DIGITAL SINGLE MARKET CONDUCIVE TO THE PROMOTION OF SOCIAL DIALOGUE AND SOCIAL INVESTMENT IN THE REGIONAL COHESION CONTEXT

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Abstract.

This article examines problems of the digital single market from two perspectives: the extension of a digital economy beyond capital, goods and services to other areas of the economy including labour markets, social dialogue and social dimensions, and from the role of digital government services in regional cohesion perspectives in Latvia. This methodological approach could serve as a tool for integrating a number of main goals related to the Digital Single Market (DSM), that require support of societies as well as the improvement of social welfare at the regional and national levels. This contribution aims to offer insight into the concept of social dialogue (SD) in DSM and the impact of the DSM on regional cohesion. The study observes these implications in relation to the need to expand and adapt the content and approach of the DSM implementation. The further digital development as a precondition for diminishing regional and wellbeing divide in Latvia is discussed. The role of electronic government services and social investment is examined based on the qualitative interviews among users of Unified state and municipal customer service centres (CSC) in Latvia. The article provides recommendations to social partners for DSM regulatory system of decision-making as well as social investment for improving social welfare at regional and national levels. It is concluded that the digitalization and implementation of SDM have inevitably become more important due to the increased digital competitiveness of countries.

Key words: *digital single market, social dialogue, social investment, regional cohesion, digital government services*

JEL code: P25, O3, 035

Introduction

The social, economic, and political processes of the 21st century are characterised by mutual dependence and interaction, which clearly indicates the increasing complexity of these processes as well as the links between the various problems of society. Some of the most important factors affecting the global markets are: rapid technological development and economy measures taken by countries (ILO, 2013), as well as the trend to reduce production and labour costs [ILO, 2011]. In the EU, the Juncker Commission's aims at creating a DSM, with free movement ensured (EC, 2015). Its completion could generate economic and social benefits to Europe, notably by creating growth and jobs, improving productivity, reducing public spending and improving development of less developed regions in the EU and its Member States. The impact of the digital economy clearly extends beyond capital, goods and services to other areas of the economy including labour markets, society and its governance (OECD 2013).

To assess the social and economic situation in the EU relevant to the digitalisation trends, it is necessary to understand the role of social partners in discussions and consultations on the economic and social problems as well as development strategies at the regional, national and international levels. There is growing consensus that development of an efficient regulatory framework in the EU is essential for modernization of labour policies and their implementation in the digital economy and DSM market. In the current context of implementation of a DSM and the struggle to achieve economic

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growth, regional cohesion, employment, social investment and social justice, the role of social dialogue is essential in all negotiations, either bi-lateral or tri-lateral and in the implementation of social innovation. The strong labour legislation, at the EU level relevant to digital era, protection of the basic rights of workers and social justice, is essential to prevent social dumping. The implementation of a DSM demands commonly agreed and implemented regulatory conditions for business environments and digital networks, and development of welfare systems at the EU Member States. Moreover, this issue is extremely significant for the current political debate. The EU explicitly recognizes the importance of these issues in "Europe in a changing world - Inclusive, innovative and reflective societies" (EC C(2016) 4614 of 25 July 2016). It is also a fundamental element, for example, in the implementation of the *Smart Specialization Strategies* (The Initial Position of Latvia, 2013) aimed at increasing the level of regional cohesion and to understand the reasons for limited growth in EU regions, especially in support to lagging regions. (S3 Platform Research and Innovation Strategies for Smart Specialisation (RIS3).

This article will make an attempt to better understand the numerous challenges affecting implementation of the DSM in the context of digital economy and related social dimension and regional cohesion issues.

