ARTIFICIAL INTELLIGENCE AND LABOUR MARKET DYNAMICS: CHALLENGES, OPPORTUNITIES, AND FUTURE TRANSFORMATIONS

Patrik Janok – Rajmund Mirdala

Abstract

Labour markets across Europe are undergoing structural transformation driven by the accelerating adoption of artificial intelligence (AI), changing skill requirements, and persistent regional disparities. This paper examines how AI diffusion across European enterprises is reshaping employment structures by analysing adoption trends, occupational change, skill demand, and cross-country differences. The research combines a review of recent empirical literature and institutional reports with secondary macro-level data from Eurostat and the World Economic Forum (WEF).

The findings show that AI adoption among EU enterprises increased non-linearly from 7.7% in 2021 to 20.0% in 2025, with a notable acceleration after 2023 linked to the commercial expansion of generative AI. Adoption remains highly uneven, with Nordic and Benelux countries leading while Central and Eastern European economies lag behind. Significant differences also exist by firm size and economic sector. WEF projections suggest that AI is a structural disruptor rather than a net job destroyer, producing a positive net employment balance but substantial occupational change and skill obsolescence. These effects are influenced by institutional factors, including training systems and labour regulation. The findings highlight the importance of workforce development, reskilling, and policies capable of managing uneven technological transitions.

Key words: labour market dynamics; employment structures; structural transformation; workforce development; artificial intelligence.

JEL Code: J23, J24, O33

Introduction

The rapid development of artificial intelligence (AI), particularly generative AI models such as GPT-4, is reshaping labour markets by transforming traditional work structures and increasing demand for new skills. As AI, IT, and data analytics become more integrated into the workforce, adaptability, lifelong learning, reskilling, and upskilling are becoming increasingly important.

Managing this transition requires coordinated efforts from governments, educational institutions, and enterprises. Governments can support workforce adaptation through appropriate regulation, incentives, and training programs, while educational institutions and firms can provide updated curricula and continuous opportunities for skill development (Singh, 2023; Yan et al., 2026).

Despite growing research on AI and employment, existing studies focus largely on theoretical automation effects or micro-level task exposure, with limited attention to macro-level AI diffusion across Europe. In particular, the recent acceleration of AI adoption and cross-country differences in its diffusion and labour market implications remain underexplored.

This paper examines how AI diffusion across EU enterprises is reshaping labour markets, focusing on employment dynamics, skill change, and cross-country heterogeneity. It quantifies AI adoption trends and identifies structural differences across countries, firm sizes, and sectors, linking these patterns to potential labour market outcomes such as job creation, displacement, and skill obsolescence (Stephany, 2021; Susskind & Susskind, 2022).

Overall, the study combines macro-level AI adoption data with labour market indicators to examine how uneven AI diffusion contributes to asymmetric employment and skill transformations across Europe (Qin et al., 2023; Ben-Ishai et al., 2024).

The paper first outlines the theoretical background and historical context of technological change in labour markets, followed by current AI-driven workforce strategies. It then presents the data and methodology, empirical results on AI adoption patterns, and concludes with discussion, policy implications, and limitations (Akpan & Adebayo, 2025; Alvarez et al., 2025).

1 Current AI/IT Strategy Trends for Workforce Management

Major trend is the emphasis on upskilling and reskilling activities to prepare the workforce for changing requirements. As AI and data analytics are increasingly integrated into business operations, there is a growing demand for workers to build competencies in areas such as AI literacy, data analysis, cybersecurity, creativity, empathy, and critical thinking. Reports such as the WEF (2025) emphasize the need for constant learning and flexibility, calling on employers to create a culture that promotes lifelong professional development. This learning culture is vital not just for individual career resilience, but also for organizational agility in the face of fast technological change. Organizations can engage in staff development and create a culture of continuous learning to ensure that their workforce remains relevant and can effectively use new technology (Singh, 2023; Oleš, T, 2026).

