

# The Geographic, Political, and Economic Context for Corporate Social Responsibility in Brazil

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**ABSTRACT.** This paper provides an overview of corporate social responsibility in Brazil, a country of vast regional and economic differences. Despite abundant natural resources and centers of advanced technology, large numbers of Brazilians live in poverty. Historical factors, which to some extent explain Brazil's social and economic inequalities – a long period of colonialism, followed by populist reform, repressive military measures, foreign debt, unfair trade agreements, and problems of corruption – have persisted into the current period of democratic reform, marked by economic and political trends toward democratization and corporate social responsibility. This paper considers the civic and business organizations that have been developing strategies to encourage social responsibility and government policies aimed at alleviating poverty. Despite progress, the complexity of the Brazilian context presents challenges for social and economic equality.

**KEY WORDS:** Brazilian history, corporate social responsibility, inequalities

This paper seeks to provide a general picture of corporate social responsibility in Brazil by focusing on three factors: geographic diversity, which has produced differing contexts that influenced colonization, economic and social development, and cultural practices; the issue of social and economic inequalities; and current economic and political trends, which include the processes of democratization and the development of what is known as the “third sector,” in which concerns around corporate social responsibility interface with government, social groups and non-governmental organizations (NGOs).

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## Geographic diversity

In area, Brazil is the fifth-largest country in the world, covering almost half the South American continent. With 170 million people, it is also the world's fifth-largest country in population (IBGE, 2000). For this large population, geographic location determines not only such obvious things as proximity to a river, a port, or mineral resources, but also access to infrastructure, goods and services, information, and adequate schooling. Geographic conditions influence the cultural values of communities, workers, consumers, business people, and professionals. They also influence the way government is run. Thus the intersections of geography with economic, political, and sociological factors form a mosaic of conditions in which people live and work.

During the initial colonization of Brazil early in the 16th century, strategic and geographic contingencies divided the vast territory into two major regions: the coast and the interior. This division is still relevant as current politics and demographics have merged to produce a dualistic image of a multifaceted nation. Most of the urban centers are located along or near the coast, while policies aimed at settling the interior (such as relocating the national capital to Brasília and providing incentives to settle the Central-West region) have had mixed results (IBGE, 2000; Roett, 1992). The large cities on or near the coast are regarded as the educational, cultural, and industrial centers of the country due to the number of well-known universities, international cultural events, and multinational industries, where competition, efficiency, and the use of highly developed technology are essential. In the sparsely populated interior, lack of appropriate infrastructure

hinders industrialization, and traditional power relations override modern democratic channels.

This dualistic image, while still present in everyday discourse, does not effectively describe this multifaceted country. The Brazilian Institute of Geography and Statistics has somewhat arbitrarily classified the Brazilian territory into five major regions: South, Southeast, Central-West, Northeast, and North. These divisions reflect the diversity of resources and conditions available for economic and social development.

The South was the settling place for many European immigrants during the 20th and early 21st century. It is known for its agricultural development and also its model quality-of-life cities such as Curitiba. Just the same, the national *Movimento Sem Terra* or Landless Movement (MST) had its beginnings in this region, due to the consolidation of family plots into larger estates, leaving traditional farmers without land or livelihood. In 2003, the South contributed almost 19% to the Gross National Product (GNP) and more than 33% to national agricultural production (IBGE, 2005b).

The Southeast, which includes the states of São Paulo, Rio de Janeiro, Minas Gerais, and Espírito Santo, is the most industrialized and technologically advanced region of Brazil. The Southeast accounts for 55% of the Gross National Product, 32% of national agriculture production, 83% of mineral excavation, and 60% of industrial production (IBGE, 2005b). It is home to more than 43% of the Brazilian population with the city of São Paulo concentrating 10.7% (IBGE, 2004).

The Central-West includes the states of Goiás, Mato Grosso and Mato Grosso do Sul, as well as the Federal District, where the national capital, Brasília, is located. This region makes up approximately 22% of the national territory and is economically the fastest-growing region of Brazil given the vast areas of land available for agriculture and cattle raising. Despite the predominance of agriculture in the region, Brasília's service sector is the third largest among Brazilian cities (behind São Paulo and Rio de Janeiro). Brasília contributes 35% to the region's gross product (IBGE, 2005a). The Central-West makes up a large part of the Upper Paraguay River Basin, one of the world's largest water basins (which it shares with Bolivia, Paraguay, and Argentina), and one of the world's richest areas of biodiversity.

The Northeast is one of the poorest regions of Brazil, representing only 13.8% of the National Gross Product (IBGE, 2005b). It was the first region to be colonized and it still retains vestiges of its colonial past, with continued political control by families whose origins date back to the sugar plantations of the 16th and 17th centuries. Since the region received the earliest and greatest numbers of slaves, African influence is tightly interwoven into the regional culture. Most of the state can be divided into the fertile coastal region and the drought-plagued *sertão* or *catinga* area. Due to the difficult economic situation in the desert areas, many Northeasterners have migrated to the Southeast in search of employment, flooding the southeastern cities with unskilled labor. The Northeastern economy continues to be based on sugar and cacao production although petroleum extraction which began in the late 1970s along the coast and off-shore and the more recent investments made by the automotive industry in Bahia and high-technology in Recife have helped to diversify the economy of this region (Estado de São Paulo on line, 2006). Tourism on the beaches near Salvador, Recife, and Fortaleza shows promise for future expansion.

The North includes the Amazon Basin and encompasses almost 42% of Brazilian territory. This region is the least populated but is home to most of the Amerindian peoples. Explorations for minerals, rubber, and timber, as well as the attempt to settle the Amazon for agriculture and cattle production, have been met with criticism by environmentalists. The two largest cities are Manaus, which has had a free trade zone since 1957 in an effort to attract development to the area, and Belém, which is located on the coast (Diniz, 1995; IBGE, 2000).

Through monetary incentives and the building of infrastructure, the government attempted to attract industry throughout Brazil. In the last 50 years, large cities such as Campo Grande, Belo Horizonte, Manaus, Brasília, and Campinas have developed within the interior region, breaking up the sociological divide between the coast and the interior, and blurring regional differences. Beginning in the 1970s, especially in the state of São Paulo, there was a movement to decentralize industry. Industrial production in the North saw an average annual increase of 1.5–2.5% from 1970 to 1985, and 5.7–8.4% in the Northeast from 1970 to 1990. While these figures

were still small compared to industrial production in other areas of the country, they demonstrated a move toward more widespread industrialization (Diniz, 1995). However, by 2002, nine municipalities (six of which are located in the Southeast region) contributed one-fourth of the national Gross Domestic Product. Of the municipalities presenting the lowest GDP figures, 96% are in the North and Northeast regions (IBGE, 2005a).

