

ARTIFICIAL INTELLIGENCE AND THE DIGITAL ECONOMY: IMPACT ON EMPLOYMENT, PRODUCTIVITY, AND MARKET STRUCTURES

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DOI: <https://doi.org/10.5281/zenodo.21207876>

ABSTRACT

This paper presents a Systematic Literature Review (SLR) examining the economic impact of artificial intelligence (AI) on employment, productivity, and market structures within the digital economy. Following the PRISMA protocol, 78 peer-reviewed studies and institutional reports (2015–2025) were synthesized. The literature consistently reveals that AI produces a dual labor market effect - displacing routine occupations while generating new AI-complementary roles - with net positive but unequally distributed employment outcomes. Productivity gains are significant at the firm level but contingent on complementary organizational investment and show delayed aggregate effects. AI also intensifies market concentration, reinforcing winner-takes-most competitive dynamics through data-driven network effects. Policy implications span labor transition, competition regulation, and digital governance.

KEYWORDS: Artificial Intelligence, Digital Economy, Productivity, Market Concentration, Automation.

Introduction

The proliferation of artificial intelligence (AI) technologies - encompassing machine learning, natural language processing, computer vision, and robotic process automation - has emerged as a defining structural force reshaping advanced and emerging economies alike. Unlike prior waves of automation, AI operates simultaneously across cognitive, physical, and creative task domains, blurring traditional distinctions between technological substitutes and complements to human labor. The IMF (2024) estimates AI could affect 40% of global jobs, while PwC (2023) projects potential AI-driven contributions of \$15.7 trillion to the global economy by 2030.

Despite this significance, the academic literature is fragmented across economics, management science, information systems, and public policy disciplines. Isolated studies often reach contradictory conclusions, driven by differences in methodological approach, sectoral focus, country context, and AI operationalization. A systematic synthesis is therefore essential to identify robust findings, unresolved debates, and critical knowledge gaps. This paper addresses that need through a rigorous SLR across three themes: (i) employment and labor markets; (ii) firm and

aggregate productivity; and (iii) market structures and competition.

Literature Review

The reviewed literature is organized around three interconnected thematic streams: AI and employment; AI and productivity; and AI and market structures. Within each stream, studies are critically evaluated for convergence, divergence, methodological strength, and contextual contingencies.

AI and Employment: Displacement, Augmentation, and Polarization

Task-Based Frameworks and Displacement Risk

The foundational study by Frey and Osborne (2017) applied a probabilistic classifier to 702 US occupational categories, concluding that 47% faced high computerization risk. This landmark work catalyzed widespread scholarly debate but was subsequently criticized for overestimating displacement by treating occupations as monolithic rather than disaggregating constituent tasks. Arntz, Gregory, and Zierahn (2016), applying a task-based framework to OECD data, revised this estimate downward to around 9%, demonstrating that even “automatable” occupations contain

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sufficient non-routine task content to preserve human value.

Acemoglu and Restrepo (2018) formalized the distinction between automation - technologies that substitute labor by performing previously human tasks - and augmentation - technologies that create new tasks reinstating comparative advantage for labor. Their "task model" framework, extended in subsequent work (Acemoglu & Restrepo, 2022), establishes that automation alone is insufficient to eliminate employment; new task creation, driven by innovation, must be incorporated into any credible assessment. Critically, they warn that the current pace of automation is outstripping new task creation, producing negative labor share effects particularly for middle-skill workers.

Job Creation and the Augmentation Literature

A parallel strand of literature documents AI's job-creation effects. The World Economic Forum's Future of Jobs Report (2023) projects that AI and automation will displace 85 million jobs but generate 97 million new roles globally between 2023 and 2025 - a net positive of 12 million, concentrated in data, AI, content creation, and green economy sectors. However, critics note that WEF's projections are based on employer surveys rather than econometric modelling, limiting their empirical precision.