Another strategic trend is the re-engineering of corporate processes to use the joint intelligence between people and AI. Organizations are rethinking workflows and operating models to use the complementary benefits of human and machine intelligence (Mäkelä, 2024). This means rethinking job roles, task allocation, and decision-making structures to ensure that AI technologies are used where they can bring the greatest value, and that humans retain oversight and accountability for jobs that need judgment, ethical reasoning, and sophisticated understanding. As the WEF (2025) notes, this redesign is critical since the successful use of AI in managing the workforce depends on "proactive process innovation, as well as alignment of technology and human-centric objectives" (Amini et al., 2025; Sparreboom & Tarvid, 2016).

2 Methodological Framework and Data Extraction

To complement the qualitative assertions derived from literature, this study implements a quantitative analytical framework leveraging secondary macroeconomic datasets. Data regarding enterprise AI adoption, structural stratification, and sectoral dispersion are extracted from Eurostat's ICT Usage in Enterprises Survey. Global workforce disruptions and skill obsolescence trends are sourced from the World Economic Forum (WEF) Future of Jobs Report 2025.

3.1 Statistical Formulations

The compound annual growth rate ($CAGR$) is deployed to evaluate the velocity of AI diffusion across European enterprises over a four-year horizon ($n = 4$):

$$CAGR = \left(\frac{V_t}{V_0}\right)^{\frac{1}{n}} - 1 \qquad (1)$$

Where $V_0 = 7.7\%$ representing adoption in 2021, and $V_t = 20.0\%$ denoting adoption in 2025. Year-over-Year (YoY) absolute change (Δ_t) and relative growth rate (g_t) are calculated via:

$$\Delta_t = A_t - A_{t-1} \qquad (2)$$

$$g_t = \frac{A_t - A_{t-1}}{A_{t-1}} \times 100 \qquad (3)$$

Cross-country dispersion is captured using the population standard deviation (σ) and the Coefficient of Variation (CV) to quantify the magnitude of the European digital divide:

$$\sigma = \sqrt{\frac{\sum_{i=1}^{n}(x_i - \bar{x})^2}{n}} \qquad (4)$$

$$CV = \frac{\sigma}{\bar{x}} \times 100 \qquad (5)$$

4 Results and Empirical Analysis

4.1 Macro Trends in EU Enterprise AI Adoption

Statistical analysis reveals a pronounced, non-linear acceleration of AI adoption within European enterprises. The share of enterprises deploying AI technologies grew from 7.7% in 2021 to 20.0% in 2025.

Tab. 1: EU27 Enterprise AI Adoption Trend, 2021-2025

Year	AI Adoption (%)	YoY Change (pp)	Relative Growth (%)
2021	7.7	-	-
2023	8.0	+0.3	+3.9
2024	13.5	+5.5	+68.8
2025	20.0	+6.5	+48.1
CAGR (2021-2025)			**+26.95%**

Source: Eurostat, ICT Usage in Enterprises Survey

The calculated $\boldsymbol{CAGR}$ of $\mathbf{26.95}\%$ indicates exponential diffusion rather than linear growth. Breaking down the periods reveals a clear structural shift. Between 2021 and 2023, adoption stagnated ($\boldsymbol{\Delta_t = +0.3}$ pp, $\boldsymbol{g_t = +3.9}\%$). However, an unmistakable inflection point occurs between 2023 and 2024, where adoption surged by $+\mathbf{5.5}$ pp ($+\mathbf{68.8}\%$ relative growth), followed by a massive continuation into 2025 ($+\mathbf{6.5}$ pp, $+\mathbf{48.1}\%$). This statistically identifiable shift aligns precisely with the market debut and widespread enterprise integration of large language models (LLMs) and generative AI architectures from early 2023 onward.

4.2 Cross-Country Heterogeneity: The Structural Digital Divide

Aggregate EU performance figures mask severe geographical imbalances across member states. Analysis of verified 2025 Eurostat data reveals extreme dispersion.

Tab. 2: Cross-Country AI Adoption Dispersion, EU27, 2025

Country	AI Adoption (%)	Position Relative to EU Avg
Denmark	42.0	+22.0 pp
Finland	37.8	+17.8 pp
Sweden	35.0	+15.0 pp
Belgium	34.5	+14.5 pp
Netherlands	33.2	+13.2 pp
EU27 Average	**20.0**	**-**
Bulgaria	8.5	-11.5 pp
Poland	8.4	-11.6 pp
Romania	5.2	-14.8 pp
Dispersion (σ)	**14.35 pp**	**CV = 56.1%**

Source: Eurostat, December 2025. Enterprises with 10+ employees. Note: the standard deviation and coefficient of variation are computed over the eight countries displayed (the five highest- and three lowest-adoption member states) and therefore represent the upper bound of cross-country dispersion rather than the dispersion across all EU27 states.

