



## Research Working Papers

# Creative Destruction and the Reallocation of Capital in Rural and Urban Areas

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The higher rate of entries and exits among food manufacturing firms in urban versus rural areas has increased over time.

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We test the implications of Schumpeter’s theory of creative destruction on food manufacturer births and deaths using a dynamic, unobserved effects count model with correlated random effects. We find evidence of a creative destruction process via the interaction of previous firm birth and death, which is correlated with higher rates of contemporaneous firm birth and death in a given location. Results support Marshall’s notion of “something is in the air,” as evidenced by the strong correlation between sources of unobserved heterogeneity in the birth and death processes. Consistent with overall declines in firm birth and death across the United States between 2001 and 2019, we find evidence of convergence in birth and death rates across counties. Our results provide insights into capital reallocation across locations. The convergence rate is higher in urban versus rural areas, which have become more static over time.

JEL Classifications: C35, D21, R12, R30

## Article Citations

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