial recession, med boom	-2.251* (0.706)	-4.018* (1.179)	-4.251* (1.655)	-3.112 (2.215)	-1.098 (2.516)
Financial recession, hi boom	-3.589* (0.706)	-5.337* (1.179)	-3.891* (1.655)	-2.872 (2.215)	-0.442 (2.516)
Norm	173.00	173.00	173.00	173.00	173.00
Fin1	11.00	11.00	11.00	11.00	11.00
Fin2	12.00	12.00	12.00	12.00	12.00
Fin3	12.00	12.00	12.00	12.00	12.00
p_diff1	0.01	0.10	0.02	0.45	0.79
p_diff2	0.78	0.00	0.00	0.01	0.03
p_diff3	0.04	0.00	0.00	0.01	0.06
Observations	208	208	208	208	208

Standard errors in parentheses

Dependent variable: log real gdp per capita

<sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$

**Table 7:** *Unconditional Paths, Normal v. Financial Bins and Excess Credit*

	(1) Year 1	(2) Year 2	(3) Year 3	(4) Year 4	(5) Year 5
Normal recession	-1.932* (0.226)	0.262 (0.374)	2.197* (0.549)	3.424* (0.738)	4.495* (0.853)
Financial recession	-3.250* (0.416)	-3.883* (0.690)	-3.516* (1.012)	-1.595 (1.361)	0.673 (1.573)
Exc cred x Norm recn	0.0303 (0.113)	-0.163 (0.187)	-0.0329 (0.274)	-0.221 (0.369)	-0.195 (0.427)
Exc cred x Fin recn	-0.123 (0.168)	-0.680* (0.279)	-0.394 (0.408)	-0.937 <sup>+</sup> (0.550)	-0.975 (0.635)
Norm	119.00	119.00	119.00	119.00	119.00
Fin	35.00	35.00	35.00	35.00	35.00
p_diff1	0.01	0.00	0.00	0.00	0.03
p_diffsrx	0.45	0.13	0.46	0.28	0.31
Observations	154	154	154	154	154

Standard errors in parentheses

LM test: All excess credit coefficients equal zero:  $F(10,750) = 3.995$ ;  $p = 0.000$

Dependent variable: log real gdp per capita

<sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$

**Table 8:** LP Conditional Paths – 7 Variable System, Normal v. Financial Bins

	(1) Year 1	(2) Year 2	(3) Year 3	(4) Year 4	(5) Year 5
Normal recession	-1.495* (0.327)	0.000300 (0.617)	2.616* (0.860)	3.100* (1.134)	4.007* (1.190)
Financial recession	-2.975* (0.525)	-4.605* (0.990)	-3.891* (1.380)	-3.398 <sup>+</sup> (1.821)	-2.012 (1.910)
Norm	101.00	101.00	101.00	101.00	101.00
Fin	31.00	31.00	31.00	31.00	31.00
p_diff1	0.00	0.00	0.00	0.00	0.00
p_diffsrx					
Observations	132	132	132	132	132

Standard errors in parentheses

LM test: pknorm-pkfin coeffs equal:  $F(10,640) = 9.208$ ;  $p = 0.000$

Dependent variable: log real gdp per capita

Year 0 controls not shown: drprv dlrgdp dlcpil dlriyl stir ltrate cay

l.drprv l.dlrgdp l.dlcpil l.dlriyl l.stir l.ltrate l.cay

<sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$

**Table 9:** LP Conditional Paths – 7 Variable System, Normal v. Financial Bins, ExGD (year;1928—year;1946)

	(1)	(2)	(3)	(4)	(5)
	Year 1	Year 2	Year 3	Year 4	Year 5
Normal recession	-1.504* (0.308)	0.154 (0.575)	2.640* (0.716)	3.794* (0.930)	5.107* (0.971)
Financial recession	-2.648* (0.515)	-4.201* (0.963)	-2.486* (1.198)	-0.690 (1.556)	0.863 (1.626)
Norm	94.00	94.00	94.00	94.00	94.00
Fin	24.00	24.00	24.00	24.00	24.00
p_diff1	0.03	0.00	0.00	0.00	0.01
p_diffsrx					
Observations	118	118	118	118	118

