




Creative informality: a quantitative investigation on fashion businesses in Rio Grande do Sul, Brazil

Informalidade criativa: uma investigação quantitativa acerca de negócios de moda no Rio Grande do Sul

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ABSTRACT

The informal economy concept has been assigned a myriad of meanings throughout history since its first definition. Among the main schools of thought that study this economic phenomenon, the legalist school takes the interventionist ineffectiveness as a causative element of informality. Thus, this study aims to identify the phenomenon of informality present in fashion production ventures, located in the state of Rio Grande do Sul, Brazil. An online questionnaire was used on economic agents in such production activities, quantitatively verifying the degree of informality that surrounds economic transactions, labor relations, and the creative output of such entities.

Keywords: Informality. Fashion businesses. Creative industries. Creative economy.

RESUMO

O conceito de informalidade econômica perpassou por uma amplitude de significados no decorrer da história, desde sua primeira percepção. Entre as principais escolas que estudam tal fenômeno econômico, a escola chamada de legalista discorre sobre a ineficácia intervencionista como elemento causador da informalidade. Assim, o presente artigo toma como objetivo identificar o fenômeno da informalidade presente no setor de produtos de moda produzidos por uma miríade de entidades radicadas no estado do Rio Grande do Sul. Usufruiu-se o aparato metodológico questionário **online** com agentes econômicos de tais atividades, conferindo, de maneira quantitativa, o grau de informalidade que rodeia as transações econômicas, as relações trabalhistas e o **output** criativo de tais entidades.

Palavras-chave: Informalidade. Negócios de moda. Indústria criativa. Economia criativa.

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INTRODUCTION

Once understood as a perishable economic phenomenon, informality has penetrated economies in a mainstream way throughout the world (BECKER, 2004). Indeed, sectors of the creative economy were no exception, classified by their inherent condition of flexible, noncontractual, and temporary work practices (MERKEL, 2019).

Taking this into consideration, in the present study we carried out a quantitative investigation on the degree of informality in the creative fashion sector, comprising agents related to ventures such as: stores, manufacturing establishments, ateliers, fashion designers, or textile industry. It is worth highlighting the use of the term *degree* because, as Gasparini and Tornarolli (2009) point out, an entity can be partly formal and partly informal in its activities. The research is characterized by an applied nature and with a quantitative methodology, carried out by the online questionnaire methodology, via Google Forms, adopting the quantitative approach to encompass opinions and information in a quantifiable manner (PRODANOV; FREITAS, 2013).

We sent the questionnaire to our contacts by e-mail, via Instagram, or telephone. Subsequently, we conducted an active search to boost the number of respondents, considering that less than 20% of the invitations sent resulted in responses, given the sensitivity of the subject.

The instrument was aimed at individuals who work in the fashion marketing network in the state of Rio Grande do Sul, Brazil, for the purpose of submitting the sample of responses to analysis based on the theoretical framework, which considered authors such as De Soto (1989), Becker (2004) and Coletto (2010) regarding informality; Hayek (1945; 1985) and Rothbard (1990) regarding economy; and Barthes (2001), Bourdieu (2007) and Pinheiro and Conti (2019) regarding the creative economy and its content.

The quantitative sample had 31 responding units. The number *per se* is relatively small, but we faced barriers to obtaining respondents, considering the possible judicial exposure that the matter may cause, as justified in the methodological section. The obtained sample was submitted to statistical testing.

Therefore, the article is divided into reference sections concerning informality, followed by creative economy and symbolic capital; methodology, data collection, and subsequent analysis; and final considerations, encompassing the main findings, contributions, and next steps.

INFORMALITY

Informality is consistent with an economic phenomenon inherent in both the macroeconomic and microeconomic spheres of nations around the world. It is an abstract and complex concept. Taking this into consideration, the vision and definition of informality are based on three different schools of thought: the dualist, the structuralist, and the legalist schools (DE SOTO, 1989; BECKER, 2004; GASPARINI; TORNAROLLI, 2009; COLETTI, 2010; RAM *et al.*, 2017; SKAVRONSKA, 2020).

As a pioneer (and once deemed as unique) and in the early stages of the perception of the phenomenon, the dualist approach corresponds to the name of the division between the informal and formal facets of the mainstream economy, whose informal facet was understood as productions (outputs) and labor infrastructures under poor conditions, with very low-income earning opportunities for workers, and absence of capital goods (HART, 1973), used to add links to the production chain aiming at ensuring greater value to the outputs (BÖHM-BAWERK, 2004).

