

The importance of small and medium business for national economy

[Business](#)



Disadvantages Of Not Supporting SMEs Disadvantages Of Not Supporting SMEs Introduction The acronym SMEs is used to refer to Small And Medium Sized Enterprises and these organizations are categorized as businesses that are smaller in size as compared to larger organizations. A business is categorized as small or medium in nature due to the number of people employed within the organization, the amount of capital invested and the scale of operations. There are various disadvantages that may be faced by a particular nation/economy if they do not support or promote their small and medium sized enterprises. The disadvantages of not supporting SMEs include increase in rate of unemployment and increased income inequality.

Body

SMEs form the majority of the businesses that operate in a particular nation. Each nation's economic stability is highly dependent on the number of SMEs operation in those nations (Harvie, 2002). If government policies are not directed towards the promotion of these organizations then there are chances that these organizations may fail to continue to operate and as a result of this these organizations may close. Since these organizations form the majority of the organizations in a nation, they even employ the highest percentage of a particular nation's work force. If SMEs are not promoted, they might close and as a result of this the economy may experience increase in the rate of unemployment. According to a report that was compiled by ECORYS and commission be the European Commission, 98% of the organizations that were operating in the European region were SMEs and these organizations were employing 67% of the total workforce (ECORYS, 2012). This report depicts that if the European Union does not support its

SMEs, the chances are that 98% of the organizations in the region will shut down and may contribute to 67% of the total rate of unemployment (ECORYS, 2012).

If SMEs are not encouraged within a particular nation, the wealth gap will further increase. SMEs owners as well as employees working in these organizations are those individuals who fall below the upper half of the line of the income distribution (Hallberg, 2000). This means that SME owners and employees earn less than what is earned by individuals working for large corporations and the money earned by owners of large corporation. If SMEs are not promoted with various policies such as tax benefits and easy access to credit, they will fail to survive the competition they face at the hands of large corporations and due to this the owners and workers of these organizations will experience a decline in their salaries and incomes. In other words, lack of promotion of SMEs will lead to an increase in the income inequality between the rich and the poor of the society.

Conclusion

Small and Medium Sized Enterprises are the backbone of any particular nation and are the most important segment of the economy of both developing and under developed nations. If SMEs are not promoted through policies such as tax breaks and easy financing policies then the rate of unemployment as well as the income inequality in those regions will increase substantially.

References

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