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Received: 16/10/2023 Accepted: 27/11/2023 Published: 02/12/2023

## Abstract:

This study investigates the relationship between artificial intelligence (AI) and unemployment in 11 OECD countries from 2004 to 2022. Using the two-step GMM system estimator to ensure reliable results, this research explores how AI impacts labor markets in highly innovative economies. By integrating alternative data sources such as Google Trends, the findings reveal a negative relationship between AI and unemployment, supporting the "displacement effect" where AI drives productivity and job creation in the long term. The results underscore the importance of adopting AI technologies and implementing proactive policies to mitigate short-term disruptions and harness AI's potential for economic growth and job creation. Therefore, the effective implementation of AI technologies in economic processes can reduce unemployment rates and increase wages by creating new job opportunities.

**Key words:** Artificial Intelligence, Employment Trends , Unemployment Rates, AI and Workforce, Dynamic Panel Data Analysis , OECD

**Tob Regul Sci.**<sup>TM</sup> 2023; 9(2):

**DOI:** [doi.org/10.18001/TRS.9.2.213](https://doi.org/10.18001/TRS.9.2.213)

## Introduction

The rapid advancements in artificial intelligence (AI) and automation over the past few decades have profoundly transformed numerous industries, including healthcare, transportation, and manufacturing. This technological revolution has led to significant improvements in efficiency and productivity, yet it has also raised important questions about the future of work and employment. As AI systems become increasingly capable of performing tasks traditionally carried out by humans, concerns about job displacement and unemployment have grown.

According to a report by (World Economic Forum, 2020), AI is expected to create 97 million new jobs by 2025 while displacing 85 million jobs. This dual impact underscores the need to understand how AI affects employment dynamics. While some researchers argue that AI will complement human labor and create new opportunities, others warn that it may lead to significant job losses and increased inequality.

One of the key areas of debate in the literature is the extent to which AI will replace human workers versus displacing them into new roles. The 'replacement effect' suggests that AI will directly substitute human labor, leading to higher unemployment rates. Studies have shown that occupations involving routine and repetitive tasks are particularly vulnerable to automation (Brynjolfsson & McAfee, 2014). For instance, (C. B. Frey & Osborne, 2017) estimated that 47% of jobs in the United States are at risk of being automated in the next two decades.

In contrast, the 'displacement effect' posits that while AI may initially disrupt labor markets, it will ultimately lead to job creation and economic growth. AI and automation can enhance productivity and efficiency, which can spur innovation and create new industries and job opportunities. (Bessen, 2019) argues that technological advances historically lead to the creation of new jobs and industries, offsetting the losses in traditional sectors.

Despite these differing perspectives, there is a consensus that the impact of AI on employment will vary across different regions and sectors, depending on factors such as technological readiness and economic structure. For example, (Arntz et al., 2016) highlight that the risk of automation is lower in occupations that require social intelligence, creativity, and complex problem-solving skills.

Given the complexity of these dynamics, it is crucial to develop comprehensive models that can capture the nuanced effects of AI on employment. Traditional economic models often fail to account for the rapid pace of technological change and its multifaceted impacts on the labor market. As a result, researchers have started to use alternative data sources, such as Google Trends, to gain insights into how AI and automation affect employment (Preis et al., 2013) (Choi & Varian, 2012)

## Literature review

In recent years, there has been a substantial increase in the body of literature examining the impact of AI on unemployment. This growing body of work can be broadly categorized into two main perspectives: those that argue for the 'replacement effect' of AI on jobs and those that argue for the 'displacement effect'.

The 'replacement effect' perspective underscores the various negative implications of AI on the labor market. This viewpoint suggests that AI and automation technologies replace human jobs, leading to increased unemployment. (Ngo et al., 2014) found that 48% of specialists in the technology field believe robots may perform most standardized and automated labor, putting traditional jobs at risk. (Susskind & Susskind, 2016) suggested that high-tech unemployment will increase with AI, and traditional industries will see jobs turned into routine tasks that technologies can replace. (C. Frey & Osborne, 2017) predicted that 47% of 700 occupations are at risk of being replaced in the next two decades. (David, 2017) pointed out that jobs with high substitution risk and no gender difference are as high as 55%.