Research Results and Discussion

The research shows clearly that digitalisation of economic and social dimensions has become an unavoidable subject in political and social debates, which is based on the current technological, social and economic tendencies. However, as revealed by literature review carried out by authors, there is a lack of consensus on the founding principles of the digital economy, its structures and their implementation (Valenduc, G., Vendramin, P. ,2016 ; Degryse, C., 2016; Tanel Kerikmae, T., Rull, A.,2016). Furthermore, scholars agreed that, digitised information, digitalisation and robotisation have become a strategic resource for economies and their competitiveness and digital networks - the fundamental organising principle of the economy and society as a whole. In addition, there is a never-ceasing search for new types of work organisation that would allow for more efficiency of the labour market in a platform economy and rising of digital competitiveness of the participating parties as pointed out in the a EU document "A Digital Single Market Strategy for Europe" (COM/2015/0192 final). The main areas of concern with regard to these service platforms are the trend towards deregulation and the failure to respect the employment relationship, employment contracts, collective agreements, wages, etc. (Degryse, C., 2017). With respect to the supply of local services, new players and approaches to state services have appeared. More extended discussion is given in the following sub-chapters that are focused on an assessment of DSM trends, its fundamental principles while, for example, considering social dialogue (SD) concept in DSM and the impact of the DSM and social investment on regional cohesion by reducing the digital regional divide in Latvia while applying different measures and viewpoints.

First, we pay attention to the growing consensus in the EU that development of an efficient regulatory framework is essential for modernization of labour relations through regulatory measures and their implementation in the digital economy and DSM. This article will discuss the current developments related to the position of social partners in the system of decision-making processes related to the management of legal structures.

Secondly, we attempt to identify the need in the current context of implementation of a DSM and the struggle to achieve regional cohesion and social investment, for social dialogue in the DSM that is essential in all negotiations, either bi-lateral or tri-lateral, and in the implementation of social justice.

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Thirdly, using the results of the available relevant studies, authors discuss and demonstrate the need to commonly agree on regulatory conditions in implementation of a DSM in regional context for further cohesion and thus an increase in wellbeing at all levels.

Finally, we discuss the digital development in Latvia as an indicator of competitiveness and digital government services in Latvia, pointing out reasons for digital regional divide based on the case of applying e-services in the context of social investment and wellbeing.

1. Digital Economy and Social Partner Involvement in the Digital Revolution

The trend of digitalisation is transforming both manufacturing and service industries. As a result, societies in the EU face tremendous opportunities and challenges. According to Eurostat, Europe's high- tech industry and knowledge-intensive services are increasing with record levels of investment in 2016 (Eurostat, 2017). Many parts of the EU led the world in e-government, demonstrating high levels of electronic engagement with their citizens and in using digital technology to update public services (UN, 2016). However, there are high regulatory impediments that do not allow EU member States to reach the levels of many world economies. The implementation of the DSM as well as content industries needs to find a substantial way of recreating their business models. According to experts, European policymakers must avoid fragmentation in digital sectors. Instead of creating a unified DSM, many stockholders take an opposite position to the EC proposals. For example, the Commission' s new telecom rules could force messaging apps (a 'European Electronic Communications Code', Council of the European Union. Press, 9 June, 2017 Luxembourg), which now offers all Europeans the same service. Participants felt strongly that net neutrality rules should be reinforced to ensure non-discriminatory access to content. More broadly, the EU should emphasise the role of openness and collaboration by providing open access to the results of publicly funded research, promoting open science, engaging more transparently with citizens and endorsing open innovation models to tackle societal challenges and long-term goals (EPRS, 2014). Although the EC promised to create a SDM as one of the Commission' s priorities, estimating that it could boost the EU' s economy by 415 billion euros annually (EC, 2015) there is a little optimism among stockholders about achieving this goal. Many believe the digital regulations proposed will move in the opposite direction and increase fragmentation. The staunchest critics see the SDM measures favouring traditional corporatist old industries.

Despite the fact that high quality public services constitute the backbone of citizens' social welfare as well as a region's competitiveness and entrepreneurship, their provision faces significant challenges today. This is also acknowledged in the European Digital Progress Report: Review of Member States' Progress Towards Digital Priorities (EC, 2017). Also, challenges of using e-government services are revealed by results of conducted interviews in the framework of the CITADEL project and the outcomes of a study on the use of these services[*].