In summary, Brazil possesses substantial wealth in natural resources and potential for development. It remains one of the few countries where agricultural development continues to expand (Ray, 2003). It also comprises some of the most biologically diverse territories on the planet. Large basins such as the Amazon and Upper Paraguay River supply water resources, rich mineral deposits continue to be excavated, and the long coastline and diversified geographic regions offer areas for the expansion of tourism. Already industrial parks and research centers offer state-of-the-art technologies.

However, development has been irregular and unequal. A large number of Brazilians live in poverty, while violence and ecological destruction have become commonplace. Resources and know-how notwithstanding, Brazil is still considered a “developing” country. Why is it that Brazil continues to be the perennial “country of the future?”<sup>1</sup> Social scientists have attempted to respond to this question by pointing to Brazil’s historical development.

### **Historical development of an unequal nation**

Economic inequalities have become the most cited social division in the analysis of Brazilian problems, and discussion on this point has overshadowed debate on any other issue. From the Colonial era to the present, large income disparities and high indices of poverty have characterized the economic conditions of the Brazilian population as a whole. Over the last years, Brazil has consistently been ranked among the ten wealthiest nations in the world in terms of its gross domestic product (UNDP, 2001, 2002, 2003).<sup>2</sup> However, its *per capita* income and quality-of-life indicators position Brazil less favorably than its neighboring countries, Argentina, Uruguay and Chile. Moreover, the disparity in income of the wealthiest 20% of the population and the poorest

20% of the population, while showing a downward trend, still ranks it among the 10 most unequal countries in income distribution in the world (UNDP, 2004).

Social scientists have provided a number of explanations for the economic and social disparities in Brazil. Some, for instance, focus on external causes, citing Brazil’s position as a post-colonial state and stressing the importance of imperialism, colonialism, and unfair trade agreements in shaping economic and social development. Others give more emphasis to internal relations of power. These external and internal factors are often entwined and difficult to differentiate. What follows is a brief summary of Brazil’s development and the ideologies that shaped it.

#### *The Colonial era*

From the early years of colonization, the primary importance of the Brazilian territory for the Portuguese crown was the profit made from the export of its natural resources. Unlike India and other Asian colonies, the Brazilian colony did not offer any complex commercial trade system of finished goods. And unlike North American colonies, little attempt was made by the colonizers to establish settlements, develop industry, or organize a complex society. In addition, Portugal lacked a population large enough to settle Brazil’s expansive territory.

Initially in search of gold, the Portuguese explorers discovered brazilwood, which was exported from the northeastern coast to Europe, where red dyes made from the wood serviced the expanding textile industry. However, it was the vast sugar plantations, which consolidated the colony as an exporter of raw materials, integrating Brazil into the developing system of European mercantile capitalism (see Fausto, 1996; Furtado, 1991; Library of Congress, 1997). Enslaved Amerindians initially worked these large plantations but by the mid-16th century, African slaves replaced them. The sugar era (1530–1650) expanded the plantation system of the country, extending from the northeastern state of Pernambuco to the southern state of Rio Grande do Sul. In the late 17th century, gold and diamonds were discovered in the interior states of Minas Gerais, Goiás, and Mato Grosso. Soon gold, mined by slaves, replaced sugar as the primary export material.

This expansion into the interior regions caused headaches for the Portuguese crown, which found it difficult to control such a broad territory. This eventually led to the relocation of the capital from the northeastern city of Salvador in the state of Bahia to Rio de Janeiro in 1763. In 1703, Portugal signed the Methuen Treaty with England, which gave England preference in selling woollens in exchange for favorable tariffs on Portuguese wines. This apparently insignificant agreement actually was instrumental in establishing England's dominance as a manufacturing nation. The Portuguese became little more than middlemen, as the gold and diamonds arriving in Lisbon merely served as payment for imported cloth and manufactured goods from England. Since the Portuguese had difficulty controlling the gold trade, England easily confiscated large amounts of gold from within Brazil. Gold and diamonds from Brazil helped finance the English industrial revolution, rather than the development of Portugal or Brazil (Fausto, 1996; Library of Congress, 1997). Thus during its colonial period (1500–1822) Brazil remained a supplier of raw material for Europe.

A number of scholars have argued that the ideology of colonialism was the defining force in the creation of the Brazilian national character. The discourses of colonialism provided European colonial powers a means by which they could measure themselves and their civilization. Pseudo-scientific analyses of the Brazilian terrain and climate suggested that the excessive abundance of natural resources, vegetation, rivers, and fertile soil restricted human development, repressed thinking, and thwarted ambition. Based on these analyses, European scholars concluded that no highly developed society could be found in Brazil (Sodré, 1984). The colonialist ideology, which positioned Brazil and other colonized lands as culturally inferior to the colonizers, was often adopted by Brazilian authors themselves.<sup>3</sup> Most recently, Castro-Gómez (1996) and others have examined how colonialist and neo-colonialist perspectives continue to distort the image of Latin American countries.

In terms of internal power structures, the colonization of Brazil created a small wealthy class of landowners or oligarchy and a large mass of slaves and workers. The vast amount of land easily available, the relatively small number of men sent from

Portugal, the type of crops cultivated, the need for large investments (for example, in sugar refineries), and the access to a large numbers of slaves (Amerindian and later African) all promoted large-scale agricultural production (Holanda, 1995; Prado, 1980; Wood and Carvalho, 1994). Production was controlled by a wealthy class of plantation owners exploiting the labor of a poor dependent population of Amerindians, slaves, semi-free slaves, and small landowners (Furtado, 1991).

Some social scientists argue that class inequalities in Brazil are a consequence of the power of the rural aristocracy. Differing idioms have been used to express the relationships developed by political bosses in the political system: *clientelismo*, *coronelismo*, *mandonismo*, *empreguismo*, *personalismo*, and so on. A number of authors have traced this system back to the Portuguese Crown, whose selection of captains to settle the Brazilian territory was based on their loyalty to the Crown. This system of loyalty was perpetuated in the slave agricultural economy of the rural Northeast, where favors were exchanged for work and protection. Kinship-type relations developed in which the ruling landowner represented the paternal figure. By providing favors or, in the last instance, coming down with threats, the ruling oligarchy effectively controlled the local population and its leaders – police chiefs, judges, and politicians (Holanda, 1995).