(Graetz & Michaels, 2018) found that robots decreased responsibilities more for low-skilled labor than for medium- and high-skilled labor. (Felten et al., 2019) linked high computerization risk with an increasing likelihood of changing occupations or being unemployed. (Acemoglu & Restrepo, 2020) discovered that one additional robot per thousand workers is associated with a drop of 0.2 percent in the employment-to-population ratio and a 0.37 percent decrease in wages.

More recent studies have continued to underscore these findings. (Bordot, 2022) investigated the relationship between AI, robots, and unemployment across OECD countries, finding that an increase in industrial robots is associated with higher unemployment rates, especially for workers with medium education levels. (Anakpo & Kollamparambil, 2022) examined the effect of automation on unemployment in Southern Africa, finding a significant positive relationship between automation and unemployment rates. They recommended investments in learning and skill development to make individuals more competitive in an automated job market.

(Upreti & Sridhar, 2022) utilized an agent-based model to study labor market dynamics, finding that AI-induced automation can lead to employment changes and wage inequality depending on workers' retraining pathways. They highlighted the importance of building dense and well-distributed mobility pathways to reduce wage inequality. (Safronchuk et al., 2022) explored the global labor market challenges of digitalization, noting significant risks to employment due to AI and automation. They emphasized the need for comprehensive policy responses to mitigate these risks. (Paolillo et al., 2022) developed a method to assess job automation risks and identify resilient alternatives for workers. Their study showed that this approach could substantially reduce workers' automation risk while requiring moderate retraining efforts. Lastly, (Ma et al., 2022) demonstrated that AI significantly affects the structure of employment skills, with regional innovation playing a significant mediating effect

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Conversely, the second perspective proposes the 'displacement effect'. In this view, AI positively impacts the labor market by creating new jobs, thereby reducing unemployment. Scholars argue that while AI may disrupt the job market in the short term, the significant increase in production efficiency and the resulting expansion of production will ultimately generate more jobs and employment opportunities in the long term. (Boden, 1987) claimed that AI development is replicable and will eventually create more jobs despite short-term transitional problems. This early optimism was later supported by the Global Institute Research (Manyika et al., 2016), which

predicted a demand for 250,000 data scientists by 2024. This forward-looking perspective suggested that AI would lead to new job opportunities in emerging fields.

(Dauth et al., 2018) found that robot adoption in the German labor market changed job distribution without reducing overall employment, indicating that technological advances could coexist with stable employment levels. Similarly, (Gries & Naudé, 2018) integrated AI into an economic growth model and found no direct link to increased unemployment, suggesting that AI could drive economic growth without necessarily displacing jobs.

(Acemoglu & Restrepo, 2018) highlighted that AI and automation improve productivity and support capital accumulation, creating new jobs. They emphasized that technological advancements could lead to a net positive impact on employment through increased efficiency and productivity.

(Chang-jun et al., 2019) emphasized the role of universities in enhancing skills to reduce AI-related job replacement risks. They argued that educational institutions could prepare the workforce for the changes brought by AI, thereby mitigating potential negative impacts on employment. (Webb, 2019) found that high exposure to automation technologies led to declines in employment and wages in certain sectors but overall positive impacts at the firm and industry levels.

(Aghion et al., 2020) showed that automation positively impacts employment at the firm and industry levels, reinforcing the idea that technological advancements can create more jobs than they replace. (Koch et al., 2021) found that robot adoption led to a net increase in jobs, while firms not investing in robots faced job losses.

(Tschang & Almirall, 2021) discussed how AI augments automation, leading to a restructuring of employment that favors non-routine and high-skilled jobs, thereby creating new opportunities in the labor market. (Sía & Martins, 2021) addressed the potential tax implications of robotization, suggesting that tax policies need to adapt to the changing labor market to support job creation. (Loong et al., 2021) explored the impact of AI on China's labor market and the need for labor law reforms to address structural and technical unemployment. (Rasch et al., 2021) examined the impact of AI and robotics on employment in Uzbekistan's hospitality sector, highlighting potential job creation through improved efficiency and service quality.