The dualist view separated the formal facet, perceived as paid and modernized activities through adequate infrastructure, from and at the expense of the informal facet, classified by irregular working conditions, low or no income, and primitive — the real term to define informality according to this approach —, focusing on basic survival conditions. Coletto (2010) mentions that, given the “primitive” traits attributed to informality, the prevailing view included the tendency for such activities to disappear, through advances in modern capitalism.

In the face of the credit crises and major state interference in the Latin American economies of the 1980s (GHERSI, 1997), informality — which was expected to disappear — not only remained in modern capitalism, but it dramatically increased, with a special focus on Latin America, which formerly had more than 60% informal workforce (DE SOTO, 1989; BECKER, 2004; GASPARINI; TORNAROLLI, 2009). This countertrend caused the emergence of new schools of thought, socioeconomically nullifying the dualist view.

On this regard, Portes and Castells (1989) clarified the subsequent school of thought regarding informality: the structuralist approach, which is defined by correlating the phenomenon with the transition to “neoliberal” capitalism, allowing for flexible labor relations that were deemed as exploratory, claiming the existence of incentives for the maximum possible reduction in productive costs, in which the labor unprotected neither by law nor by social security was preferred because it represented lower costs for the employer.

In view of this approach, we can understand the relentless search of the structuralist school for the institution and intervention of the State in economic relations, seeking to intervene and mediate through legislation, bureaucracy, and regulation such wealth-generating activities, as well as the contracts that enable these activities to be carried out, with the purpose of protecting workers and the welfare state, by authoritarian control and welfare policies, deemed by Hoppe (2014) and Mises (2018) as dangerous because of their counterproductive consequences.

Conversely, the legalist school, with greater development in De Soto (1989), responds directly to the structuralist bias by stating that the figure of the State — referred to as what Rothbard (1990) and Hoppe (2014) call a compulsory territorial monopolist (with involuntary membership) —, through its regulations, bureaucratic steps, and coercive interference, ends up pushing workers and entrepreneurs toward the informal facet, especially those of the lower economic and social classes, by, for example, undermining the economic growth of emerging businesses.

Another fact worth mentioning is related to the costs of informality. The penetration into the informal facet is carried out by a simple mathematical calculation on the part of the economic agent and, despite the high costs of compliance with the formal facet, entities belonging to informality are unable to have easy access to credit (due to the lack of formal documents to assist in obtaining it), in addition to having growth limits (to avoid detection) and, perhaps the most serious of issues, the lack of legal insurance regarding contracts, as they either do not exist or cannot be applied due to the scarcity of a legal system that may impose them (DE SOTO, 1989). The lack of insurance of contractual applicability violates voluntary negotiation possibilities considered to be mutually advantageous (HOPPE, 2014).

Still according to De Soto (1989), unlike the costs of informality, the costs of formality are consistent with access to the formal market (licenses, permits, bureaucratic steps involving monetary and temporal costs), taxes and fees, minimum wage payments, and other labor requirements (social security, Christmas bonus, vacation, etc.). Particularly, it should be noted that an entity has degrees of informality and may be totally formal in some aspects and be external to formality in others (GASPARINI; TORNAROLLI, 2009).

It should be noted that informality and illegality are not necessarily synonymous. Informal products and services could be freely marketed if the relations surrounding them were in accordance with the law, whereas illegal goods — such as piracy — are objectively prohibited and subject to greater enforcement (SKAVRONSKA, 2020).

Based on a heterodox economic view (such as the one adopted by the Austrian School of Economics), we conducted an apriorist research on the subject, on which the present article was based. The findings include informal activities such as: non-contractual labor relations, payments outside the legal document (Work Permit and Social Security [*Carteira de Trabalho e Previdência Social*] — CTPS), lack of social security insurance, partial or total tax evasion, sale of counterfeit products (piracy), non-issuance of tax documents (invoices) (PINHEIRO; CZRNHAK; VORPAGEL, 2022), and distribution on illegal channels, such as the occupation of streets as a “façade” for products, for instance, as verified in Coletto (2010), with a large presence in the fashion market of the South region of Brazil, shopping centers that are called *camelódromos* (in which piracy products are marketed by street vendors, somewhat resembling hawker markets).