The concept of the social partnership and social dialogue (SD) is a core element of the industrial relations specifically in the SDM. One fundamental principle of the authors' observation is the need to study the genesis of legal structures developed in the International Labour Ogranisation (ILO) context as SD has gained significant importance in public debates internationally only in recent decades, and is grounded in the mandate and activities of ILO covering rights at work, employment and social protection. Social dialogue and social security also became fundamental elements in the European Social policy, thus the EU could serve as an example of analysis of main trends in the development of social

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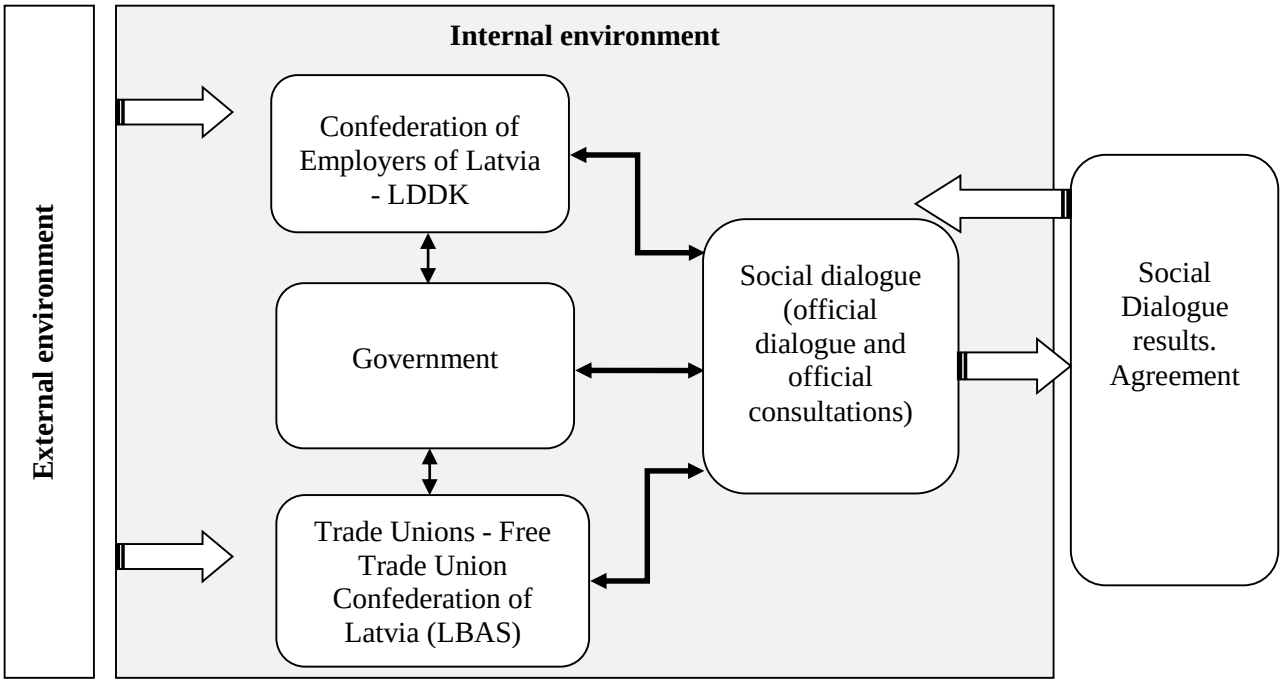
dialogue and social partnership as well as relevant social innovation at the EU and Member State levels (Official Journal of the European Union, L 347/238, Regulation (EU) No 1296/2013).

In order to better understand the role of social partners in discussions and consultations on the economic and social problems in general, and in relation to the DSM in particular, a discussion about future social risks in digital environments is needed. It is worth mentioning that trade unions are one of the leading actors in these consultations, as they appear to be an important partner for governments trying to take measures necessary for gaining and strengthening the digital trend in economic development while maintaining social guarantees and protection. In addition, trade unions in the DSM already have contributed by way of collective actions in organising representatives of small enterprises as well as free lancers in unions and pursuing social dialogue with administrative structures at regional and EU levels, thus mitigating the consequences faced by the digital environment. Work on governance change is occupying an increasing pre-eminence in the European social dialogue. A special attention should be given to organisations and unions of individuals and organisations who are heavily involved as social partners in the European social and inter-sectorial dialogue while participating in the public administration decision-making process.



