

INTERNATIONAL ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT IN BRAZIL: THE CASE OF FERNANDO HENRIQUE CARDOSO

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ACADEMIC ABSTRACT

Fernando Henrique Cardoso, former two-term President of Brazil, is world renowned as the father of dependency theory and the first sociologist to become head of state. Hitherto unnoticed in the field of international entrepreneurship, however, is the extent to which Cardoso's rise to eminence as a scholar and statesman is based on entrepreneurship research in the Schumpeterian tradition Cardoso first published in 1964. This paper briefly discusses the methodology and impact of Cardoso's entrepreneurship research to situate him squarely among the ranks of the most influential early international entrepreneurship scholars.

EXECUTIVE SUMMARY

Dr. Fernando Henrique Cardoso is well known among scholars and policy makers worldwide as an eminent Marxist sociologist, former president of the International Sociological Association, and left-wing activist whose study of dependency and development has had an enormous impact on the debate over the future of Latin America for the past 40 years.

This paper seeks to transcend Cardoso's renown as the most influential Marxist scholar to lead a nation since Lenin by recognizing him as an early international entrepreneurship scholar instead. To wit is Cardoso's 1964 book, *Empresário Industrial e Desenvolvimento Econômico no Brasil* (Industrial Entrepreneurship and Economic Development in Brazil), and his 1971 book, *Política e desenvolvimento em sociedades dependentes: ideologias do empresariado industrial argentino e brasileiro* (*Politics and Development in Dependent Societies: ideologies of the Argentine and Brazilian entrepreneurial class*). These publications preceded Cardoso's dependency writings, but were essential to their formation. Such policy implications stemming from dependency theory as privatization and economic liberalization, which underpin the economy of Brazil and many other countries in Latin America to this day, are shown to stem from Cardoso's entrepreneurship scholarship as well.

INTRODUCTION TO CARDOSO

While Cardoso is widely recognized as the most successful president in Brazilian history, many on both sides of the political spectrum remain confused with his stand as a free-market reformer and are troubled by his refusal to apologize for either his Marxist past or his capitalist present (Goertzel, 1997). Critics argue that the neoliberal economic policy Cardoso instituted in Brazil is inconsistent with that which was set forth by Cardoso earlier in his career: the developmental path president Cardoso established for Brazil- development through dependency on multinational

corporations- is the very path Cardoso warned against as a sociology professor. While Cardoso's dependency writings were filled with discussions of capitalism, class exploitation and a commitment to socialism; by contrast, the policy of his administration reflects a commitment to the expansion of entrepreneurship, free enterprise and integration of Brazil into the framework of global capitalism.

Among his current functions, the former president is Chairman of the Club of Madrid, co-Chairman of the Inter-American Dialogue, President of the United Nations Panel of Eminent Personalities on the relationship between the Organization and civil society, and also coordinates the working group in charge of reviewing the process of Ibero-American Summits. He is distinguished Professor At Large at Brown University's Watson Institute for International Studies and is also a member of the Board of Trustees of the Rockefeller Foundation, New York, and of the Institute for Advanced Study, Princeton. He holds the "Cultures of the South" chair at the Library of Congress, Washington D.C.

Cardoso is the recipient of numerous Doctorates *Honoris Causa* from universities in the United States, Venezuela, Chile, Portugal, Spain, Germany, France, Italy, England, Slovakia, Russia, Israel, and Japan. He is a Foreign Honorary Member of the American Academy of Arts and Sciences and has received numerous other honors, including the Prince of Asturias Award for International Cooperation (2000), the United Nations Development Programme's Mahbub ul Haq Award for Outstanding Contribution to Human Development (2002) and the J. William Fulbright Prize for International Understanding (2003).

Upon Cardoso's landslide victory in 1994, Brazil became the first country to elect as president a professional sociologist. Cardoso's rise to power took place via an academic career highlighted by exile to Chile and forced retirement by the Military, and a political career highlighted by Brazil's return to democratic rule in 1985 and victory over her long-standing battle with hyperinflation in 1994.