Considering the legalist view, the survival aspect of economic agents is promoted by what the structuralist approach sees as a panacea: the figure of the State. This is due to the fact that interference and welfare policies, even if intentional, are counterproductive (MISES, 2018), misrepresent the natural and voluntary order of economic exchanges (HOPPE, 2014), and leverage monetary value as the only recognized and valid form of wealth and social well-being (ROTHBARD, 1990). This conclusively ends up allowing for hyperinflationary attitudes that will result in the devaluation of the national currency and the creation of unsustainable jobs in a prosper economy (HAYEK, 1985) and which ultimately disrupt the information on

microeconomic preferences, use and allocation of social agents (HAYEK, 1945), a fact that will impact the price of goods and services, deemed as information dispersed among economic agents regarding the availability of payment, knowledge of the good (scarcity or abundance), and its usefulness (MENGER, 1976).

Flexibilization and free agreement between the voluntary parties are not seen by the legalist school as “demonized,” as proposed by the structuralist school. Interference with spontaneous relations is faced as a major issue leading to informality. As observed in the case of creative businesses in Ram *et al.* (2001), the establishment of previously-agreed and compulsory measures for the declared maximum number of working hours and the minimum wage preestablished by law were complaint for the destruction of two observed micro-enterprises, affecting the creation of wealth and the generation of employment.

Not only in the aforementioned authors, but also in Andersen and Muriel (2017), responsible for the study on fashion product factories in Bolivia, more harmful effects can be observed: the achievement of maximum working hours by women and the prohibition of night shifts and specific time for maternity leave caused decreases in the income of these workers, who began to work informally in shifts prohibited by law to supplement the small income paid in inflated fiat currency with lower purchasing power caused by, according to Hayek (1985), the printing of paper money without the demand necessary to do so.

To delve deeper into the case of fashion *versus* informality, it is first necessary to establish fundamental concepts about its superior economic sector, the creative economy.

CREATIVE ECONOMY AND SYMBOLIC CAPITAL

According to Madeira (2014), the creative economy is consistent with the economic block based on creativity and ideas (intellectual capital) to generate the value of products and services, gathering manufacturing sectors in the form of creative industries, with most entities in this sector considered to be micro or small enterprises (MERKEL, 2019).

The creative industry operates through cultural products and services that carry intangible meanings (HOWKINS, 2002), whose predominant capital is symbolic, due to their inherent representations (BOURDIEU, 2007).

There are different micro-enterprise models. An individual micro-entrepreneur (*microempreendedor individual* – MEI) is considered to be an entity whose products or services do not exceed an annual revenue of BRL 81 thousand. Complementary Law No. 123/2006 declares micro-enterprise (ME) as one that does not exceed an annual revenue of BRL 360 thousand. The last type belonging to the micro and small enterprises category is the small business (*empresa de pequeno porte* – EPP), which comprises gross revenue exceeding BRL 360 thousand up to a ceiling of BRL 4.8 million (BRASIL, 2006).

Valiati and Wink Junior (2013) attribute the concept of creative economy to productive economic activities whose capacity to create wealth derives from assets

of creative origin, thus based on the input of creativity and resulting, as the output, in intangible (PINHEIRO; CONTI, 2019) or hybrid goods or services, as in the case of fashion, which combines intangible meanings with textile tangibility (CIETTA, 2017).

In 2021, the Brazilian labor population belonging to the creative economy accounted for 6,857,688 people. Of these, 37.86% (2,537,344) belong to the informal sphere, as surveyed by the Continuous National Household Sample Survey (*apud* OBSERVATÓRIO ITAÚ CULTURAL, 2021). According to Observatório Itaú Cultural (2021), an organic space for research and reflection on the cultural sector in Brazil, in 2020 the state of Rio Grande do Sul encompassed 2,378 micro-enterprises, 220 small businesses, 39 medium-sized enterprises, and no large enterprises, totaling 2,637 businesses in to the fashion segment.

Flexible labor relations, as well as noncontractual and temporary, project-oriented freelance work, are particularly characteristic of creative industries — belonging to the creative economy bloc (MERKEL, 2019). The case of fashion may either fit into such characteristics as an ephemeral profession for event production, promotion of collections, fashion photography, catwalking, among others, as well as represent the fixed working perspective such as the brand's main designer, creative direction, and atelier production.