### *Independence*

Independence from Portugal in 1822 did not alter the basic political and economic structure that had long existed in the colony. Brazil continued its role as exporter of raw materials to Europe and, later, the United States. Already by the early 19th century, coffee had replaced gold as Brazil's most important export. Cultivated primarily in the southeastern states of Rio de Janeiro and São Paulo and the southern state of Paraná, coffee brought on the agricultural development of this region and the growth of the port of Santos. With the abolition of slavery in 1888, European immigrants, primarily Italians, replaced African slaves on the coffee plantations. Upon Brazilian independence, other countries, such as the United States, Holland, and Germany, stepped in to harvest the natural resources

while Brazil's industrial development continued to lag. In turn, Brazil, as well as most of Latin America, came to depend upon Europe and later the United States for financial resources and industrial products (Freyre, 1980).

Internal power relations were also maintained after independence. The drafting of the Constitution, though inspired by the American and French models, occurred within a context almost opposite to that of these nations. Rather than the result of a struggle against the feudal royalty and the large landowners by the commercial and industrial bourgeoisie, in Brazil independence was demanded by the rural oligarchy against the bourgeoisie, the merchants and the Crown. Therefore, independence was not the result of popular movements toward national liberty but rather a shifting of power from the Crown to the new Brazilian government – a constitutional monarchy. Due to economic and political pressures, Dom João VI of Portugal, turned over the Brazilian territory to his son, Dom Pedro I. The new government installed a centralized bureaucratic system (Roett, 1992).

This patron–client relationship was also evident in municipal governments. People in need of services could improve their chances if they solicited the help of intermediaries or contacts who could influence decision-making. Jobs, hospital beds, and educational opportunities were not solicited in terms of formal rights, but in terms of private favors (Hutchinson, 1966, cited in Oliven, 1984).

In the first half of the 20th century, new actors emerged within the political system, incorporating industrialists, the military, bureaucrats, and bankers into the elite group. The corporatist strategy of the elites was to ensure the dominance of the State in order to maintain their own interests (Foaro, 1973; Roett, 1992). The successive regimes differed in terms of which elite group held decision-making power.

#### *Early 20th century*

In Brazil, the idea of industrialization and economic development was formally expressed as government policy during the dictatorship of the populist President Getúlio Vargas (1930–1945).

Developmentalist theories were interwoven into the nationalist ideology. The surge of populism in Latin America in the 1930s coincided with industrialization powered by import substitution. The State created a repertoire of symbols and stereotypes that supported economic development and also represented cultural identity. By exercising a paternalistic control of society, the State was able to impose a modernization process that connected all regions of the country through the construction of highways, railways, telegraphs, and other types of infrastructure (Castro-Gómez, 1996).

Populism assumed several faces within Latin America: examples include the *Alianza Popular Revolucionaria para America* (People's Revolutionary Alliance for America) in Peru, Peronism in Argentina and the Mexican Revolution. Brazil's case differs, however, in that no large revolutionary and massive organization of “descamisados,” the impoverished and underprivileged, emerged; rather the movement was carried along by the paternalistic and charismatic figure of Vargas, who, instead of ascribing to a certain ideological foundation based on notions of the “public good,” developed a system of patronage, doling out favors for his clients or political supporters. Those who could bring in the vote were rewarded with jobs and contracts, most of which were provided within the central bureaucratic government. Vargas populism provided the urban areas with labor unions and elementary educational programs as gifts from the State, instead of rights demanded by the population. Highly critical of this system were the sophisticated articulations of nationalism and development emanating from the *Instituto Superior de Estudos Brasileiros* (ISEB), the Superior Institute of Brazilian Studies. These analyses advanced a strategy of economic independence by combining themes of cultural nationalism, economic development, and Christian existentialism (Paiva, 1980). They provided the ideological basis for sociological and economic analyses and influenced a variety of social movements, including the emergence of liberation theology and the establishment of Christian “base communities.” The ISEB movement also contributed to areas such as the basic education articulated by Paulo Freire in the 1960s (see Freire, 1970; Paiva, 1980).

*Late 20th century*

In the 1960s, during the Cold War, liberation theology, which combined Christian theology with Marxism, provided a theoretical as well as practical basis to criticize foreign imperialism and internal national inequalities. Liberation theology, first proposed in 1968 by the Peruvian theologian Gustavo Gutiérrez and given widespread currency by his book *Teología de la liberación (Liberation Theology, 1971)*, had a notable influence on the political history of Latin America. Although interpreted in different ways by different theologians (Leonardo Boff, Rubem Alves, and Hugo Assmann are among its most prominent Brazilian exponents), liberation theology's basic premise is that God advances his kingdom through the poor and gives preference to them throughout history. It emerged first as a *praxis* when priests, nuns, and church workers were confronted with the conditions of poverty among their followers and became tied to popular movements (Hinkelammert, 1997). As these groups advanced their analysis of poverty, they began to criticize capitalism and imperialism as causes of poverty and proposed changes using Marxist and dependency theories. Liberation and revolution were considered necessary for the construction of a just society, and many interpreted this as a socialist society (Comblin, 1984; Hinkelammert, 1997).<sup>4</sup>

However, the conservative arm of the Church never ceased to articulate its position. Various demonstrations against the Goulart government in Brazil in the now infamous marches for "the Family with God for Liberty" brought thousands of people, mostly women, to the streets in support of the 1964 military takeover (Alvarez, 1990; Teles, 1993). Individual bishops such as Dom Geraldo de Proença Sigaud of Diamantina likewise spoke out against "subversive" elements and supported the military regime (Skidmore, 1988).