Hyperinflation had defeated several previous administrations and appeared to the masses as a problem for which there was no solution. When Cardoso, however, in his post as Finance Minister, succeeded in conquering hyperinflation by instituting an economic plan named after a new currency, the *real*, he gained international recognition and tremendous local popularity. Cardoso easily won the subsequent presidential race by an outstanding margin. Once president, Cardoso embarked on a political agenda geared towards free-market economic liberalization and institutional reform that has in fact been found to be methodologically consistent with his sociological work as a Marxist dependency theorist, or *dependista* (Goertzel, 1997; Kane, 2004).

Cardoso's 1962 Ph.D. dissertation at the University of São Paulo on slavery, *Capitalismo e Escravidão no Brasil Meridional* (Capitalism and Slavery in Southern Brazil), and his 1964 research on industrial entrepreneurs in Brazil, *Empresário Industrial e Desenvolvimento Econômico no Brasil* (Industrial Entrepreneurship and Economic Development in Brazil) preceded his dependency writings yet were essential to their formation, as the discussion to follow will demonstrate.

The Impact of Slavery on Entrepreneurship and Dependency and Development in Brazil

For Cardoso, it will always be the Negro question which connects empirical studies to national issues in Brazil (Kahl 1976, p.131). Over the course of his dissertation research, however, Cardoso began to refocus his perspective on the Negro question from interpersonal relations and an anthropological view of slavery to the historical-structural framework particular to the Negro's position in Brazilian society. For this reason, Brazil's colonial and imperial past must be considered next because it is the context in which economic development, slavery and abolition took place in Brazil.

Cardoso describes the economic system in colonial Brazil as a plantation system based on slavery, but integrated into the expansion of mercantile capitalism, within a competitive international framework (Freire, 1996, p.5). In *Capitalism and Slavery in Southern Brazil*, Cardoso emphasizes that slavery and abolition in Brazil must be understood in reference to the broader expansion of global capitalism. Cardoso observed that slavery had been introduced for capitalist purposes, but became less attractive when technology improved and more skilled labor was needed. Slaves were poorly motivated by the relationship with their masters and required more supervision than free laborers, who also produced more. Community leaders noticed this fact, the more progressive of whom thought progress and modernization required the abolition of slavery. Generally speaking, abolition in Brazil took place nonviolently in response to both international pressures and domestic economic trends.

That *Capitalism and Slavery in Southern Brazil* illustrates how the ending of the slave trade actually spurred economic development in Southern Brazil is telling. Between 1850 and 1860 the number of corporations in the region boomed to an extent that rivaled the Internet boom of the 1990s (Hanley 2004, p. 187). Ventures in manufacturing, railroads, insurance, mining, savings banks and land settlements became prevalent (Levine 1999, p. 67). Ecological destruction and a corresponding decline in economic growth of the once dominant Northeast contributed to the emerging economic power of Southern Brazil. The expansion of the 1890s was fueled by the growing use of the joint-stock corporation for new business formation, and included broadened pools of investors and entrepreneurs (Hanley 2004, p. 197).

Given the strong preponderance of leftist sympathizers that existed in the sociology department at the time, that social science at the University of São Paulo has entrepreneurs to thank for its existence is a curious phenomenon. The culture of Latin America has been judged to contain elements that inhibit entrepreneurship, yet São Paulo is a region which seemingly displays no concern for such apprehensions. (Dean 1966, p. 138). The great depression of the 1930s cut off Brazilian imports, and WWII created a demand for Brazilian exports. These two factors combined to finally allow Brazilian industry to develop during the era of Getúlio Vargas, making São Paulo into a veritable boom town.

After Vargas' suicide in 1954, the energetic President Juscelino Kubitschek helped keep Brazil's industrial boom alive and produce a widespread feeling that the Brazilian economy had evolved to such an extent that self-sustained national development was finally possible. The city's entrepreneurial elites, many of whom were European immigrants from the plantation aristocracy, wanted to raise the community's cultural level by making USP a world-class university, so USP

hired a number of prestigious French professors to make what one student called a “French Overseas Department” (Goertzel 1999, p. 11). Among them were anthropologist Claude Lévi-Strauss and the great Protestant sociologist Roger Bastide, who was an important critic of Émile Durkheim.