Thus, there are different professions divided between production and/or fashion services. Due to its singular nature, authors must observe the phenomenon of informality in a form of production, mainly because it involves different chains, policies, organizations, and stakeholders that require a new observational perspective.

As aforementioned, given the hybrid nature of fashion goods (CIETTA, 2017), clothing is the receptacle of the intangible part, corresponding to the meanings perceived by the observer, carrying particular representations and meanings (BARTHES, 2001). This significant meaning constitutes an imagetic representation in the observer's mind, called image (AUMONT, 2012), which frequents an intangible space — called by Malrieu (1996) the imagery domain.

The nature of the output, therefore, takes place by the transformation of the immaterial input (creativity, idea) through the consumption of symbols and meanings that stand out at the expense of the material property of the asset (BLYTHE, 2001; BOLIN, 2005; HARTLEY, 2005), metamorphosing the meaning of the intellectual and intangible output into perceived value (BENDASSOLLI *et al.*, 2009).

The transformation of meaning into perceived value occurs through symbolic capital, that is, material or immaterial capital whose meaning enforces an image of predominant, valuable, and prestigious value (BOURDIEU, 2007), deemed by the observer as a particular meaning (BARTHES, 2001).

In view of the inherent presence of symbolic capital for the construction of the perceived value of the fashion product (and creative products, from a broader perspective), we can draw a negative inference from this factor, considering that the consumption of an illegal pirated product that mimics the logo of a famous brand without its permission and the granting of reproduction and copyright rights, because it represents a lower price than the original (and textile quality), may be

preferred by the consumer. The commercialization of the “pirated” product leads not only to informality, but also to illegality.

In order to quantitatively understand data about informality in Rio Grande do Sul, considering the aforementioned definition of non-correspondence with legal bases and the omission of formal costs, the economic activities of the fashion economic sector are, according to the Department of Planning, Management and Governance of the State of Rio Grande do Sul (*Secretaria de Planejamento, Gestão e Governança do Estado do Rio Grande do Sul – SEPLAG, 2021*): manufacture of underwear, garments, clothing accessories, socks, clothing items produced in knitting mills, travel items, bags and similar products, leather shoes, manufacture of footwear from unspecified materials, textile sales representatives, clothing and footwear, wholesale of clothing and accessories, wholesale of footwear and travel goods, secondhand clothing, accessories, and goods. The definition of Seplag (2021) delimited the activities to be analyzed in the present research.

With both theoretical bases established, the methodology is presented next.

METHODOLOGY

In order to verify the degree of informality within the fashion industry in the state of Rio Grande do Sul, an online questionnaire was prepared using the Google Forms platform, which was sent via mailing list, telephone contact, and active search for agents involved in ventures related to fashion products: stores, manufacturing establishments, ateliers, fashion designers, or textile industry. The questionnaire was available between June 29 and September 5, 2022, gathering 31 responses — 11.3% of the 272 submissions.

A statistical test was performed to obtain the margin of error when faced with a small sample. The study population comprised 2,598 entities, totaling micro and small enterprises according to the aforementioned data from Observatório Itaú Cultural (2021). Responses from managers of 31 entities were collected, with a 90% confidence interval, resulting in a margin of error of 14.64%.

A high margin of error may be justified by the small sample. Furthermore, the authors point out that they faced, both via remote contacts and in the active search, great resistance to answering the questionnaire, considering the fragility of the issue and the exposure to legal environments.

Despite the 14.64% margin of error metric, the idea of an analysis of the gathered reports is not disregarded. In addition, it is possible that, based on this analysis, new studies may be submitted, capable of methodologically overcoming the faced barrier, achieving greater engagement from respondents.

All entities from the textile class chose not to answer the questionnaire, but did not cite any specific reason for declining the invitation, breaking off contact with the researchers. Eleven entities from this class were contacted, included in the yarn production stage, fur goods, or textile processing. Considering that there were no respondents, there is no concrete data on the company’s revenue. Moreover, considering the perceived costs of infrastructure necessary for textile

production, it can be hypothesized that the act of declining participation in the research is a protective measure in the face of possible legal penalties inherent in the matter.