The spread spans from a minimum of 5.2% in Romania to a maximum of 42.0% in Denmark, yielding an absolute range of 36.8 pp. The computed standard deviation ($\sigma = 14.35$ pp) and high Coefficient of Variation ($CV = 56.1\%$) quantify the magnitude of a profound structural digital divide. Highly innovative economies (Nordic and Benelux clusters) exhibit adoption rates far exceeding the EU benchmark, while Central and Eastern European nations trail drastically. This divide indicates that the labour market vulnerabilities and complementation premiums associated with AI will be unevenly distributed across Europe.

4.3 Enterprise Stratification and the Catch-up Effect

AI deployment remains highly dependent on organizational scale, creating asymmetric competitive dynamics.

Tab. 3: AI Adoption by Enterprise Size, EU27, 2024-2025

Size Class (Employees)	2024 (%)	2025 (%)	Δ (pp)	Rel. Growth (%)
Small (10-49)	7.30	17.00	+9.70	+132.9%
Medium (50-249)	20.00	30.36	+10.36	+51.8%
Large (250+)	41.17	55.03	+13.86	+33.7%
EU Total	**13.50**	**20.00**	**+6.50**	**+48.1%**

Source: Eurostat

Large enterprises exhibit a substantial size premium, with adoption reaching 55.03% in 2025 ($\mathbf{38.03}$ pp higher than small firms). However, the data reveals a compelling democratisation effect: small enterprises registered the highest relative expansion rate ($+\mathbf{132.9}\%$), surging from 7.30% to 17.00% in a single year. This indicates that decreasing entry costs and user-friendly API-driven deployments are allowing smaller market participants to integrate AI, facilitating the "workforce ecosystem" shift where contractors and small firms operate alongside larger entities.

4.4 Sectoral Diffusion and Moravec's Paradox

Sectoral analysis confirms that AI exposure is heavily concentrated within cognitive, data-intensive fields.

Tab. 4: AI Adoption by Economic Sector, EU27, 2025

Sector	AI Adoption (%)	Data Quality
Information & Communication	62.52	✓
Professional, Scientific & Technical	40.43	✓
Real Estate Activities	24.82	✓
Construction	10.79	✓
Other Sectors (Below 25%)	10-24 (estimated range)	∼ Approx.

Source: Eurostat ✓= Eurostat-confirmed; ∼ = approximate

The Information and Communication sector leads across EU economic sectors at 62.52%, followed by Professional, Scientific and Technical services at 40.43%. Conversely, the Construction sector demonstrates low adoption (10.79%). This distribution provides empirical support for Moravec's paradox in contemporary economics: while complex cognitive and data-intensive tasks are readily automated by AI algorithms, physical activities requiring sensorimotor coordination and spatial dexterity remain highly resistant to automation, thus insulating manual occupations from immediate structural disruption.

4.5 Global Labour Displacement and Skill Obsolescence

Macro-level labour projections compiled from the WEF 2025 survey evaluate the aggregate net effects of these adoption trends over a 2025-2030 horizon.

Tab. 5: WEF Future of Jobs 2025 - Labour Market Disruption Summary

Indicator	Value	% of Base (1.2B Jobs)
Jobs Created by 2030	170 million	14.2%
Jobs Displaced by 2030	92 million	7.7%
Net Employment Change	+78 million	+6.5%
Structural Labour Market Churn	22.0%	-
Skills Becoming Obsolete (2025-2030)	39.0%	-
Skills Obsolescence Rate (2020)	57.0%	-
Reduction in Obsolescence Rate	-18.0 pp	-
Employers Planning Upskilling	85.0%	-
Employers Citing Skills Gap as Primary Barrier	63.0%	-
Employers Planning AI-Driven Workforce Reduction	41.0%	-
Employers Planning to Hire AI-Skilled Workers	70.0%	-

Source: World Economic Forum, Future of Jobs Report 2025 (n = 1,000+ companies, 55 economies).