The concurrent revolution in Cuba, as well as growing numbers of radical youth organizing for political change, produced a volatile situation that was put in check by the armed forces. The military coup of 1964 in Brazil based its intervention on the ideology of "national security," which labeled the growing political movements as "subversive," "Communist-inspired," and "anti-Brazilian." Activists as well as priests, nuns, intellectuals,

and rebellious youth, were arrested and tortured or exiled; an authoritarian regime was installed (Skidmore, 1988). The doctrine of national security within the framework of geopolitics became a major ideological theme of the Brazilian military.<sup>5</sup> Under their rule, the State attempted to control the activities of its citizens and its institutions, as well as the nation's economic development, in the name of ensuring national security (Comblin, 1984; Tollefson, 1991). Throughout Latin America in the 1960s, governments called for "total war" against Communism, which they identified as the chief enemy of national security. In Brazil, as in most of the other Latin American countries, the state identified the Soviet Union as the major leader of the Communist world. However, the military government also identified numerous Brazilian citizens as potential Marxist infiltrators and enemies of the State.<sup>6</sup>

In economic terms, the military government attempted to accelerate industrialization through the investment of foreign capital. In the mid-1960s, international private sources of lending became available to governments and the Brazilian military took out large loans to spur development (Rocha, 2002). Initially this strategy appeared to accelerate growth and development, and was hailed as the "Brazilian miracle." However, this developmental model resulted in a higher concentration of income for the upper class and regressive wage policies and repressive measures for the underclass. It also resulted in increased foreign financial dependence (Evans, 1979). Several of the military regime's economic measures, such as the promotion of capital-intensive agriculture and the concentration of manufacturing centers within the São Paulo metropolitan region, intensified the exodus of people from the agricultural regions to the urban centers (Faria, 1983).

The 1979 oil crisis and the consequent interruption in foreign financing caused a severe crisis in the balance of payments in Brazil (Miranda, 2001). By the 1980s high interest rates caused peripheral nations to stop this debt-driven developmental model (Rocha, 2002). The Brazilian government reacted by subsidizing exports and devaluing its currency in relation to the dollar. Monetary policies were put in place cutting public investments and holding back credit and internal demand; however, this led only to further currency deterioration and hyperinflation. Industries, while able to reduce their debts

significantly during this period, did not apply their resources to exports but rather toward increased control of the internal market. Protections against currency fluctuations and tariff markups guaranteed high profit margins but did not give incentives for reducing costs, increasing productivity, or improving processes and products. As a result, national prices climbed higher than international ones (Miranda, 2001).

Since the military regime had dismantled democratic decision-making structures, people sought out other arenas for voicing public concerns. The *Comunidades Eclesiais de Base* (CEBs), groups organized as “Catholic Base Communities” within the shantytowns that surrounded the big cities and within the poor rural communities, were the practical outgrowths of the Church’s attempt to reach out to the poor.<sup>7</sup> By 1973, the Church had organized 40,000 CEBs throughout Brazil (Viezer, 1989).

The urban base communities around São Paulo were instrumental in the emergence of the *Partido dos Trabalhadores* (PT), the Workers’ Party, from union organizations and in the campaign for direct elections.<sup>8</sup> The PT provided a collective means for demanding an end to the military regime. This was the first time in Brazilian history that unions had formed, independent of the paternalistic control of the State, and negotiated directly with the industrialists (Fausto, 1996).

Unable to control the economy after 20 years of rule, plagued by hyperinflation and accusations of corruption, and pressured by the growing organization of social movements demanding a return to democratic structures, the military government was forced to open channels for a return to democracy, in a process called *abertura*. In 1974, General Ernesto Geisel announced “a slow, gradual, and sure” return to democracy. Geisel (1974–1979) and later General Figueiredo (1979–1985) gradually increased political rights by restoring habeas corpus, conceding amnesty for political exiles, and allowing for a multi-party system. These and other political concessions were interrupted periodically by hard-line military repressive measures, including killings and disappearances. The Brazilian military regime differentiated itself from others by refusing to accept a strongman leader (such as Pinochet in Chile), respecting the principle of passing the government from one general to another.

Also, the repressive operations of the military were not as blatant or as systematic as those carried out in Argentina and Chile (Fausto, 1996).

#### *Current democratization processes*

In 1985, social movements calling for direct presidential elections (*Diretas Já*) took to the streets. Although the military stood its ground and held elections under an electoral college designed to ensure a military victory, the opposition candidate, Tancredo Neves, won. However, the euphoria was short-lived. Neves died suddenly of heart failure before he could assume the presidency; his vice-president, José Sarney, a northeastern politician who had supported the military, took office. Sarney was not able to control inflation or hold back the ever-increasing foreign debt, which by 1990 totaled \$115 billion. Economically the 1980s were known as the “lost decade” in Brazil, marked by negative growth and a drop in the level of investment.

In 1988, the country succeeded in writing a new Constitution, which provided a means by which various interest groups could voice their concerns. In the restructuring of the Brazilian government, a reshuffling process occurred (which is not usually found in well-structured, traditional states) during which new ideas and concerns could be incorporated into the State’s political agenda. This short period of opportunity during the drafting of the Constitution provided an arena for social and political debate and resulted in a compilation of interests from groups articulated at that time. Although the Brazilian Constitution has been criticized for lack of a cohesive general structure, in the area of human rights it could be considered as one of the most progressive in the world.<sup>9</sup> In addition to affirming fundamental rights and guarantees for political activity and organization, it also includes social and collective rights to work, leisure, health and so on. Article 5 of the Constitution guarantees that these rights do not exclude other rights embodied in international treaties and declarations, which, once ratified by Brazil, are considered as being amendments to the Constitution.

In 1989, in the first general democratic election since the military takeover, Fernando Collor de Mello, a wealthy Northeastern governor, won the

elections over the PT (Workers' Party) candidate by a small margin. Collor followed a so-called neo-liberal model, privatizing state-run services and encouraging foreign investment. Liberalization of the commercial and financial markets in the early 1990s was expected to increase productivity. While some business firms invested in modernization, others reacted with caution and chose to avoid high-tech investments (Miranda, 2001). Although Collor had promised to control inflation and fight corruption, he was accused of extortion and bribery and impeached in 1992. The fact that the young Brazilian democracy was able to oust a president without military intervention demonstrated that its democratic processes were working reasonably well.

Vice-President Itamar Franco assumed presidential office in 1992, after Collor's departure. Although considered to be unprepared and somewhat provincial, he successfully put together an adequate team and effectively controlled inflation through his finance minister, Fernando Henrique Cardoso, an internationally known sociologist and academic, who implemented the *Plano Real* (Real Plan) to end hyperinflation. Also, by providing a strong currency and high interest rates, the plan encouraged direct foreign investment, which in turn would help finance Brazil's deficits, modernize industry, advance technology, increase productivity, and make Brazilian exports competitive internationally (Rocha, 2002). Riding on the initial success of his plan in cutting inflation, Cardoso won the next presidential election in 1994.