Standard errors in parentheses

LM test: pknorm-pkfin coeffs equal:  $F(10,570) = 7.306$ ;  $p = 0.000$

Dependent variable: log real gdp per capita

Year 0 controls not shown: drprv dlrgdp dlcpil dlriyl stir ltrate cay

l.drprv l.dlrgdp l.dlcpil l.dlriyl l.stir l.ltrate l.cay

+  $p < 0.10$ , \*  $p < 0.05$

**Table 10:** *LP Conditional Paths – 7 Variable System, Normal v. Financial Bins and Excess Credit*

	(1)	(2)	(3)	(4)	(5)
	Year 1	Year 2	Year 3	Year 4	Year 5
Normal recession	-1.271* (0.360)	0.693 (0.644)	3.179* (0.869)	3.838* (1.122)	4.813* (1.197)
Financial recession	-2.828* (0.574)	-4.135* (1.027)	-3.586* (1.386)	-2.751 (1.791)	-1.365 (1.910)
Exc cred x Norm recn	-0.264 (0.166)	-0.684* (0.297)	-0.771 <sup>+</sup> (0.401)	-0.932 <sup>+</sup> (0.518)	-0.711 (0.552)
Exc cred x Fin recn	-0.401 <sup>+</sup> (0.213)	-0.991* (0.381)	-0.374 (0.515)	-1.298 <sup>+</sup> (0.665)	-0.895 (0.709)
Norm	92.00	92.00	92.00	92.00	92.00
Fin	29.00	29.00	29.00	29.00	29.00
p_diff1	0.01	0.00	0.00	0.00	0.00
p_diffsrx	0.57	0.47	0.49	0.62	0.82
Observations	121	121	121	121	121

Standard errors in parentheses

LM test: All excess credit coefficients equal zero:  $F(10,585) = 3.026$ ;  $p = 0.001$ 

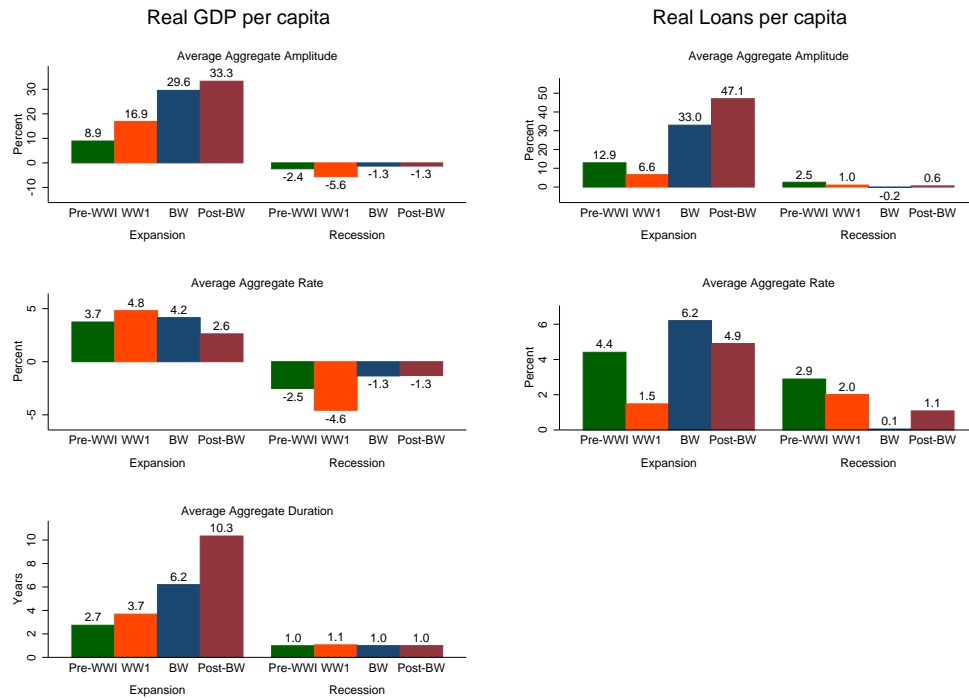
Dependent variable: log real gdp per capita