Autor, Levy, and Murnane's (2003) canonical framework - predicting that computerization polarizes labor markets by eliminating middle-skill routine tasks while preserving both high-skill abstract work and low-skill manual tasks - has generated extensive empirical testing. Goos, Manning, and Salomons (2014) confirm this job polarization pattern across 16 European countries. However, more recent work by Autor (2022) and Dauth et al. (2021) suggests that AI may be beginning to penetrate previously insulated non-routine cognitive domains - including legal analysis, financial advisory, and medical diagnostics - potentially extending automation pressures further up the skill distribution than previously anticipated.

AI and Productivity: Evidence, Paradoxes, and Contingencies

The Productivity Paradox and its Resolution

Robert Solow's (1987) famous quip - "You can see the computer age everywhere except in the productivity statistics" - has re-emerged as a central puzzle in the AI era. Despite massive investment in AI and digital technologies, aggregate productivity growth in advanced economies has remained

below historical averages throughout the 2010s (Gordon, 2018).

Brynjolfsson, Rock, [text missing in original] Supporting this view, Bessen (2019) demonstrates using US firm-level panel data that computer-using firms show higher productivity growth over five-to-ten year horizons but not in the first two years post-adoption, consistent with the J-curve prediction. This finding has important implications: cross-sectional productivity studies that fail to allow sufficient post-adoption time may systematically underestimate AI's contribution.

Firm-Level and Sectoral Evidence

At the firm level, evidence of significant AI-driven productivity gains is robust. Ciarli et al. (2021) analyses matched employer-employee data across Germany, France, Spain, Italy, and Sweden, finding that AI-intensive firms exhibit total factor productivity (TFP) growth 20-30% above sector averages, with effects strongest in manufacturing and finance. Acemoglu et al. (2022), examining US firm-level data, find that firms adopting AI tools report sales per worker gains of approximately 5%, with effects concentrated among large, digitally mature firms - raising concerns about AI widening productivity gaps between frontier and laggard firms.

Healthcare and life sciences represent the sector with perhaps the most compelling productivity evidence. A systematic review by Topol (2019) documents AI diagnostic accuracy matching or exceeding specialist clinicians across radiology, dermatology, and ophthalmology applications. In drug discovery, Insilico Medicine's AI-designed drug candidate completed Phase I trials in 2023 in a fraction of the traditional timeline and cost, representing a potentially transformative compression of pharmaceutical development cycles (Zhavoronkov et al., 2022). In logistics and retail, Amazon's fulfillment center automation - combining robotics and AI demand forecasting - has been estimated to reduce operating costs by 20% per unit shipped (McKinsey, 2023). In financial services, JPMorgan's COIN contract intelligence platform reportedly performs work equivalent to 360,000 attorney-hours annually, illustrating the scale of productivity displacement from AI-powered document processing (Citi GPS, 2023).

AI and Market Structures: Concentration, Competition, and Governance

Data-Driven Winner-Takes-Most Dynamics

A third and rapidly growing literature examines how AI reshapes competitive market

dynamics. Cremer, de Montjoye, and Schweitzer (2019), commissioned by the European Commission, identify data as the central competitive asset enabling AI-based market dominance. Unlike traditional capital inputs, data exhibits increasing returns - larger datasets generate more accurate AI models, attract more users, generate more data, and thereby compound competitive advantages in self-reinforcing feedback loops. This dynamic is structurally distinct from classical network effects, as it operates through algorithmic improvement rather than direct user-to-user value.

Autor et al. (2020) provide the most extensive empirical documentation of AI-associated market concentration trends, demonstrating a systematic rise in the revenue share of top-four firms across all major US industries between 1982 and 2017. They term firms exploiting technological advantages to achieve persistent market dominance “superstar firms” and show that these firms simultaneously capture rising profit shares while paying lower aggregate wage bills - directly connecting market structure to wage inequality outcomes. Shapiro and Varian (1999) anticipated many of these dynamics in their pre-AI analysis of information markets, but the scale and speed of concentration in the AI era have exceeded their projections. Five technology firms - Alphabet, Amazon, Apple, Meta, and Microsoft - collectively commanded over \$10 trillion in combined market capitalization in 2024, reflecting AI-reinforced dominance across search, cloud, social, and consumer AI markets (Bloomberg Intelligence, 2024).