By 1999 Cardoso, as president, had succeeded in attracting \$31 billion of foreign direct investment to Brazil, making it the fourth largest receiver of foreign capital after the United States, the United Kingdom, and China. Brazil's stable currency and increased market-oriented economy were cited as reasons why industries preferred to invest in Brazil (SOBEET, 2003).

In terms of international trade, Brazil has prioritized its relationship with other nations in the Southern Hemisphere in an attempt to consolidate the Mercosul project (known as *Mercosur* in Spanish) by establishing a Southern bloc that would provide more autonomy in relation to the United States. In 1991, Brazil, Argentina, Paraguay, and Uruguay signed the Treaty of Asunción creating a Common Market of the South. The four founding members of

Mercosul expressed agreement on values which included democracy, pluralism, defense of fundamental liberties and human rights, environmental protection, and sustainable development. Based on this foundation the members attempted to enlarge their respective national markets through the free circulation of goods, services, and productive factors. They established a common external tariff, adopted a common commercial policy, and coordinated their macroeconomic policies while harmonizing their legislation. Their objective has been to form a single market that will generate increased economic activity for each nation.<sup>10</sup> While there have been progressive developments in the integration of the southern markets, the United States from 1995 to 2002 remained the largest investor in Brazil. In 2000, United States investments accounted for 30% of all foreign investments in Brazil (SOBEET, 2003).

By 2002, despite its promises of stability, the Real Plan had resulted in increased deficits with higher interest rates, and the total Brazilian external debt had risen to \$400 billion (Rocha, 2002). Rather than invest in modernization and new plants, international firms have entered Brazil primarily through the acquisition of national firms. Also the privatization of state companies, such as energy and telecommunications, was a significant door of entry for international companies. Contrary to previous years, the service sector absorbed the largest amount of foreign investment. The selling of the state monopolies modernized lethargic and non-competitive industries; however, critics questioned how the funds obtained from the sale of state-owned businesses were being applied. Also, multinational companies have relied on importing technological goods and on research in their home countries rather than developing research and technology in Brazil (Rocha, 2002).

On the other hand, indigenous firms in the cellulose, paper, and plastics industries simply focused on niche markets, where demand from within Latin America remained with less sophisticated products (Miranda, 2001). An important exception to this has been the aeronautical industry, where firms became more dynamic and advanced technologically by developing projects with international companies.

Another area of rapid economic expansion has been in the agricultural production of grains (rice, beans, corn, soybeans, and wheat). The highest

export earnings have been from the sale of agricultural commodities, minerals, and low-end value-added products. The increasing volume in the export of commodities throughout the 1990s demonstrates a certain avoidance of risks and the existence of technological barriers in the Brazilian industry (ibid.). Of the 20 largest exporters in Brazil in 1997, 12 were primarily dealers in commodities. Also at the same time the largest 500 exporters accounted for 80.5% of total exports. The high cost of financing in Brazil has restricted investments in other sectors. Lack of infrastructure (particularly transportation), tariffs in the United States, and European protectionism are also reasons given for not developing other export products (ibid.). Thus for a series of reasons, Brazil was unable to develop as its national policy architects originally planned.

Meanwhile, debt payments to the International Monetary Fund (IMF) have forced cuts in government spending for social programs. Indirect taxes on goods and services hinder price competition of Brazilian goods while hitting low-income families hardest. Direct income taxes have put most of the burden on working and middle-class families. A series of other taxes on financial flow go toward the payment of the debt rather than toward infrastructure and social services.

Although the Cardoso government appeared to favor human rights and democratic processes (Brasil, 1995, 1996, 2001) it did not make substantial changes in class differences or the elite structure. In fact, Corrêa and Castro (2000) demonstrate that although *per capita* income had increased, economic inequalities also increased, indicating an inverse relationship between economic growth and economic equality among the population.

In 2002, the PT candidate, Luis Inácio Lula da Silva, won the elections with the promise of prioritizing the social concerns of the population's poorest sector. Although Lula's government has launched campaigns such as *Fome Zero* (Zero Hunger) to focus on the needs of the people in the Northeast, significant changes in poverty reduction have yet to be made. On the other hand, to the surprise of many, the Lula administration has followed an orthodox economic plan of maintaining IMF payments, exercising fiscal restraint, and securing foreign investments. In 2004, the growth rate of the Gross Domestic Product was 5% for the year.

Especially onerous for foreign investors is the infamous "Brazil cost," which includes a series of taxes and fees, direct and indirect, imposed on business activity. In addition, the judicial system is slow, inefficient and costly; rulings differ from region to region, and there are no uniform criteria for regulating disputes. To circumvent these difficulties, foreign investors have been promoting the legal adoption of arbitration as a valid method of settling disputes in contracts involving the State or public agencies (Motta Veiga, 2004).

More recently, accusations by congressmen and the press claim that the PT had been making large payoffs to congressmen for voting along with the party. Other politicians and businessmen have been implicated in the scandal. To date, most of Lula's closest advisors, including the PT president, have had to step down. The public investigations have once again brought into focus the problem of corruption and how it has infiltrated the State. Since the PT has consistently campaigned against corruption, these new accusations could seriously undermine the party and the government.

In addition to economic inequalities and corruption, other problems continue to plague the Brazilian country. Police violence and torture carried out within the military police academy and against civilians have consistently been in the news and political magazines since the democratic elections (Human Rights Watch, 1999; Menconi, 1997; Nogueira, 1997).

Police brutality has not resulted in ebbing criminal activity; on the contrary, the efficiency of the police to control and solve crimes is extremely low (Lombardi, 2001a, b). Amnesty International (2003) cites blatant disregard for human rights within the police stations, prisons, and centers for youth – including torture and murders.

Cases of slave labor, where workers have been lured to remote ranches, mines or logging operations only to arrive and be forced into servitude, have been reported by international organizations. Despite attempts by the Cardoso and the Lula governments, such activities have persisted (OIT, 2003). Other problems regarding violence include the spread of organized crime, drug trafficking, kidnappings, and quick assaults (Amnesty International, 2003).