Entrepreneurship and Industrial Sociology

The shift in focus of Cardoso’s research from race relations to entrepreneurship and industrial sociology happened in response to the aforementioned economic developments that were taking place in Brazil at the time. In the tradition of Joseph Schumpeter, the first economist to recognize entrepreneurship as the vital force behind economic growth, many in Brazil believed that entrepreneurs were the backbone of an emerging national bourgeoisie and were heroes responsible for moving the country away from centuries of backward colonial rule to a “dynamic future based on an independent industrial economy and modernized democratic polity that would incorporate the masses into active participation” (Kahl 1976, p. 133). The deep recession of the early 1960s, however, the Brazilian military, and *Industrial Entrepreneurship and Economic Development in Brazil* would prove this theory to be wishful thinking.

The date of publication for *Industrial Entrepreneurship and Economic Development in Brazil* is April, 1964. As Goertzel notes, that Cardoso’s book was published this very month reveals a type of prophetic significance. By the morning of April 1st, the Brazilian armed forces had overthrown the democratically elected Brazilian government and installed a military dictatorship in its place. The 1964 *coup d’etat* is a milestone in Brazilian history, but was not unexpected (1999, p. 35). Pessimism reigned over the downward economic spiral Brazil and most other nations of the region began to suffer from. Political tension had been rising since President Jânio Quadros suddenly resigned over frustrations with congress and the worsening economy during August of 1961. Control was handed over to Quadros’ unpredictable vice president João Goulart, who returned from a visit to communist China to take office. Goulart’s presidency was seen by leftists as an opportunity for a Castro-like communist revolution in Brazil. This eventuality was distressing to middle class housewives, business leaders, as well as the U.S. State Department, who clamored for military intervention over the threat of communism.

Goertzel points out that biased sociological work is often invalidated by historical shifts of this magnitude, especially ones that occur during the publishing process. He sites *Revolution in Brazil* by Irving Louis Horowitz (1964) as one such example, since Horowitz’s book heralded an imminent socialist revolution. Goertzel contrasts Horowitz’s book with that of Cardoso, which instead of being superseded by the military coup actually helped explain why it happened (1999, p. 33).

Industrial Entrepreneurship and Economic Development in Brazil addressed some of the key assumptions of the Brazilian Communist Party. Following a traditional Marxist formula, the party and many of its sympathizers believed Brazil needed to complete its bourgeois capitalist revolution before it could move on to socialism. Thus, the party favored encouraging Brazilian entrepreneurs to defend the country against international corporations and develop an independent national industrial economy. Said Cardoso, “I believed when I started the work that maybe the entrepreneurs as a class could be the new leaders, since that was the mood of the

times; Kubitschek, the National Development Alliance and even the Communists believed that. But while doing the research I changed my mind” (Kahl 1976, p. 34).

Cardoso’s research was a qualitative study based on a series of 82 interviews with successful high-level entrepreneurs from the cities of São Paulo, Belo Horizonte, Recife, Salvador and Blumenau which were conducted in 1961 and 1962, and sought to verify whether Brazilian industrialists were capable of being the demiurge of society or not. Cardoso was motivated further by the debate between the Communist Party and the *Instituto Superior de Estudos Brasileiros*, who agreed that there should be an alliance between the workers and the entrepreneurs, under the control of the latter (Goertzel 1999, p. 29). Cardoso, however, was not sure if this would work in underdeveloped countries like Brazil for two reasons. First, Brazil had to compete with developed countries that had superior productivity and know-how. Second, unlike developed countries, Brazil had relied on state investment for much of its initial industrial development.

Cardoso remarks that “both groups believed that the state was the axis that would make a joining of forces possible, and sought to win control of state agencies and use them to change society. Celso Furtado also supported this view, although with more hope for the State than for the bourgeoisie. For him, the demiurge should be the state employees, while for Helio Jaguaribe it should be the Schumpeterian entrepreneur. I undertook to verify if these hypotheses were or were not valid” (Goertzel 1999, p. 29).