Regulatory Responses and Theoretical Debates

The competition policy literature is divided on appropriate regulatory responses. Incumbents and Chicago School-influenced scholars argue that AI-driven concentration reflects genuine efficiency gains and consumer welfare improvements, warning that premature structural intervention may chill innovation (Sokol & Comerford, 2016). In contrast, neo-Brandeisian scholars - most influentially Lina Khan (2017) - argue that consumer welfare price-based antitrust

frameworks are ill-suited to zero-price digital markets where competitive harm manifests as reduced innovation incentives, privacy erosion, and entrenched barriers to entry rather than supra-competitive pricing.

Recent empirical work supports structural concerns. Cunningham, Ederer, and Ma (2021) document “killer acquisitions” - a pattern of large technology firms acquiring AI start-ups not to develop their products but to pre-emptively eliminate potential competitive threats - finding over 5% of pharmaceutical acquisitions and a growing share of tech deals exhibit this pattern. These findings have directly informed EU Digital Markets Act (2024) provisions requiring pre-merger notification for acquisitions below traditional turnover thresholds, and the proposed ex-ante obligations on designated gatekeepers.

Emerging scholarship also examines AI’s role in facilitating algorithmic collusion - where competing firms’ pricing AI systems converge on supra-competitive prices without explicit coordination (Mehra, 2016). Calvano et al. (2020) demonstrate in simulation studies that Q-learning pricing algorithms reliably converge on collusive outcomes even without communication, raising profound questions for existing per se prohibition frameworks that require proof of intent.

Methodology

SLR Design and Search Strategy

This review adopts the PRISMA framework. Structured keyword searches were conducted across Web of Science, Scopus, SSRN, and Google Scholar using Boolean combinations of: “artificial intelligence”, “machine learning”, “digital economy”, “employment”, “automation”, “labor market”, “productivity”, and “market structure”. The search window was January 2015 to December 2025, capturing pre- and post-pandemic empirical evidence and capturing the emergence of large language models (LLMs) and generative AI.

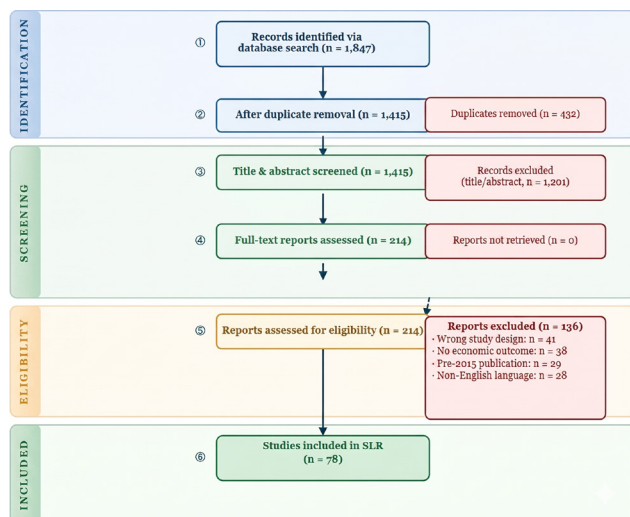
Screening and Selection

The initial search yielded 1,847 records.

