

SME Policies as a Barrier to Growth of SMEs*

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Abstract

We investigate whether firms have incentives to retain their positions as small and medium enterprises (SMEs) to benefit from various SME policies. Using small business data from Japan, we show that firms are less likely to increase their registered capital so that they can continue to satisfy the requirement that retains their position as SMEs under the SME Basic Act. In addition, we find that, after the relaxation of this SME requirement under the act, firms were more likely to increase their registered capital. When firms do not increase their registered capital in order to keep their SME status, firm growth is impeded.

Keyword: SME policy, firm growth, equity capital, small businesses

JEL classification: L53; L25; G32

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