Cardoso states that some of the more extreme leftists, Trotskyites, thought he was in favor of national capitalism, “but if they read [my] book they would see that it is not true, because my structural analysis showed me the weakness of the position of the entrepreneurs” (Kahl 1976, p. 134). “I found only two businessmen- the old Jose Ermirio de Moraes and Fernando Gasparian, whom I interviewed at length- who had a vision which coincided with this expectation of a national business elite which would create the internal market and the agrarian reform, and use the State to create conditions for development (Goertzel 1999, p. 29).

Cardoso showed the reality among entrepreneurs was much more complex than would be expected by orthodox Marxism for several additional reasons. First, many firms were family controlled. Cardoso found that these firms tended to limit the scope of operations to the extent that family control could be maintained. Second, there was considerable ethnic and regional diversity. Old Brazilian families controlled some firms while German and Italian immigrants controlled others. Almost all relied on personal contacts within the government for support in one way or another. Since Brazilian entrepreneurship traces back to the plantation elite, it is easy to understand why this would be so. Confusion over the Brazilian land-holding system meant that planters could not acquire large areas without some degree of political influence to legitimize claims (Dean 1966, p. 146). Brazil’s Landless Worker’s Movement (or *Movimento dos Trabalhadores Rurais Sem Terra - MST*) is the contemporary reaction to this historical reality. It must be noted, however; that patrimonial relationships and clientelism are longstanding characteristics of Brazilian society that date back to the days when the Portuguese crown would reward loyal civil servants with permanent jobs. Finally, variable inflation rates and unpredictable government policies made it difficult for leaders to manage and create rational business plans (Goertzel 1999, p.31).

As a result, Cardoso found that entrepreneurs did not have the economic or political power to industrialize Brazil themselves, thus they increasingly turned to collaboration with the state and multinational enterprises for help. A substantial direct entrepreneurial role for the state is a common characteristic of such dependent industrializing countries as Brazil. In such countries, the state substituting as entrepreneur in the industrialization process occurs when allocation and production has been captured by a key group, what Duvall and Freeman call the techno-bureaucratic elite (1983, p. 569). In Brazil, strong collaboration with the techno-bureaucratic elite meant that Brazilian entrepreneurs turned away from close ties with other sectors of Brazil, particularly the working class. Cardoso suggests in *Industrial Entrepreneurship and Economic Development in Brazil* that the alternative to the increasing internationalization of Brazilian enterprise was socialism (Kahl 1976, p.136).

Nationalism continued to be an important theme in Brazilian politics in the early 1960s. By breaking economic links to the imperialism of the United States and Western Europe, it was thought that Brazil could break free from stagnation and underdevelopment. Classical economic determinism views economic forces as abstract, impersonal variables which act independently of individuals who are responsible for their manipulation. In *Industrial Entrepreneurship and Economic Development in Brazil*, however, Cardoso observes that success or failure of a given developmental path ultimately depends on politics, or collective human action, which can fail (Goertzel 1999, p. 30). As what would become the overriding theme of his academic career, Cardoso showed that the political context of economic development needed to be considered along side the abstract forces of economic determinism. Cardoso concluded that Communist Party activists were misled since the data he collected on the entrepreneurs did not coincide with their ideological reference points.

Cardoso ended his analysis by deciding that a national-bourgeois revolution was not viable. Brazilian entrepreneurs as a class were satisfied to be a minority shareholder in Western capitalism and had abdicated their hegemony over society. Cardoso states, in the end, the question will be this: Subcapitalism or socialism (Cardoso 2001, p. 44).

Like many Leftists after the coup, Cardoso chose to flee Brazil. He left for the sociology department at the University of Buenos Aires, where, despite the coup and the situation in his country, Cardoso expanded his research on industrial entrepreneurs in Brazil as part of a comparative study of business leaders in Argentina, Brazil, Chile and Mexico. Shortly thereafter, Cardoso accepted a position offered by the distinguished Spanish sociologist Jose Medina Echeverria at CEPAL, the United Nations Economic Commission for Latin America in Santiago, Chile. Echeverria admired Cardoso's work because it was more Weberian and less Marxist than that of most social scientists at CEPAL (Goertzel 1999, p. 37). Weber's *The Protestant Ethic and the Spirit of Capitalism* (1904-5) is generally taken as a counter to the Marxist thesis of the primacy of mode of production.

