Removing barriers to greater success in services

Services are changing the structure of the Brazilian economy — and that's not a bad thing. As our cover story makes clear, once people have a home and a car, they begin to spend more not only on retail goods but also on intangibles like entertainment, health, and education. Clearly, the fact that Brazil is moving in that direction means that for more and more Brazilians the basics are already taken care of so they can, for instance, get a computer to go online and take courses to brush up their skills.

It's easy to think of services in terms of traditional areas like transportation, retail, and personal services like haircuts, but in economics the word means far more: tourism, for instance, but also finance, telecommunications, and information technology. This is where the services picture gets a little cloudy.

Large segments of these areas have long been dominated by the government, there is a shortage of workers with the skills these areas need, and there are archaic restrictions on foreign investment. That may explain why, as GFV economist Pedro Cavalcanti tells us, when Brazil is compared to the U.S. and Korea, there are clear productivity gaps but the worst is in the services sector, not agriculture or industry. Cavalcanti finds an old problem to be the main culprit: education. Even though literacy levels are rising and Brazilians are spending more years in school, he says, "The workforce in this country is still not well qualified."

One of the main forces holding the service sector back from success is thus the inadequacy of Brazil's educational system. True, there begins to be some recognition of the problem by both public and private groups. The National Competitive Development Policy, which was once focused solely on manufacturing, now incorporates services. Regarding engineering services, the Federal Council of Engineering, Architecture, and Agronomy is launching a national census of the skills of engineering and architecture professionals as the basis for discussion on how to improve technological and technical education — particularly important given huge and urgent infrastructure demands in areas like international sports and deep sea oil. There is a draft bill to introduce subsidized loans for the training of workers (though it has yet to pass). But until we make education a true priority rather than just a verbal one, the services sector, which is responsible for almost 70% of the wealth generated in Brazil, will survive on its potential rather than fully actualizing its success.

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Education may be the biggest problem for the sector, but of course it is not the only one. Another is the extensive informality in certain areas, particularly personal services such as cosmetics and health, where the barriers to entry are low. The Individual Entrepreneur law has helped here, bringing more than 1.2 million small businesses into the formal economy, from bars to beauty salons. What would also help, according to lawyer and banker Murilo Portugal, is for the government to "adopt negative incentives" to raise the cost of informality, and to reduce the excessive cost of labor by exempting payroll from taxes.

The services sector is going strong. But it could contribute even more to Brazil's economic success, not to mention the well-being of Brazilians, if the hurdles it must surmount were dismantled.