(Mcgaughey, 2022) discussed how law and policy can ensure full employment and fair incomes despite technological advances, suggesting that AI can lead to long-term job creation. (Young et al., 2022) analyzed whether AI can detect administrative errors in unemployment insurance claims, showing that AI methods can improve efficiency and accuracy, potentially leading to better job security. (Aleisa et al., 2022) proposed an AI-based recruiting model for the Saudi labor market aimed at reducing unemployment by matching job seekers with suitable positions more efficiently. (Merola, 2022) explored how taxation can help achieve inclusive growth in the era of AI and automation, suggesting that appropriate tax policies can support job creation and economic stability. (Nguyen & Vo, 2022) analyzed the impact of AI on unemployment across 40 countries, finding a non-linear relationship where AI initially increases unemployment until a certain threshold is reached, after which it contributes to job creation. (Aleshkovski et al., 2022) identified social risks associated with AI, such as structural unemployment and economic inequality, but also

highlighted the potential for AI to create new types of jobs and opportunities. (Pearson & Shafik, 2022) examined the potential use of AI in identifying young entrepreneurs to address youth unemployment, demonstrating how AI can support entrepreneurial initiatives and job creation. (Kolade & Owoseni, 2022) reviewed the disruptive impact of digital transformation on work, highlighting the need for human-centric approaches to technology adoption to ensure job creation and economic resilience.

### Methodology and empirical model

This section investigates the model variables concentrating on the impact of artificial intelligence on unemployment across 11 OECD countries, each of which ranked highly in the Global Innovation Index 2022 (Dutta et al., 2022). The countries included in the study are Switzerland, Sweden, the United States, the United Kingdom, South Korea, Singapore, Finland, Germany, the Netherlands, Denmark, and Japan, all showcasing exceptional innovation performance. The analysis covers the period from 2004 to 2022, a timeframe marked by a significant surge in global interest in artificial intelligence. We opted to use the two-step GMM estimator for the Blundell-Bond (1998) system, known for providing robust results when incorporating the lag of the dependent variable in a dynamic panel data model. This methodology aims to estimate the influence of artificial intelligence on unemployment in the selected countries, as articulated below:

$$UNMP_{i,t} = \beta_0 + \beta_1 UNMP_{i,t-1} + \beta_2 AI_{i,t} + \beta_3 INF_{i,t} + \beta_4 GDP\_PC_{i,t} + \beta_5 LPRDTY_{i,t} + \varepsilon_{i,t}$$

where  $UNMP_{i,t}$  represents the unemployment rate,  $\beta_0$  is the intercept,  $\beta_1$  to  $\beta_5$  are the coefficients of the independent variables, and  $\varepsilon_{i,t}$  is the error term.

The dependent variable  $UNMP_{i,t}$ , which represents the unemployment rate as a percentage of the total labor force, measures the number of people currently unemployed within a specific period. It serves as an indicator of the current state of the labor market, reflecting the number of individuals actively seeking work but unable to find employment at a given time. The inclusion of the lagged variable  $UNMP_{i,t-1}$  is crucial in unemployment studies because economic conditions and policies often take time to influence the labor market. For instance, the effects of a government stimulus program on job creation or retention might not be visible for several months. Similarly, the impact of a recession on unemployment may be delayed, as companies might initially avoid layoffs by reducing work hours or wages. Moreover, even after an economic recovery, the labor market might take additional time to fully recover to pre-recession unemployment levels. This is partly because some workers may have exited the labor force or become discouraged during the downturn and may take time to re-enter the job market. Overall, considering the dynamic effects when analyzing labor market changes can provide a more comprehensive understanding of unemployment dynamics and the contributing factors. Consequently, we employ a dynamic panel data model in this study to capture these dynamic effects on unemployment.

The primary variable of interest in this study is the volume of searches for the term "artificial intelligence." Existing research predominantly relies on descriptive and comparative analyses to explore the relationship between artificial intelligence and unemployment. One of the significant

challenges is the lack of systematic data to accurately measure the utilization of AI technologies. To address this, we have turned to alternative data sources such as Google Trends data to enhance our modeling of unemployment. The Google Trends Index (GTI) tracks the frequency of words or phrases entered into the Google search engine

A set of control variables is included to isolate the effects of the primary variables of interest, inspired by both theoretical models and existing literature: inflation rate, economic growth, and labor productivity. The annual rate of inflation, reflecting the economy's price fluctuations, is calculated using the Consumer Price Index. Theoretical literature has identified a negative relationship between inflation and unemployment (Phillips, 1958). The Phillips curve supports stable relationships between inflation dynamics and unemployment, asserting that rising inflation tends to create more job opportunities and reduce unemployment (Wulandari et al., 2019).