While Marx saw Protestantism as the ideology of capitalism, Weber reversed this formula by linking the origin of capitalism to the Reformation. Weber illustrates that capitalism and civilization's emergence from the Dark Ages into the modern era developed historically as a result of a *religious* movement, specifically Calvinism. The Calvinist entrepreneur, responsible for the greatest innovations the world has known, guided

not by decrees of the Pope, but instead by his faith in the Holy Bible as the only infallible word of God, led him to seek reassurance of salvation by achieving success in his economic undertakings with the belief that God signifies his favor by awarding prosperity to His faithful. And his employees, being Bible believing Calvinists also, saw their occupations as 'callings' to be done well out of religious duty- even for small earthly reward. In the context of the Brazilian entrepreneur, the rise of Protestantism in Brazil should be examined because it is seen as an act of protest against elite values and a rejection of hierarchical, Catholic society; and as a means of rising toward the socio-economic status of the elite at the same time. That individual acceptance of Protestantism, however, has been more a means of upward mobility than of class protest gains credence in the finding that converts in turn reject Protestantism when doing so becomes necessary to rise higher yet in secular society (Turner, 1970, p. 221-222). This finding also corroborates the tendency for Latin Americans to ape rather than reject upper-class values and life styles, while offering a salient explanation for why Brazil maintains the highest levels of social inequality in the world today.

In addition to Weber, the influence on Cardoso of Schumpeter's *Capitalism, Socialism and Democracy* (1942), as well as that of other mainstream scholars outside the Marxist tradition such as Dahrendorf, Berle, Rostow, Galbraith, Drucker, Alain Touraine and Raymond Aron, who Cardoso studied under in France during May of 1968, is reflected in his 1971 book, *Politics and Development in Dependent Societies: ideologies of the Argentine and Brazilian entrepreneurial class*. Like Cardoso, Schumpeter was primarily concerned with the type of entrepreneurship which, historically, has led to the creation large scale industry, the commercial exploitation of colonies, and, most significantly, the emergence of the multinational firm. In Schumpeter's view, the entrepreneur is the demiurge of society, who begins new industries through the process of creative destruction, which, in turn, precipitate major structural changes in the economy. The conclusion of Cardoso's international entrepreneurship research is that the main difference in economic history between Brazil and Argentina was a result of the Argentine middle class being more closely linked to the export economy than in Brazil, where, again, this link was made by the techno-bureaucratic elite. As a result, under Peron, the middle class developed to become more independent than it did in Brazil under Vargas, where the mobilization of class forces was less advanced (Goertzel, 1999, p. 46). Despite a similar tradition of state intervention in both Argentina and Brazil, Argentina emphasized the role of its national private firms, while Brazil created state enterprises and imported foreign equipment at the expense of its national private firms (Solingen, 1993, p. 263).

Based on these conclusions, Echeverria encouraged Cardoso to work out a general theory of dependency while working simultaneously on his comparative study of other Latin American entrepreneurs. Says Cardoso, "I did not leave Brazil for intellectual reasons, but in those terms it was an advantage; I discovered Latin America" (Kahl, 1976, p. 136). At CEPAL, Cardoso worked closely with leading social scientists from Chile, Argentina, Bolivia, Venezuela, Mexico and other countries and began to think about the problems of Latin America as a region. The outcome of this collaboration was Cardoso's most influential book, *Dependency and Development in Latin America*, a text that is 41st on the International Sociological Association's ranking of the 100 most important books of the 20th century (International Sociological Association, 1998).

CONCLUSIONS AND IMPLICATIONS: SO WHAT??

Clearly, no scholar has had a bigger impact on the economic development of not only Brazil, but perhaps all of Latin America than Fernando Henrique Cardoso. Recognizing that Cardoso's dependency writings and his political trajectory is founded on entrepreneurship scholarship in the Shumpeterian tradition provides an important opening for future research in the field of international entrepreneurship.

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