Education in public schools continues to be precarious despite attempts by the government to improve standards. The *Bolsa-Escola* (School Scholarship) program implemented by Cardoso in 1995 provided a small monthly payment for low-income families whose children were attending school. This idea succeeded in keeping children in school and was selected by the United Nations as a model to be implemented in other countries. While almost 97% of children aged 7–14 reportedly attend school, problems related to the quality of the education persist – truancy, low achievement scores, illiteracy, and poorly prepared teachers.

Despite the return to formal democratic processes, the adoption of a progressive Constitution, and the emergence of popular-based movements for agrarian reform and civil rights, experts remain divided as to whether or not “real” changes have occurred within Brazil. A number of well-known Brazilian political and social experts claim that there has been a new phase in the evolution of the Brazilian State. They note that events since 1984 – the emergence of the *Diretas Já* (Direct Elections) campaign, followed by the impeachment process against Collor, the imprisonment of a judge and several congressmen for corruption and misuse of funds, as well as the scandal and subsequent convictions of congressmen – demonstrate that the Brazilian citizenry has been less willing to tolerate corruption and the old patron–client model (see Carlos Guilherme Mota cited in Bressan, 2001). Accusations made in June of 2005 of corruption and payoffs by people high in government and by the PT could either induce continued pressure toward transparency or result in a frustrated and cynical citizenry.

### *Reflections on Brazilian history*

Brazilian disparities can be understood within a juxtaposition of international influences, global ideologies, and internal relations of power. Brazilian scholars have questioned the old economic development model, which locates each country on a progressive “stage” as if they were developing in relative isolation, at their own speed, without any foreign influence. They have argued that from its early colonization, Brazil played a well-defined role as an exporter of primary materials in the interna-

tional system of mercantile capitalism (Prado, 1980). In describing unequal economic relationships in the 20th century, they have preferred to use the idioms of *center* to describe northern European nations and the United States, and *periphery* to describe the relation of countries with less political and economic power, rather than using the terms “developed” and “undeveloped.” Enrique Dussel, a prominent Argentine scholar, argues that in relation to “late” capitalism, peripheral capitalism is often considered to be a “before” on the road to development. However, he describes this “before” rather as an “underneath”: it is not for the underdeveloped to become “developed,” “late,” or “center,” but to continue to be economically subservient to the “center” (Dussel, 1996, p. 5). Along these same lines, dependency theorists in Brazil described the relationship of Brazil with the United States as dependent development, in which the development of Brazil is dependent on the development of the larger economy of the United States (see Cardoso and Falleto, 1974; Evans, 1979). Due to these historical international relations, the Brazilian economist Octavio Ianni (1996) considered that Brazil has become an *economic subsystem* within the world capitalist system directed by the United States.

More recently, these unequal relations surfaced during the unsuccessful negotiations of the World Trade Organization (WTO) in Cancún, Mexico in 2003, where Brazil, among other countries, insisted that Europe and the United States cease discriminating against imports from developing countries and subsidizing their own agricultural products. In September 2004, Brazil and other countries won a WTO ruling that US cotton subsidies and European sugar subsidies were illegal because they encourage overproduction and allow for the dumping of excess farm produce overseas. This has opened the market for increased cotton and sugar production in Brazil (Oxfam, 2004).

However, as one of the top 10 wealthiest nations in the world, the nation-state of Brazil presents a major challenge to simple dichotomies such as North/South, East/West, rich/poor, or center/periphery. What label exists for a country with such contrasting characteristics – a country that holds significant economic power within the world market; that exports highly complex technology alongside low-value-added commodities; that remains

dependent on international loans, and reserves high standards of education and health for only a small portion of the population while a significant number still live in the most precarious conditions? These disparities, many scholars have argued, can only be explained by examining those internal structures that protect the elite and encourage corrupt practices (see Faoro, 1973; Holanda, 1995). They cite discriminatory practices and systems of favoritism. These interrelated forces have produced a country that is both rich and poor, developed and undeveloped, central and peripheral.

### Context for the “third sector” and corporate social responsibility

There is a widespread perception in Brazil that the State is not able to provide the necessary conditions to secure an adequate quality of life for all of its citizens. Therefore, alternative ways of providing such services for the population need to be created. In recent years, companies, civil organizations, and several State agencies have been forging new groups and alliances in order to offer other models of cooperation. The idiom of *cidadania* (citizenship) currently guides the discourse on civil rights and participation in Brazil. It involves the development of necessary procedures both formally and culturally that will allow for the full participation of all citizens in national affairs and strengthen the space for political debate and collective decision-making. The development of the so-called *terceiro setor* (third sector) previously hindered by the patrimonial workings of the State has in the last few years produced private initiatives for industry to invest in social programs.

#### *Business organizations*

In the 1960s, business firms began to organize around the issue of corporate social responsibility. Expressed motives for such coalitions vary widely and include traditional Catholic commitment to charity, diplomatic objectives of promoting good trade relations with Brazil, as well as pressures to comply with international standards.

The first business organization to address the area of corporate social responsibility in Brazil was the

*Associação de Dirigentes Cristãos de Empresas do Brasil* (ADCE–Brasil), a branch of the International Christian Union of Business Executives (UNIA–PAC), which since its founding in São Paulo in 1961 has grown into a national network. Its purpose is to reactivate the Catholic tradition of charity and promote understanding of a Christian vision in business (ACDE, 1997).

The business development foundation *Fundação Instituto de Desenvolvimento Empresarial e Social* (FIDES) was founded in 1986. Working in cooperation with ADCE and other ecumenical authorities, FIDES promotes the “humanization of businesses and their integration with society.” It has encouraged ethical principles in relations within business firms and dialogue among firms, trade unions, and other civic organizations. The American Chamber of Commerce in São Paulo, which was founded in 1919, aims to encourage mutual trade and investment between Brazil and the United States. Since 1982 it has stimulated social actions by companies through its Company Community Award (Cappellin and Guiliani, 2004).

*Pensamento Nacional das Bases Empresariais* (PNBE), “National Thinking on Business Foundations,” formed in 1987, has encouraged progressive efforts in industry. For instance they have prioritized national interests over business gains, were active in the impeachment process against President Fernando Collor de Mello, and have advocated the development of citizenship and quality of life through good business practices (PNBE, 2005).

*Grupo de Institutos, Fundações e Empresas* (GIFE), the Group of Institutes, Foundations and Companies, was formed in the mid-1980s to support social initiatives. GIFE was responsible for making the term “third sector” popular. GIFE has promoted high ethical standards in business and has worked to decrease social inequalities (Falconer, 1999).

