Abstract

This paper explores the interaction of capital reallocation and entrepreneurship activities. We document a robust fact about young firm investment—that young firms are the predominant buyers of vintage capital, originally owned and seasoned by older, established firms in the same industry and county. Using a sample of transactions covering more than 70,000 models of equipment across a wide range of industries, we show this is true within firm and within machine—that is, as firms age, they transition to newer and newer machines, and as machines age, they are reallocated to younger and younger firms. This pattern is more pronounced when financial constraints are more likely to bind. Meanwhile, the pattern is significantly weaker among leased capital, limiting the appeal of technology-based explanations. Finally, because young firms depend on older capital, which in turn tends to trade more locally than new capital, we demonstrate there are returns to local agglomeration among young and old firms. Specifically, the local supply of vintage capital provided by older firms shapes the investment choices of new businesses in the same county and industry.

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