Year o controls not shown: drprv dlrgdp dlcpil dlriyl stir ltrate cay

l.drprv l.dlrgdp l.dlcpil l.dlriyl l.stir l.ltrate l.cay

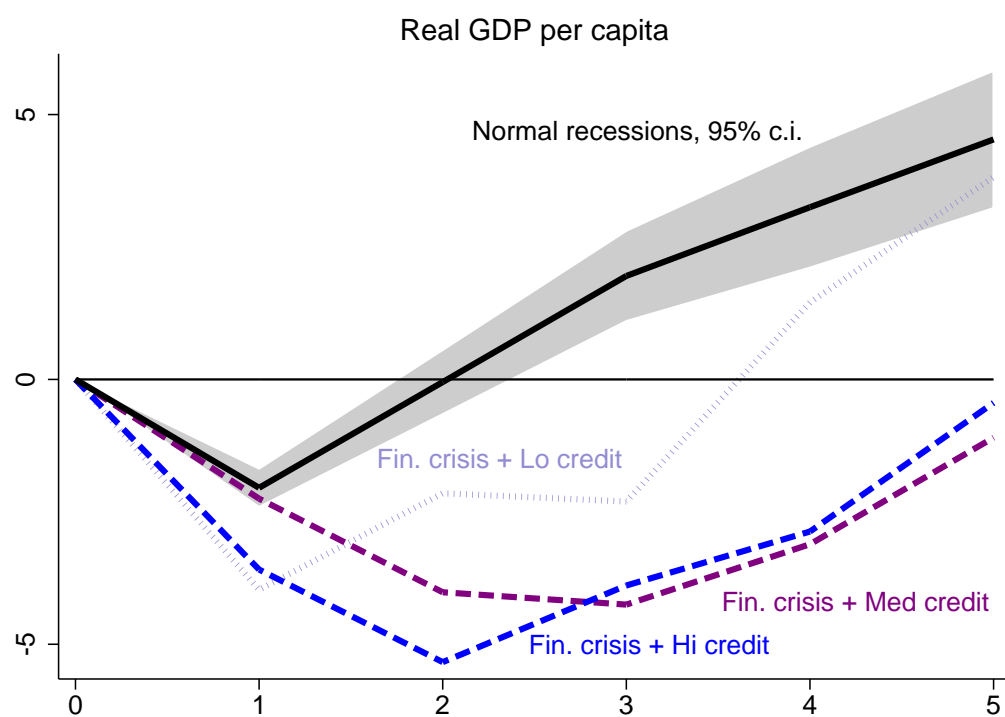
<sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$