In order to verify the degree of informality in different entities, the authors created specific classes, which include the activities defined by Seplag (2021): stores, manufacturing establishments, ateliers, fashion designers, and textile industry. A store is understood as a commercial establishment where products are presented and sold in the form of wholesales or retails. Manufacturing is considered the establishment that produces, develops, and concludes products on medium and large scales, mainly through outsourcing, while the atelier is the space where tailor-made products or products on a smaller scale are developed, outsourced or not. The designers do not necessarily have a fixed space for creating and producing their products and may develop them in their own homes, but take over the design of the product and its production. Finally, the textile industry is classified as the space dedicated to the transformation of fibers into yarns, of yarns into fabrics, and also to the production of garments on a large scale.

The methodological instrument — the questionnaire — consisted of objective closed-ended questions, investigating the type of venture and business size (measured by annual income), to correlate with:

- presence of formality (accompanied by a text containing the adopted definition of formality);
- time for opening and formalizing the venture (whenever formalized);
- presence of a labor relations contract;
- partial or total tax evasion;
- marketing of counterfeit products (piracy);
- failure to issue an invoice for the product or service;
- offer of products in informal venues (public roads, streets, street vendors' hawker markets);
- assessment of the impact of costs for maintaining the business formal, all founded on previous research by Pinheiro, Czrnhak and Vorpapel (2022) and based on De Soto (1989).

The use of such methodological instrument is a quantitative approach, as it gathers quantifiable variables such as numbers, opinions, and information for submission to the analysis of observers (PRODANOV; FREITAS, 2013).

DATA COLLECTION

Regarding the type of venture, among the 31 responding entities, 38.7% are classified as stores; 38.7%, as ateliers; 16.1%, as manufacturing establishments; and 6.5%, as designers. There were no respondents from textile industries. These businesses represented 16 cities in Rio Grande do Sul, with the highest number of occurrences in Novo Hamburgo (7), known for its footwear cluster, followed by Porto Alegre (5), the state capital, and São Leopoldo (3).

Of the 31 ventures, 84.2% were classified as formal, which is contrary to the average of almost 40% of the Brazilian creative market. Reproducing the majority of creative businesses, the MEI classification predominated in business size, with 67.7%, followed by the tie between ME and EPP, each with 16.1%.

Among the 12 stores, seven were classified as MEI, two as ME, and three as EPP. Manufacturing establishments accounted for three MEIs and two MEs. Conversely, ateliers confirmed the highest number of MEI, with nine units, followed by one ME and two EPPs. Finally, as there were no textile industry respondents, the two fashion designers reported to be MEI.

In the reported cases, 29% stated that the formal opening of the business took just one week, followed by reports of four to six months in 25.8% of the cases; one to three months in 16.1%; two to four weeks in 12.9%; and over six months in 6.5% of the cases. Almost 10% were unable to answer the question because they were classified as informal. There was heterogeneity in the formalization period: eight MEI companies took up to one week; however, three entities reported two to four weeks; one to three months; and four to six months, followed by a single entity taking over six months for the formalized opening of the business. In the ME format, the predominance was four to six months, with four responses; while in EPP, two entities claimed opening time between one and three months, followed by up to one week and four to six months, each with one occurrence.

Regarding labor relations, 41.9% of the respondents still have or have already had noncontractual relations such as not complying with social security and/or performing work outside the legal document (CTPS). Furthermore, total or partial tax evasion accounted for only 16.1% of the responses. We verified no responses as for the sale of counterfeit and/or illegal goods, and only one case (3.2%) reported to market and provide their products or services on an informal location (public road, for example), but the majority (54.8%) have already abstained from issuing legal documents such as invoices.

Four of the five entities that claimed partial or total tax evasion — three stores, one atelier, and one fashion designer — fall into the MEI category. Conversely, non-contractual labor relations were more common in MEI ateliers, with three occurrences, followed by stores and manufacturing establishments — also classified as MEI —, with two occurrences each. Only one fashion designer has had such relations. Among ME, store-type entities maintained the number of two occurrences, while ateliers decreased from three to two. In EPP, only two ateliers reported that they have had (or still have) noncontractual labor relations.

Responses regarding the non-issuance of tax documents, especially the invoice, registered five atelier-type occurrences in the MEI formality, followed by four in stores, three in manufacturing establishments, and one in fashion designer. In the ME and EPP modalities, there was only one store registration and one atelier registration, respectively.