Source: developed by the authors

Fig. 1. **Social dialogue and the external and internal factors affecting it in Latvia**

Social dialogue within the social partnership is based on general agreements (collective agreements). General agreements on the sector level are more popular in Latvia in the public sector (education, health care), as both employers and trade unions are better organised in the public sector.

Implementation of social dialogue in the private sector is hampered, as there are no traditions of joint representation of employees' interests by way of trade unions at small and medium-sized companies. In addition the regional trilateral cooperation is undeveloped in Latvia. Activity and operation of employers and employees' organisations in regions is fragmentary, which could be explained with the low economic activity and inefficient public sector in regions of Latvia. At the regional level, the strongest bilateral and trilateral social dialogue is in Riga Region; this can be explained with an intensive and dense entrepreneurial activity. The most important issues that could be solved at the regional level that are

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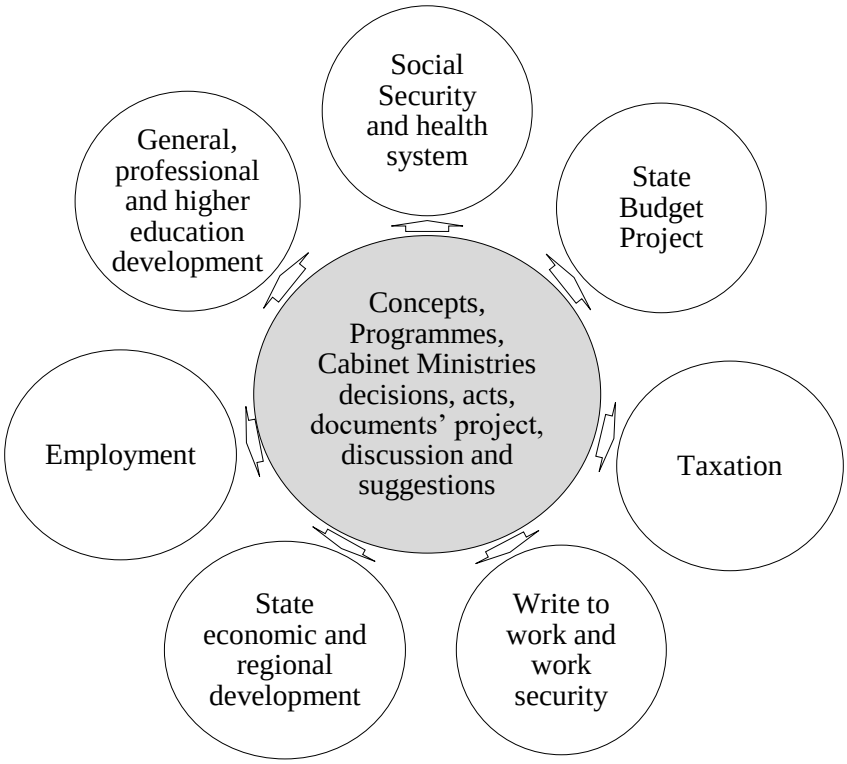
influenced by the digital environment are: decrease of unemployment and qualification and re-qualification of the labour force. Within the social dialogue, trade unions represent the interests of employees at both governmental and administrative institutions.

The development of the institutional and legal basis as well as the influence of the EU on the public administration decision-making process have helped to create a new model of trade unions in Latvia and other Central and Eastern Europe countries — trade unions that have transformed from the model "a trade union in which a state plays a decisive role in shaping the parameters of trade union practice" to "a trade union that is the state's social partner". (Stacenko, S., 2014).



Source: the figure was developed by the authors

Fig. 2. **Public administration decision-making process in social partnership**

Social partners' capacity to reach compromises on issues for which employers and employees hold opposing views has allowed them to take up powerful positions in society, as evidenced by their role in collective bargaining on wages and working conditions. Europe's markets are currently undergoing significant changes, driven by digitalisation and technological progress. As existing jobs disappear or are being significantly transformed, social partners may play a critical role in ensuring that the benefits of these advancements are reaped, while protecting those most affected.