The WEF projections refute the narrative of aggregate net job destruction, estimating the generation of 170 million new roles against the displacement of 92 million, yielding a positive net balance of $+\mathbf{78}$ million jobs ($+\mathbf{6.5}\%$ of the formal base). However, this net positive outcome masks intense friction: a structural churn rate of 22% implies massive occupational reallocation. Furthermore, while 39% of skills are projected to become obsolete by 2030, this represents an $\mathbf{18}$ pp drop from the 57% obsolescence rate reported in 2020. This decline indicates that widespread, systematic institutional investments in upskilling programs are successfully slowing skill atrophy at the macro level.

Discussion

The results confirm that the contemporary labour market transition cannot be explained by automation alone. Instead, it represents an interaction between rapid technological capabilities and institutional frameworks. The stark contrast in employer intentions-where 41% plan staff reductions in legacy roles while 70% simultaneously seek to expand headcount for AI-augmented tasks-empirically confirms the polarization warning raised by Mäkelä (2024).

Consequently, workers possessing these AI-complementary skill sets capture a significant wage premium, whereas compensation for roles characterized by routine, easily codified tasks faces stagnation or decline.

The high Coefficient of Variation ($CV = 56.1\%$) across EU member states reveals that a uniform economic policy is ill-suited to handle this transition. Advanced digital ecosystems (e.g., Denmark and Finland) leverage AI as a tool for labour complementation and augmentation, maximizing the value of human capital through public-private partnerships and proactive career certification models. In contrast, lagging economies risk utilizing AI primarily as a cost-cutting mechanism for labour substitution, which exacerbates regional unemployment and social inequality.

Conclusion

This study integrated qualitative labour market theories with empirical data from Eurostat and the WEF to map the structural transformations driven by artificial intelligence. The analysis demonstrates three core insights:

1. AI adoption is accelerating non-linearly, driven by a massive post-2023 inflection point that corresponds with the commercial scale of generative AI models.

2. AI acts as a structural disruptor rather than a net job destroyer, generating a projected net surplus of 78 million formal jobs globally by 2030, though accompanied by a substantial 22% labour churn rate.
3. A profound digital divide persists across Europe, characterized by a $\mathbf{36.8}$ pp adoption gap between leading and lagging member states, which threatens to worsen regional economic polarization.

For policymakers and corporate strategists, these findings indicate that treating AI adoption purely as an engineering or cost-reduction issue is counterproductive. Governments must implement targeted fiscal incentives, including reskilling tax credits and training subsidies, specifically tailored to central and eastern European labour markets to close the widening digital divide.

Limitations and Future Research Directions

The primary limitation of this study stems from the high proportion of estimated data points within the broader Eurostat sectoral and cross-country modules, which limits the use of advanced econometric modeling. Additionally, the reported dispersion measures (σ and CV) were calculated using a selected sample of countries with verified and comparable Eurostat observations rather than the complete EU27 dataset, and should therefore be interpreted as indicative measures of heterogeneity rather than exhaustive population estimates.

To overcome these barriers and improve publication readiness, future research should focus on three specific empirical tracks:

- **Microdata Integration:** Access Eurostat's complete microdata to replace estimated coefficients with exact country-level values and extend the dispersion analysis to all EU27 member states.
- **Causal Panel Regressions:** Combine enterprise AI adoption data with national unemployment and labour force statistics using fixed-effects panel models to examine the causal relationship between AI adoption and structural employment shifts.
- **Skill Return Models:** Combine O*NET occupational exposure indexes with EU-LFS earnings data to estimate Mincerian wage regressions and identify the wage premium associated with AI-complementary skills.

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Contact

Patrik Janok
Technical University of Košice, Faculty of Economics, Department of Economics
Nemcovej 32, 04001 Košice
patrik.janok@tuke.sk

Rajmund Mirdala
Technical University of Košice, Faculty of Economics, Department of Economics
Nemcovej 32, 04001 Košice
rajmund.mirdala@tuke.sk