Table 1: PRISMA Inclusion and Exclusion Criteria

Criteria	Inclusion	Exclusion
Publication type	Peer-reviewed articles, OECD/IMF/WB/WEF reports	Opinion pieces, grey blogs, editorials
Time period	January 2015 – December 2025	Studies published before 2015
Language	English-language publications	Non-English sources
Thematic relevance	AI impact on economic outcomes	Narrow technical AI, no economic focus
Study design	Empirical, theoretical, or systematic reviews	Single-case descriptive studies without generalizability

After de-duplication ($n = 432$ removed), 1,415 titles and abstracts were screened, yielding 214 full-text articles for assessment. Applying all inclusion criteria, 78 studies were retained for synthesis. Studies were coded by thematic domain, methodology (quantitative, qualitative, mixed-methods), geographic scope, and level of analysis (firm, sector, country).



Synthesis of Literature

Across 78 reviewed studies, three cross-cutting findings emerge with the greatest evidentiary support. Table 2 below maps key literature by theme, methodology, and policy implication.

Discussion and Policy Implications

Three cross-cutting tensions emerge across the reviewed literature. First, AI's aggregate economic benefits are real but unevenly distributed - between skilled and unskilled workers, between frontier and laggard firms, and between economies with strong and weak digital infrastructure. This

distributional asymmetry is not technologically determined; it reflects choices about investment, education, and redistribution that remain within the control of policymakers.

Second, existing institutional frameworks - for labor markets, antitrust, and data governance - were designed for economic structures that AI is fundamentally transforming. Passive unemployment insurance cannot manage transitions at the pace and scale AI demands. Consumer welfare price-based antitrust cannot identify harm in zero-price markets. Trade secrecy law incentivizes data hoarding rather than competitive data sharing. In each domain, the gap between regulatory design and economic reality is widening.

Third, the literature reveals an innovation-distribution trade-off at the heart of AI governance. Concentrated AI markets may generate rapid capability advances - the resources of hyperscalers fund frontier research that smaller firms cannot replicate - but also capture those gains narrowly and erect barriers that reduce long-run competitive dynamism. Managing this tension, rather than eliminating it, is the central governance challenge that the reviewed literature identifies but has not yet resolved.

Conclusion

This systematic literature review has synthesized 78 peer-reviewed and institutional studies to map AI's economic impact across employment, productivity, and market structures. The evidence base reveals an AI-driven economic transformation that is simultaneously expansive and asymmetric: generating aggregate welfare gains while concentrating benefits, creating new opportunities while accelerating obsolescence,

Table 2: Synthesis of Reviewed Literature by Theme

Theme	Studies	Methodology	Finding
Employment	Frey & Osborne (2017); Acemoglu & Restrepo (2022); WEF (2023); Brynjolfsson et al. (2023)	Task modelling; field experiments; employer surveys	Dual effect: displacement of routine tasks + creation of AI-complementary roles; distributional inequality remains central concern.
Productivity	Brynjolfsson et al. (2021); Ciarli et al. (2021); Gordon (2018); Bessen (2019)	Firm-level panel data; TFP modelling; field experiments	Firm-level gains significant but contingent on complementary investment; macro gains lagged (J-curve); gains concentrated among frontier firms.
Market Structure	Autor et al. (2020); Cremer et al. (2019); Cunningham et al. (2021); Calvano et al. (2020)	Industry concentration analysis; case studies; simulations	AI accelerates winner-takes-most dynamics; data-driven barriers entrench incumbents; algorithmic collusion is emerging risk.
Policy Response	Khan (2017); EU AI Act (2024); IMF (2024); OECD (2023)	Legal analysis; policy review; cross-country comparative	Existing frameworks insufficient; need updated antitrust, data governance, and active labor market policy.

and producing efficiency gains while threatening competitive plurality.

Future research priorities include: longitudinal micro-data tracking individual worker and firm trajectories through AI transitions; comparative institutional analysis of how regulatory environments shape distributional outcomes; investigation of generative AI and large language models' distinct economic dynamics relative to prior AI waves; and global value chain analysis of AI's cross-border spillovers. As AI capabilities accelerate with foundation models and agentic systems, timely, rigorous, and policy-relevant economic research has never been more consequential.

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