Based on the SD, social partners' mandate is to bring forward recommendations about digital technologies, robots, etc. In some EU member States the preparation of action plans or roadmaps is already taking place: the Czech Republic, Denmark, Germany, Italy and Spain (Vogel, S., 2017). It is a high-level affair with the lead of governments. Social partners have been involved, to differing degrees, in formulating such plans. However, their ideas have not necessarily been implemented, as the topic is often regarded as a very new one. In addition, digital change relates to many different areas; not only to companies and the labour market, but also to: investing into future industries and accompanying

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infrastructure at a national scale (industrial policy); societal issues (education, demography and an ageing society) and legal issues (data protection and labour law). These countries have also looked at the links between digitalisation and national industry models, especially manufacturing. All four countries have developed an Industry 4.0 strategy.

One of the aims for social partners should be mapping the main social risks caused by digitalisation of economy, for example fragmentation of the labour markets in terms of digital labour, freelancers, crowd workers or management in terms of digital surveillance, data protection, transparency etc. The social partners in general and trade unions in particular are very likely to be increasingly confronted by a dilemma as platform capitalism develops weather to protect existing jobs or to support their social partners in organising new digital economy jobs.

Nevertheless, trade union membership is in sharp decline and similar trends are reported for employer representatives. At the same time, new forms of representation have emerged. Co-creation is becoming a growing interest topic for scholars. From a public point of view, co-creation is viewed as an engagement process in which citizens play an important role in providing productive inputs to increase the level of quality and quantity in public services whilst reducing costs.

2. Social Investment and Regional Cohesion

In the previous sub-chapter we outlined the concept of social dialogue as a core element of the industrial relations specifically in the DSM. Another significant factor that influences social development and wellbeing in the digital era and new business environment in the DSM is the social investment concept, which is the subject of current discussions at the EU level. Recent studies (Grootaert, Ch, Van Bastelaeer, T., 2001; Morel, N., Palier, B., Palme, J, 2012) have indicated the potential for social investment and highlighted differences in outcomes across EU Member States that have implemented different welfare state models. The main comparative theoretical approaches employed regarding the emerging of the social investments paradigm are Neo Keynesianism and Neo Liberalism (Morel, N., Palier, B., Palme, J., 2012). Social investment should contribute to the development of innovative approaches related to the competitive business environment and digital market in the EU and its Member States. It also should contribute to regional cohesion. An in-depth analysis of the scientific literature, legal and policy documents of international institutions elucidating the various versions and meanings of social investments, such as the paradigm of New Institutional Economics, the World Bank's "Social Capital Initiative" (Hemerijck, A. and Vandenbroucke, F., 2012) and others. The mainstream scholars view social investment as a strategy highlighting the shifting internal equilibrium between: public expenditure, private expenditure and banking tools that are identified as "social investments". The above approach to social investment is fundamental for the EU regional cohesion policies. The most important instruments in reducing regional disparities are the European Commission's funds such as the European Fund for Strategic Investments and the Employment and Social Innovation Programme (Official Journal L 169/1 Regulation (EU) No 2015/1017). However, the contribution of these funds to reduce regional disparities in the current context of digitalisation and high unemployment in EU economies and associated social risks requires new actions by governments and social partners. The governments are looking for new sources of growth to boost the productivity and competitiveness of their economies and industries, to generate jobs and to promote the wellbeing of their citizens. As highlighted in the (OECD, 2014a) Ministerial Council Statement, governments have to respond to the rising inequality as it could endanger social cohesion and hamper the economic resilience and inclusive societies. Furthermore, governments will need to anticipate and address the need for regulatory structures development to minimize disruptive effects of challenges in the digital environment such as privacy, new jobs, intellectual property rights, competition and taxation.

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The relationship between information technologies (IT) and economic development of peripheral territories and industrial areas has been of interest for scholars. In this respect, more attention should be given to a digital regional divide existing in many economies. The term "digital divide" refers to the gap between individuals, households, businesses and geographic areas at different socio-economic levels with regard to both their opportunities to access information and communication technologies and to their use of the Internet for a wide variety of activities (OECD, 2001). The digital assessment of regional development has been subject of scholarly articles (Baskaran and Muchie 2006, Hogan,A. and Young, M.,2015) with the main conclusion that the lack of digitalisation is not necessarily the cause of social and economic under-development phenomena of regions, but is a consequence of low social and economic status in terms of regional geography and wellbeing. The lack of information technologies and digital infrastructure as well as digital knowledge, skills and practices are is likely to reinforce initial social inequalities.