**Figure 1:** *Figure 1. Cyclical Properties of Output and Credit in Four Eras of Financial Development*

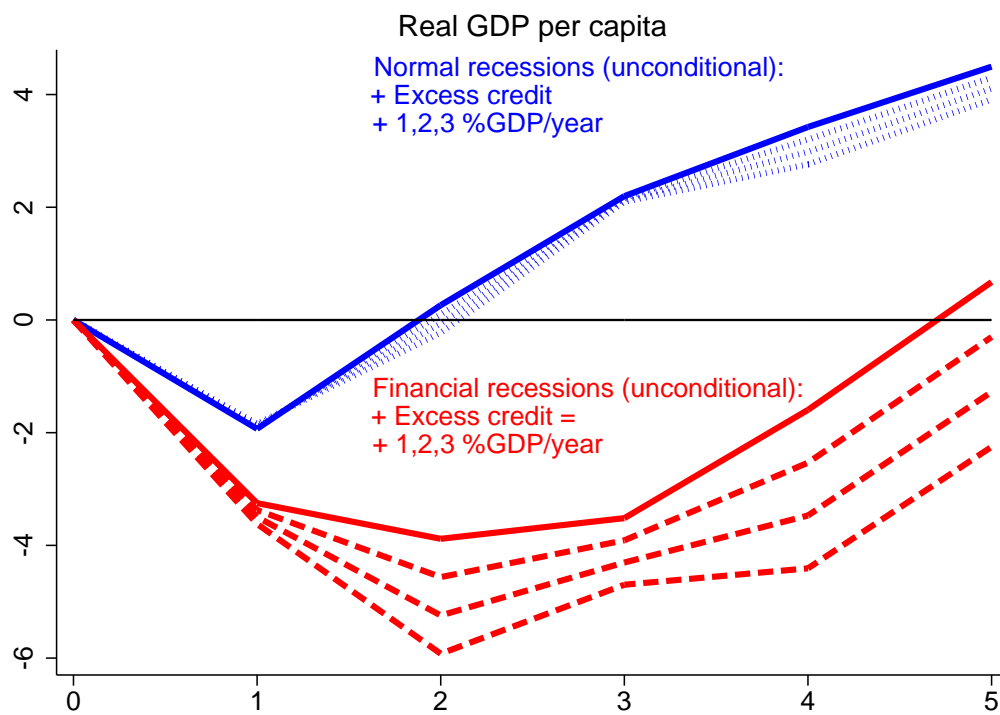




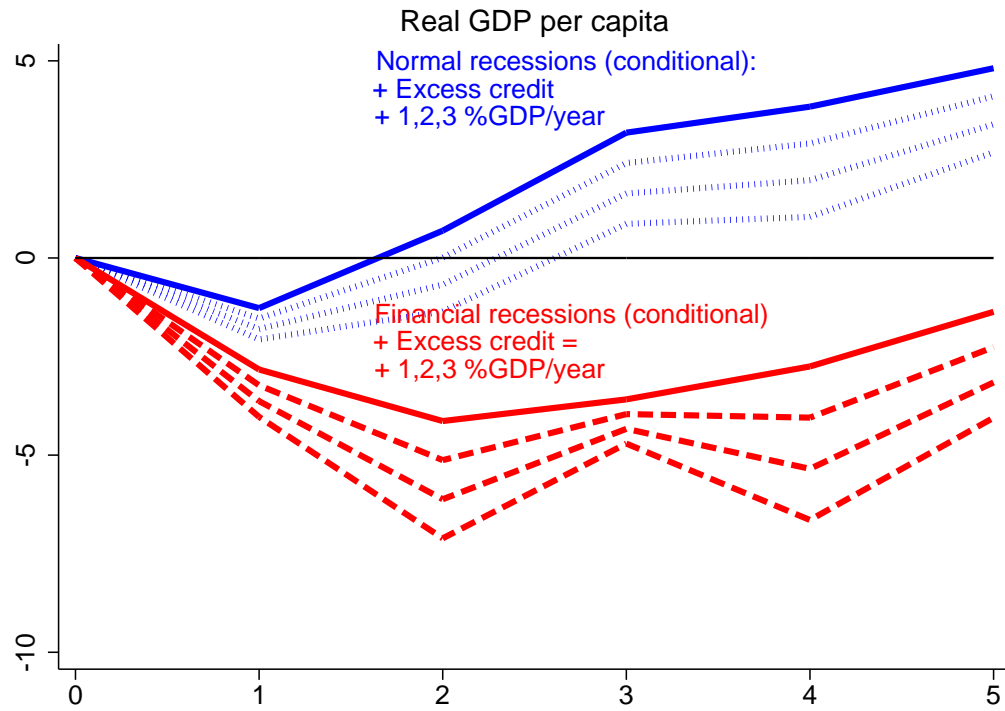
**Figure 2:** *Figure 2a. Unconditional Paths: discrete excess credit treatment*