The costs of remaining formal impacted the ventures in a heterogeneous way. Of these, 35.5% reported that costs, such as taxes, fees, and agreement with

agencies such as Social Security, impacted their revenues between 11 and 30%; 32.3% reported impact of up to 10%; and another 16.1% reported impact between 31 and 50%. Two cases (6.5%) confirmed impact of over 50%. Almost 10% were also unable to answer accurately because they represented the informal facet.

Faced with these answers, 35.5% of the interviewees claimed that such formalization costs “partially” affect their real income, followed by 35.5% who claimed that it “greatly” affected it, and 22.6% who claimed that it “slightly” affected it, while 6.5% did not comment on it.

The companies that reported being greatly affected are three stores (one ME and two EPP), two ateliers (two MEI and two ME), and four manufacturing establishments (two MEI and two ME). Among those partially affected are four stores (three MEI and one EPP), followed by seven ateliers (five MEI and two EPP). Stores, ateliers, and fashion designers registered two occurrences each for the classification “slightly” affected, regarding income, by the costs of remaining formalized.

ANALYSIS

Despite the response of 87.1% of ventures classifying themselves as formalized, with almost half (41.9%) still having or having had noncontractual labor relations in the past, 16.1% with tax evasion, and 45.2% having stopped issuing tax documents in the past, the sample corroborates the argument of Gasparini and Tornarolli (2009) of varying degrees of informality from enterprise to enterprise, considering that no economic entity is entirely formal or informal, as informality is not an absolute and exact concept.

The concern of De Soto (1989) with bureaucracy can be observed from the data that in 29% of the cases the formal opening of the company took just one week, which initially does not seem to be a worrying interval, but the responses of two to four weeks (12.9%), one to three months (16.1%), four to six months (25.8%), and over six months (6.5%) show a late period in 67.8% of the cases altogether. The delay may harm the entity, as it is inserted in an extremely competitive market. Nevertheless, the second case with the highest number of respondents (four to six months, with 25.8%) highlights the threat of timing.

Although the MEI modality was created for facilitating bureaucratic aspects and providing access to legal and simpler economic activities — tackling the issue of informality —, with eight entities that only took up to two weeks to open the business, the three occurrences in each of the time variables (two to four weeks, one to three months, and four to six months) reinforce the concern about time. Furthermore, the business opening system proved to be ineffective with regard to bureaucratic deadlines, as verified in the occurrences: a standard period of four to six months for micro-enterprises and two entities claiming one to three months for EPP. These data indicate disparity and the lack of a standard for formalized business opening.

Noncontractual labor relations were mostly verified in companies of the MEI type, with the majority of responses belonging to the atelier class. Regarding this

fact, we can point out that one of the possible reasons corresponds to the lower amount of financial resources to be allocated by small companies. For the economic activity and carrying out productive activities that require the support of hired workforce, there is little left for individual micro-entrepreneurs to maintain such relations, paying amounts lower or other than those established by compulsory labor laws — classified as one of the maintenance costs in the formal facet (DE SOTO, 1989).

Simultaneously, at the center of the variable concerning how financially affected entities are (negatively speaking) by formality costs, we observed a significant harmful effect, as two EPP-type companies reported being greatly affected as well as four MEIs and five MEs.

Hypothetically, the lack of EPP companies greatly affected is expected (as most EPPs were classified as “partially” affected by the costs of remaining formal), due to the fact that they have a larger business size, as well as possible consolidated networks and larger financial resources available, even though most EPPs have indicated the option of 30 to 50% of income destined for complying with formality costs. However, the majority that selected the “greatly” affected option (MEI and ME) are affected to a greater extent, preventing business growth and the creation of wealth and employment opportunities.

The non-supply of illegal products, such as counterfeit goods (100% of the cases), may indicate the removal of such products due to legal, ethical, reputational, or cultural reasons of the entity and/or because these ventures produce their own products, whether for the brand representing the atelier or for a third party (client). Furthermore, this distance from illegal products — despite the presence of a certain degree of informality even in formalized businesses — highlights what Skavronska (2020) states: informality and illegality are not necessarily interconnected, nor do they share the same meaning.