3. Digital Competitiveness and Regional Digital Divide in Latvia

The digitalisation trends and development of a platform economy impact developments of social collaborative technologies and scope of e-participation on societies. Although citizen participation has already been studied by scholars regularly, there is a lot of interest in better understanding the role of customers in certain public sectors in order to provide methodologies and tools for enhancing co-creation in public services where technology is a requirement.

In 2017 the IMD World Competitiveness Center introduced the IMD World Digital Competitiveness Ranking, which measures a country's ability to adopt and explore digital technologies leading to transformation in government practices, business models, and society in general. The significance of digitalization is stressed by a strong positive correlation of this ranking with results of the Global Competitiveness Report.

In the World Digital Competitiveness Ranking Latvia holds 35th position among 63 countries analysed. At the same time Latvia ranks 41st in terms of future readiness which indicates a country's preparedness for digital transformation. The three main factors, which determine future readiness are 1) Adaptive Attitudes (Latvia – 41); 2) Business Agility (Latvia – 46) and IT Integration (Latvia – 36). The Adaptive Attitudes indicator shows the willingness of a society to participate in digital-related processes. The Business Agility indicator reflects the ability of firms to transform their business models in order to take advantage of new opportunities. It also relates to the level of business innovation. These are the main areas Latvia would have to improve to advance digital and overall competitiveness, as well as to reduce digital divide (IMD, 2017).

Europe's digital performance is measured by the Digital Economy and Society Index (DESI). According to DESI 2017 Latvia has strongly increased shares of broadband subscriptions and improved delivery of public services. Fixed broadband connections are widely accessible, while only 55% of rural households of Latvia had fixed broadband connections in 2015 (EU-91%). Also, the use of e-Government services has been gradually increasing, which has been greatly facilitated by implementing CSCs in major regional centers of Latvia since 2015. At the same time, according to DESI, around half of the population has low or no digital skills and businesses are exploiting technologies in a limited way (EC, 2017)..This indicates that much greater cooperation of national government, regional and local administrations with society and businesses is required to co-create better services and increase participation in digital processes.

Discussion related to the demand for high quality public services that constitute the backbone of citizens' social welfare as well as a region's competitiveness and entrepreneurship was elaborated by authors during 2016-2017 in the joint research conducted in the framework of the H2020 CITADEL project "Empowering Citizens to Transform European

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Public Administration" and International Institute for Management Development in Switzerland. The research has a main focus on electronic government services for non-users. The 141 short interviews provided a total of 279 text fragments to be analysed. The assessment of reasons for non-use are related to socio-demographic characteristics based on the research done in eight regional CSCs. Five of eight CSCs, where interviews were conducted are located in remote areas close to Latvia's external border: Viļaka CSC, is located near the border with Russia; Ape and Strenči CSCs are located near the border with Estonia; Auce CSC is close to the border with Lithuania; and Dagda CSC is near the border with Belaruss. Two of 8 CSCs – Carnikava and Roja, are located near the Baltic Sea. In all cases CSCs are located in centres of regional significance. Broadband connections in these areas are not as good as elsewhere in Latvia and the Internet is not accessible everywhere. According to the Eurostat only 75% of rural households had access to Internet by broadband connection in 2016 (Eurostat, 2017), which makes a negative impact on the use of Internet and public services, as well as on the computer literacy of inhabitants.