The next independent variable is GDP per capita, which represents economic growth. Both economic growth and unemployment rates are key indicators monitored simultaneously by policymakers and the public as they provide a clear picture of a country's economic development. The relationship between unemployment and economic growth is a significant topic in both theoretical and empirical research in macroeconomics. The widely accepted view in economics is that higher GDP growth rates lead to increased employment opportunities and reduced unemployment. This theoretical proposition is known as (Okun, 1963) This relationship is among the most prominent in macroeconomic theory and is evident across many countries and regions, especially in developed nations (Farsio & Quade, 2003).

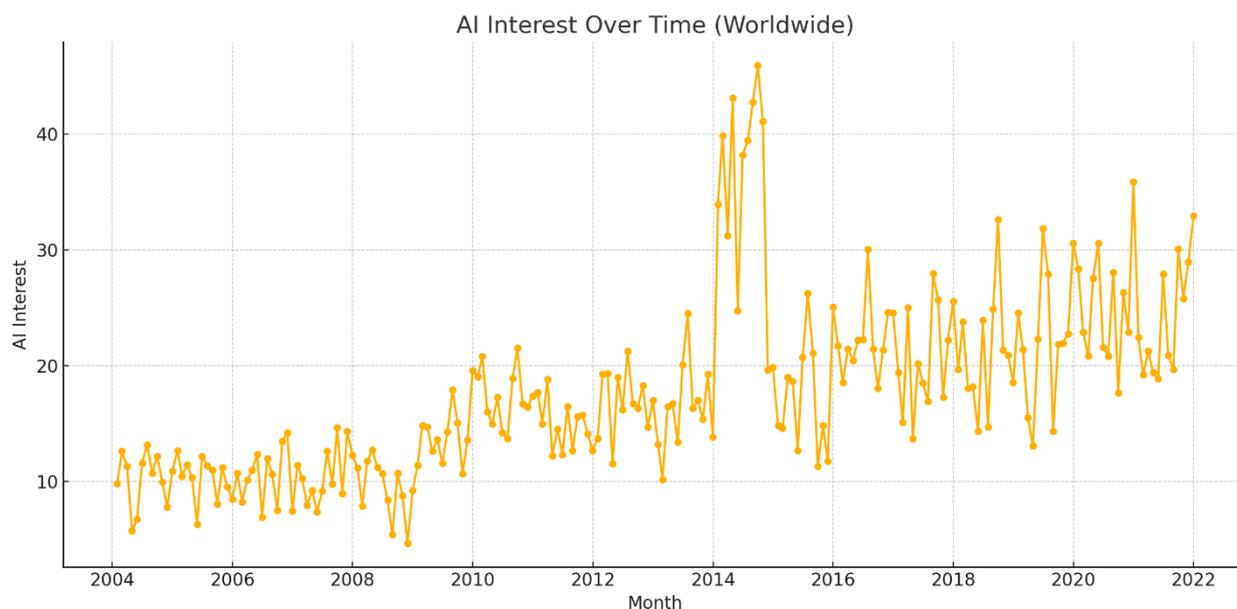
Labor productivity, measured as output per worker and calculated using GDP and the total working population, shows a particularly notable relationship with unemployment. (Basu et al., 2006) highlight the negative impact of productivity on unemployment resulting from technological shocks. Conversely, (Gallegati et al., 2014)) found a positive impact, but only in the long term.

**Table 1. Study variables, source, and expected score.**

<b>Variables - Short name</b>	<b>Naming variables</b>	<b>Variable descriptions - Unit</b>	<b>source</b>	<b>Expected relationship</b>
<b>UNMP</b>	Unemployment rate	As a percentage of the labor force	World Development Indicators	
<b>AI</b>	Artificial Intelligence	Google Trends index search keywords	Google Trend <a href="https://trends.google.com">https://trends.google.com</a>	+/-
<b>INF</b>	Inflation	Annual percentage change in the cost to the average	World Development Indicators	-

		consumer of goods and services		
GDP_PC	GDP per capita	Dividing GDP in dollars by population	World Indicators	Development -
LPRDTY	Labor productivity	Output per annual growth factor of GDP and total employed population	World Indicators	Development +/-

First, we begin investigating global trends in job creation associated with artificial intelligence in this study. Figure 1 shows the global trend line for this technology from 2004 to 2022. The graph illustrates the level of interest in artificial intelligence over time. The data extends from early 2004, making it important to note how interest in AI has evolved over nearly two decades, reflecting advancements in AI technology and its increasing presence across various sectors. Notably, the search term "artificial intelligence" reached its highest level of global interest in 2012. Although the term saw a decline in 2014, it regained popularity after mid-2016 and gained momentum thereafter.