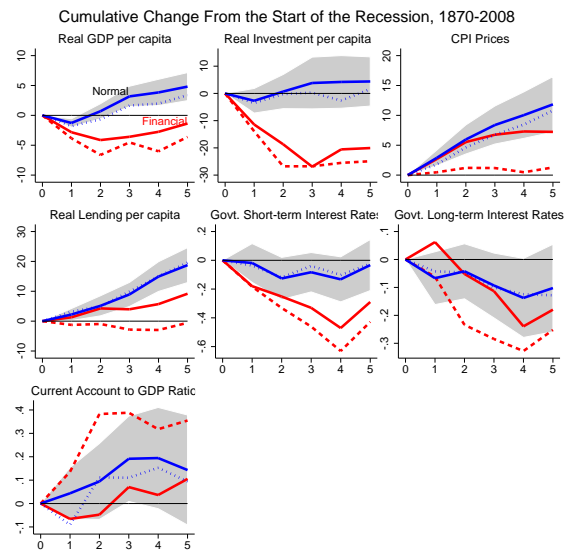
**Figure 3:** Figure 2b. Unconditional Paths: continuous excess credit treatment



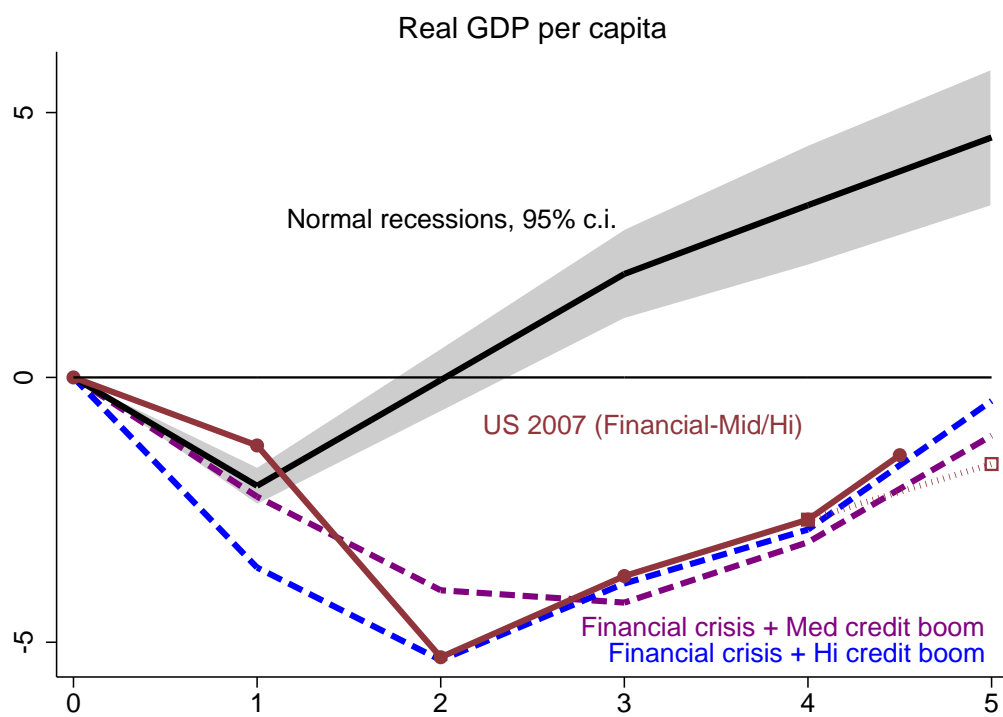
**Figure 4:** Figure 3. Conditional Paths, Continuous excess credit treatment



**Figure 5:** Figure 4. All Conditional Paths: Financial v. Normal Recessions



**Figure 6:** Figure 5a. The USA, 2007-12 actual v. predicted paths: unconditional paths, discrete srx



**Figure 7:** Figure 5b. The USA, 2007-12 actual v. predicted paths: conditional paths, continuous srx