People living in these areas are accustomed to having a lower income level and many households can't afford computers and Internet at home. Seven of eight selected regions have from 3444 inhabitants in Strenči to 8884 inhabitants in Carnikava. Only one – the Salaspils region - has 23 432 inhabitants. Taking into account that most of the visited CSCs are located in remote rural areas, this factor makes an impact on the income level and education level of respondents, as well as on the accessibility of computers and Internet, as well as knowledge and skills to use them. Customers visit CSCs and do not use Internet services individually for several non-use related reasons: low or absent skills and competence, and the perceived lack of them. The technology and complexity of entering data to request services, especially in the cases of State Revenue Service or State Social Insurance Agency systems, make these customers afraid, especially to make mistakes. Many of the people reporting lack of skills also mention not having a computer or a scanner and a scanning service is their reason to visit CSC. Respondents find the system too complicated, and in some cases contrasted this with the simplicity of just visiting the CSC. Yet, we do not find evidence that persons labeling the system as too complicated have already used it before. This means concerns about the complicatedness of the system are likely to be a perception issue rather than an experience-related issue. This is further confirmed by the fact that 16 out of 40 higher educated respondents also mention skills and the complicatedness of the online system as a reason to come to the CSC. Some respondents indicated visiting the CSC in order to obtain information about using the online system. Several respondents mentioned a lack of Internet access as a reason for coming to the CSC and some reported on the complexity of the electronic system. An educational effect is another indicator for non- using e-services. Most non-users have only a degree in secondary education. Another group of reasons related to non- use are convenience and support: a lack of interest or need to use the electronic service. In particular, the fact that it was still possible to submit required documents on a paper, and that the CSC alterative was available anyway and free, makes customers visit the CSC. Respondents also mention geographic proximity of the CSC (close to home and to the place of work) as a reason for using the CSC. A related factor is that respondents can receive in-person help at the CSCs. Staff at the CSCs are seen to be experienced and as knowledgeable. Respondents also cite the possibility of asking additional questions and getting additional help, both about using the system and about the services sought. The following assumptions that produce digital regional divide in Latvia have been made: low income individuals that are unable to have Internet and computer, level of education that affects personal desecion- making and peoples' abilities and interest to use electronic services. Taking into account that education level also very often impacts the income level of people, then less educated people are less likely to spend money to buy computers and pay for the Internet. Another factor influencing the use the electronis servises is age. We have observed that individuals of about 50- 65 years old tend not rely on e-services. The complexity of the electronic system and fear of

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making a mistake, as well as a lack of understanding of the procedure have a strong negative impact on the use of the electronic services. An important factor in rural areas is the desire to discuss the procedure in person and receive help. This is also a way of socializing especially for older people or unemployed, who have the opportunity to meet other people with similar problems and/or interests and discuss them. The state subsidies for cheap Internet and computer access for people with low income in rural areas, and extension of broadband to cover 100% of Latvia is needed for regional cohesion and to minimize the digital regional divide. Training courses for learning to work with online services rather than just offering offline alternatives are also required. In addition, simple courses for people to do Internet banking in cooperation with commercial banks would also be needed and could help to understand how to access and use government services on-line as cccording to the Eurostat 62% of people used Internet Banking in Latvia in 2016.(Eurostat, 2017).

Conclusions

1. Nowadays, development of efficient regulatory conditions for operation of social dialogue and investment is essential for the development of a DSM— preparing and taking business decisions in digital business environment is continuously increasing.
2. The research discussed the current developments related to the position of social partners in the system of the decision-making process related to the DSM. The authors concluded that there is an urgent need for elaboration of the methodological basis of industrial relations relevant to the DSM and digital business environment by applying a comparative approach to definitions and functions of a digital or a platform-based economy and the genesis of legal structures, developed by the International Labour Organisation (ILO) and EU in the context of a digital market.
3. Development of a concept of the social dialogue as a core element of the industrial relations with a focus on digital economy and specifically on the DSM. Furthermore the authors suggest to stress in social research a distinct understanding of the social investment and the role of the European Commission's funds affecting the social dialogue and investment in digital networks and development of welfare systems at the EU and Member States level.
4. In the assessment of the current developments related to the position of social partners and relevant in the regulatory system of decision-making process linked to the social dialogue and investment, the authors concluded that regulatory principles of the DSM are key elements in the effectiveness of the labour market's development, employability and the decision -making process in the DSM at the regional and national level.
5. Since the emergence of the Internet, the digital divide has become an enormously popular concept. Great inequalities in IT implementation, uses and skills exist. The digital divide has several dimensions: social, economic and political. Poor or less educated people, and people leaving in rural areas show low IT indicators. There is evidence that low- income people, communities and regions are only partially digital.
6. Digitalisation and technological infrastructure are considered and important indicators in competitiveness of countries and regions.

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