The *Associação Brasileira dos Fabricantes de Brinquedos* (ABRINQ), the Toy Manufacturers’ Association, a foundation formed in 1989, defends children’s rights and engages in social action. The *Associação Brasileira de Empresários pela Cidadania* (CIVES), the Brazilian Association of Business people for Citizenship, focuses on democratization processes, social advocacy, and business ethics.

While the first UN Earth Summit, held in Rio de Janeiro in 1992, provided a stage for non-gover-

nmental organizations (NGOs), social movements had also professionalized and were forming organizations dealing with specific issues. In particular, organizations related to women's rights and environmental protection gained strength. The 1992 Earth Summit also marked an increase in the number of businesses that were beginning to address environmental and social concerns (Falconer, 1999). The *Conselho Empresarial Brasileiro para o Desenvolvimento Sustentavel* (CEBDS), the Brazilian Business Council for Sustainable Development, founded in 1997, is a coalition of large national companies to promote sustainable development through economic growth, environmental conservation, and social inclusion (Cappellin and Guiliani, 2004).

In 1998, *Instituto Ethos* was created in Brazil as an association of companies whose objective is to disseminate the practice of social responsibility in companies. The institute has promoted business initiatives by creating guidelines, promoting events, acting as social responsibility consultant for businesses, developing research, and promoting international exchanges on social responsibility (Instituto Ethos, 2001). The combined revenues of Ethos member companies amount to nearly 30% of the Brazil's GNP (Instituto Ethos 2006). Its president, Oded Grajew (also the founder of Abrinq), has been active in the organization of the World Social Forum and has encouraged Brazilian companies to sign the Global Compact (Instituto Ethos 2004).

Business firms have developed a number of strategies to deal with the issue of social responsibility. These strategies include codes relating to workers' rights, environment, and transparency, as well as annual reports that include social balances<sup>11</sup> and internal audits. However, since there is no independent monitoring of business practices or criteria for the publication of these reports, they amount to little more than public relations strategies (Cappellin and Guiliani, 2004).

Some firms, however, have sought Brazil SA8000 certification, which deals primarily with working conditions. Launched by Social Accountability International in 1997, it is the first global standard on corporate social responsibility (BSD, n.d.) Some are members of the United Nations Global Compact, which encourages international firms to adhere to nine principles related to the environment, human rights, and labor standards. Others have created their

own internal departments for social responsibility; still others have established foundations. These various entities have invested in social programs throughout Brazil; in 1998 it was estimated that corporate social donations totaled R\$4 billion (about US\$2 billion) chiefly in social care and food programs targeted to children and poor families. Types of donations varied according to region in terms of the type of activity supported. In the South, more donations were given to sports, education, literacy, and initiatives against urban violence, while cultural programs were supported by Northeastern firms (Cappellin and Guiliani, 2004).

Businesses have also found it lucrative to provide low-income families access to goods through creative financing and marketing. Commercial establishments have offered extended financing for customers by operating their own credit system based on low monthly payments. Other firms have reduced their packaging sizes so that low-income consumers can afford their products (see Prahalad, 2004).

Some firms have pursued environmentally friendly practices by focusing on more efficient uses of resources and energy and by recycling. Most of these efforts have been designed to reduce waste, reduce risks, and improve efficiency within the firm. Other firms have developed environmental projects in connection with NGOs or public institutions. Often they focus on environmental education, with projects to raise awareness about environmental issues. The ISO 14001 Certificate For Environmental Responsibility has been awarded to a growing number of firms, particularly those that operate internationally (Cappellin and Guiliani, 2004).

In general, large transnational firms have been the first to adopt corporate social responsibility measures, partly because they can afford the costs to implement these strategies and partly because they are pressured by the international marketplace and by international organizations to comply (Cappellin and Guiliani, 2004).

#### *Civic organizations*

In terms of social movements and civil organizations, traditionally, opposition groups have attempted to change the structures of the state through a variety of

means. There are now a growing number of non-governmental agencies (NGOs) that are locally involved or issue-oriented. Previously these organizations were primarily funded through international foundations or church organizations, but currently there have been movements on the part of Brazilian-based companies to enter into collaborations with both local and international NGOs to work on a number of social and environmental issues (Falconer, 1999).

In 1992 and 1993, the sociologist Herbert de Souza, known popularly as “Betinho,” organized a campaign among firms to protect workers with HIV/AIDS. In 1997 he began a national movement against hunger, which was supported by business leaders throughout Brazil. Betinho has been identified as one of the first to understand the importance of including the private sector in helping to solve social problems. He also began discussion concerning the requirement that companies make public their social contribution (*Carta Capital*, 2003). In 1981, Betinho helped to found the *Instituto Brasileiro de Análises Sociais e Econômicas* (IBASE), the Brazilian Institute for Social and Economic Analysis, which continues to have an influence on the behavior of firms. IBASE has developed a network of civic leaders, social movements, NGOs, and professional associations to encourage social audits and voluntary initiatives by Brazilian firms.

Business and social organizations have created a series of certificates for companies that support human rights, sustainable community development, and corporate social responsibility. This has brought on a surge of volunteer projects and a growing number of non-governmental agencies that deal with problems ranging from specialized education to monitoring congress, and investigating cases of corruption (*Época*, October 25, 1999). Although many of the more politically oriented groups such as the Landless movement are funded through international donations, this new phenomenon has instigated an alternative form of civil participation that is seen by its advocates as a way of complementing the activities of the state. This rapidly growing area has prompted discussions among activists and academics on the role of non-governmental agencies in relation to the State (Viveros, 1997).

### *The role of government*

An important part of the 1988 Constitution directs funds and responsibilities for social programs, basic services, and education to the municipalities. Further, the Fiscal Responsibility Act of 2000 makes it illegal to overspend the public budgets, thus limiting spending at the municipal and state levels. Decentralization requires capacity building in local governments to generate resources, develop cost-effective plans, and better the quality and availability of local public services. Thus, with cities gaining more power through the decentralization process, the tendency in Brazil has been for city governments to work more closely with industries in their communities.

At the federal level, the Cardoso government created the *Conselho de Comunidade Solidária* (“Solidarity Community” Council) to encourage voluntary activity and civil participation. Perhaps one of the best-known successes of the Cardoso government was its fight against the pharmaceutical companies. In 1997, the Brazilian government set up a company that manufactured generic AIDS medicine. It then negotiated with other companies to lower their prices. This was part of an overall program to fight AIDS through prevention, treatment, and community outreach, which has become a model program worldwide and is currently being copied in other developing countries.