In addition, considering the impact of formality costs proposed by De Soto (1989), that is, complying with legal measures regulated and applied by the State, understood by Rothbard (1990) as a compulsory monopolist agency, it should be noted that 35.5% of the interviewees claimed that between 10 and 30% of their revenues are compulsorily collected. When added to 16.1% interviewees who reported an impact on their revenues from 31 to 50%, 68.4% of the projects showed an effective shortfall in their income, which may hinder their growth.

Revenue despoilment may inhibit business growth, preventing it from adding links to its production chain, reducing its added value — according to the concept of roundaboutness proposed by Böhm-Bawerk (2004) —, and the creation of job openings marked by real free necessity — *id est*, without state interference to generate jobs, based on real market needs, according to Hayek (1985). Thus, it does not affect the perception (or lack) of scarcity or abundance of goods, services, or skilled labor, which predominantly reflects the perception of utility and valorization (MENGER, 1976).

Nevertheless, the perception of such an impact by the entities is considered negative. With regard to the negative effects on their real income, altogether, there are 79% (35.5% respondents who claimed their real income was “partially” affected and 35.5% respondents who claimed it was “greatly” affected) negative answers regarding the costs of formality — compliance with state legal measures that prevent the free negotiation of contracts between employer and employee. When measuring the costs, the result is considered harmful and negative — which reflects an interventional and, consequently, welfare failure. In light of this fact, it is not surprising that the findings of Ram *et al.* (2001) and Andersen and Muriel (2007) regarding state interference resulted in mutual harm for employees and employers, as these agents are connected and interdependent.

Such nonconformities are extremely negative, as they not only cause the shrinkage of micro-sized businesses — most of them not only in the surveyed responses, but rather in the entire creative economy (MERKEL, 2019) —, but also because, as they do not have as many financial resources as large companies, they may not survive low-income situations in the market. Thus, any cost may represent an inherent threat to the financial sustainability of the business.

Therefore, the negative aspect may be further aggravated by the fact that the intervention, observed as significant under the negative weight of the interviewees’ responses, hinders the real income of micro and small businesses and is a counterproductive paradigm, according to Hoppe (2014) and Mises (2018).

FINAL CONSIDERATIONS

Taking this into consideration, our study analyzed informality present in the ventures of fashion designers, manufacturing, textile industry and factory, ateliers and retail and wholesale stores in the fashion sector in Rio Grande do Sul, taking advantage of the quantitative questionnaire instrument, based on the legalist thought.

The number of 31 entities is significantly small compared with the ideal, and it may be justified by the concern (which we commented on in the active search) of market agents about the possible consequences of responses with regard to appropriate measures as for informality and illegality. An approach that emphasizes the security of protecting responses in the face of something capable of legally compromising the entity can be improved seeking to enhance the collection — with the use of active search and *vis-à-vis* contact between authors and entities, the number increased by nine responses.

Furthermore, a moderate quantitative degree of informality can be confirmed in the different types of fashion ventures: even when asked whether “yes” or “not” to be a formalized business (and most entities indicated “yes”), there were answers such as the non-issuance of tax documents and noncontractual relations.

Considering that these arguments could be deemed as belonging to the legalist school, we emphasize the concern resulting from evidence regarding a large idle period for (formally) opening a business: 61.3% of the cases took between two

weeks and six months to do so. The opening of a business of up to one week, reported by 29% of the cases, should reach higher numbers, facilitating the entry for the formal execution of economic activities.

Not only the temporal factor, but also the formality costs — compliance with social security and other costs resulting from the state agency — corroborate the legalist approach, taking into account that 35.5% of interviewees considered that these costs “partially” impacted the business, and another 35.5% claimed that they “greatly” impacted their business in a negative way — accounting for a negative perception of 71%. Furthermore, in 35.5% of the cases, these costs represent between 10 and 30% of income, and in 16.1% this metric reaches between 30 and 50% of revenues.

Such negative facts are sufficient to tarnish the microeconomic agents of fashion ventures in the state of Rio Grande do Sul. Considering that the vast majority of creative businesses are classified as micro-enterprises, significant formality costs and excessive bureaucracy can represent constant threats to the social and economic development of the sector.

Our results can serve as a basis for visualizing the informality issue inherent in fashion micro-entrepreneurs and small entrepreneurs in the state of Rio Grande do Sul. Based on a heterodox economic view, the results can guide public policies towards possible corrections to the problem identified here.

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