Business Dynamism and City Size

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Business dynamism, a key factor in the growth of the economy, is measured by the rates at which firms enter the market, grow, and leave the market. Stronger dynamism is related to higher rates of productivity growth, as unproductive firms leave and more productive firms enter or grow (Bartelsman and Doms, 2000).

Dynamism in the United States has been decreasing since the 1980s (Decker et. al, 2014), but the change has been distributed unequally. Larger cities have experienced a smaller decrease in dynamism, while smaller cities have seen a larger drop. At the same time, large and small cities have diverged on several important dimensions: Large cities increasingly have a more educated workforce and offer higher wage premiums for skilled workers (Rubinton, 2020). Given that dynamism is important for productivity and economic growth, the differential changes in dynamism across cities could be important to understanding the divergence in wages and skill-composition between large and small cities.

SOURCE: Census Bureau Business Dynamics Statistics and intercensal population estimates.
The geographic pattern of business dynamism in the United States has changed over the past four decades, with small cities experiencing the biggest declines in dynamism. Understanding the underlying drivers and the implications of these changes for economic growth and regional convergence remains a key goal of economic research.

Notes

1. We measure dynamism using the five-year averages of establishment entry and exit rates. Instead, one could measure dynamism as the rate at which new firms enter the market, the rate at which old firms exit, the rate of job creation, or the rate of job destruction or measure it as a function of those rates. We use five-year averages because the underlying data depend on the Economic Census that takes place every five years. These measures all exhibit a similar relationship with city size. Cities here are defined as core-based statistical areas.

2. Data on business dynamism come from the Census Bureau Business Dynamics Statistics and on population come from Census Bureau intercensal population estimates.

References