With regard to sustainable development, Brazilian environmental policy implemented by the federal government in the early 1980s was based on regulatory instruments such as licensing, and it required environmental impact studies. Since the mid-1990s, federal banks have required firms applying for financing to comply with environmental regulations and provide environmental impact studies. However, the current situation requires that several agencies operating at different levels of government regulate environmental policy. This has resulted in uneven application of policies and differing criteria depending on the region. Long delays in licensing have blocked potentially productive investments and irregular concessions have produced a situation of uncertainty.

In the 1980s and 1990s, problems of deforestation in the Amazon region caused by cattle breeding, forestry projects, mineral exploitation,

and hydroelectric projects attracted international attention. Currently the focus has been on the trade-off between economic growth and environmental preservation. However, deforestation remains largely unregulated and large lumber organizations and agribusiness continue to challenge environmental concerns (Cappellin and Guiliani, 2004).

The Lula government has given special emphasis to legally constituted Public–Private Partnerships (PPPs) in which the State and private companies collaborate on projects of mutual interest. The development of roads and infrastructure has been an area where these combined investments have been made to further economic development (*Estado de São Paulo* online, August 10, 2003).

*Fome Zero* (Zero Hunger), another initiative of Lula's government, aims to ensure the universalization of civil rights, beginning with the basic rights to food, health care, education, welfare, and employment. Through social incentives, the final objective is to break through the circle of poverty so that families will be able to provide for themselves. The program has attempted to include the participation of companies, religious groups, NGOs, unions, schools, and other social groups to coordinate activities that will combat hunger (*Fome Zero*, 2004). By making hunger the key issue, the government has been able to focus discussion on the concrete and real aspects of poverty and sidestep ideological and abstract discussions concerning elite control, socialistic reform, and so on. However, the program has been poorly articulated, and has suffered from criticisms and problems inherent in developing a social program of this magnitude. Moreover, the credibility of PT's pledge to fight hunger has been seriously undermined by accusations of bribery and corruption involving large quantities of public and private money that could have been invested in social programs.

Brazil has been experimenting with new formulas to combat poverty and to develop equal and democratic structures while at the same time pursuing advances in its economy. However, the complexity of the Brazilian social, political, and economic situation, as well as its post-colonial position within the global system, presents formidable challenges in the pursuit of a just and equitable society.

## Notes

<sup>1</sup> In 1941, the German writer Stefan Zweig published the book *Brasilien. Ein Land der Zukunft*, in which he optimistically describes Brazil as “a land of the future.” A half-century later, still confronted with social and economic inequalities, Brazilians have turned the title into an ironic critique of a country whose supposedly bright future continues to elude them.

<sup>2</sup> In 2004, Brazil's ranking dropped to 11th place (UNDP, 2004). The CIA World Fact Book has ranked Brazil in 11th place as of July 14, 2005. The World Bank has placed Brazil in 14th place, below India, Australia, The Republic of Korea, and Mexico (World Bank, 2005).

<sup>3</sup> Sodré (1984) takes the works of five Brazilians intellectuals and analyzes how each reflected differing phases of subordination to imported ideas from the dominating nations of their time, resulting in a negative evaluation of Brazil and an internalized perception of subalternity.

<sup>4</sup> The impact of liberation theology can perhaps be better appreciated by the number of counter-offensives it has provoked. Pope John Paul II, having lived in Poland under Communist rule, was not about to support what was interpreted as a church-led Communist movement in Latin America. Active theologians and church leaders were removed from their posts and silenced, and more conservative priests were appointed. The American Enterprise Institute developed a theology department directed by Michael Novak to protest liberation theology, while the Institute of Religion and Democracy directed by Peter Berger also refuted liberation theology on the state level. European business organizations founded institutes to counter liberation theology, and in the late 1980s Michel Camdessus, head of the International Monetary Fund, developed a theological reflection about the poor, utilizing the discourse of liberation theology, in favor of neo-liberal market policies. The “Santa Fe Document,” which set the ideological agenda for the Reagan presidency, considered liberation theology to be a major US national security problem (Hinkelammert, 1997).

<sup>5</sup> Couto e Silva (1967) is generally considered to be the classic work on Brazilian geopolitics.

<sup>6</sup> For a more detailed account of the national security doctrine and the ideology of geopolitics, see Comblin (1984).

<sup>7</sup> For more detailed analysis of the Ecclesiastic Base Communities, see Ammann (1980), Barreiro (1981), Barros (1967), and Boff (1981).

<sup>8</sup> For an analysis of urban-based social movements, see Cardoso (1987) and Jacobi (1987).

<sup>9</sup> Some of the human rights delineated in the Brazilian Constitution of 1988 include promotion of the welfare of all without prejudice to origin, race, sex, color, age, or other forms of discrimination (Art. 3-IV); equal rights and responsibilities among men and women (Art. 5-I); protection against torture and inhuman treatment or degradation (Art. 5-III); improved prison conditions (Art. 5-L); free expression of intellectual, artistic, scientific, and communicative activities (Art. 5-X); protection of a private and intimate life (Art. 5-X); definition of racism as a crime (Art. 5-XIII); provision of maternity and paternity leave (Art. 7-XVIII, XIX); incentives to protect the labor market for women (Art. 7-XX); work benefits for domestic workers (Art. 7-XXXIV); prohibition of work discrimination or salary differences on the bases of sex, age, color, or civil status (Art. 7-XXX); the right to an ecologically balanced environment that is common to all (Art. 225); the right to family planning and prohibition of coercive anti-reproductive methods (Art. 226, par. 5); severe punishment for the abuse, violence against and sexual exploitation of children and adolescents (Art. 227, par. 4); promotion of mechanisms to hinder violence within the family (Art. 226, par. 226); and self-determination for Indigenous peoples (Art. 231).

<sup>10</sup> See the official Mercosul (Mercosur) Web site at <http://www.mercosur.org.uy>.

<sup>11</sup> The term “social balance” has been used in Brazil to indicate the final yearly evaluation of a company’s contribution to the social sphere. Businesses have been encouraged to use standardized reports (offered by a number of NGOs) so that yearly comparisons could be made within a single company as well as comparisons among companies.

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