**Results and Discussion:**

## 1. Descriptive Statistics:

Table 2: Descriptive Statistics of the Study Variables

Variable	Obs	Mean	Std. dev.	Min	Max
UNMP	209	6.039321	2.150611	2.35	11.31
INF	209	2.069241	1.808181	-1.35284	11.64387
AI	209	8.817384	5.67441	3.333333	38.91667
LPRDTY	209	1.178582	1.948909	-6.30122	12.85037
GDP_PC	209	40439.42	12402.12	9744.322	62789.13

The table above presents the descriptive statistics of the study variables. The average unemployment rate in the sample is 6.064, with a standard deviation of 2.156. This indicates a moderate variation in unemployment rates between countries. The values range from 2.35 to 11.31, suggesting the presence of countries with relatively low unemployment rates and others with high rates. The standard deviation indicates variation in countries' responses to economic challenges, with some countries managing to maintain low unemployment rates while others suffer from higher rates. The average value associated with artificial intelligence is 8.817, with a relatively large standard deviation of 5.674. This reflects significant disparity in AI adoption and development among countries, with some leading in this field and others lagging behind. The minimum and maximum values, 3.333 and 38.917 respectively, confirm this wide disparity. The average inflation rate in the sample is 2.069, with a standard deviation of 1.808. These values indicate that most countries have managed to maintain moderate inflation rates, with relative variation in experiences among countries, as evidenced by the negative minimum (-1.353) and the maximum (11.644). The average GDP per capita is 40439.425, with a standard deviation of 12402.117. This suggests a disparity in wealth among countries, with some having more affluent economies and others being less economically advanced. The minimum (9744.322) and maximum (62789.128) reflect the significant variation in economic output and living standards. The average labor productivity is 1.179, with a standard deviation of 1.949. This indicates substantial variation in labor efficiency and productivity among countries, with some facing significant challenges in this area, as highlighted by the negative minimum (-6.301).

## 2. Correlation Matrix

The correlation matrix shows the degree of association between two or more variables, ranging from -1 to 1. A positive correlation indicates that as one variable increases, the other variable also increases, while a negative correlation indicates that as one variable increases, the other variable decreases. A correlation value close to 0 suggests a weak or no relationship between the variables.

Table 3: Correlation Matrix of Study Variables

Variables	UNMP	AI	INF	GDP_PC	LPRDTY
UNMP	1				
AI	-0.4698	1			
INF	-0.0589	0.1485	1		
GDP_PC	-0.1416	-0.044	-0.0541	1	
LPRDTY	0.0014	-0.0712	-0.0948	-0.2441	1

The correlation matrix helps to understand the relationships between variables, identify potential multicollinearity, and ensure that there are strong correlations among the study variables. The results indicate a somewhat strong positive correlation between artificial intelligence and unemployment. As a next step, we will conduct further tests to verify this correlation and determine its impact on the estimation.

### 3. Multicollinearity Test:

The Variance Inflation Factor (VIF) (Belsley et al, 1980) measures multicollinearity in regression analysis due to the presence of correlated variables in the model. A VIF value of 1 indicates no multicollinearity, while values greater than 1 indicate increasing levels of multicollinearity. To perform the VIF test, VIF values are calculated for each predictor variable in the regression model. A VIF value greater than 5 or 10 may indicate significant multicollinearity, but cutoff values can vary depending on the specific application.

Table 4: VIF Test Results

Variables	VIF	1/VIF
AI	1.03	0.971931
INF	1.04	0.965807
GDP_PC	1.07	0.931792
LPRDTY	1.08	0.924237
Mean VIF	1.05	

From the results in Table 4, we observe that the average VIF is 1.05, and the individual VIF values for each of the study variables, especially the artificial intelligence variable, are less than 10. This indicates that there are no significant multicollinearity issues in the model.

### 4. Cross-sectional Independence Test:

Cross-sectional dependence is a type of correlation and is one of the common issues that often appear in panel data estimates. There is a possibility that cross-sectional units in panel data may be correlated, which can result from factors such as spatial effects, omitted common effects, social influences, and economic network interactions (Chudik & Pesaran, 2013) .

In fact, the properties of first-generation panel unit root tests and cointegration tests are based on the assumption of cross-sectional independence. Assuming cross-sectional independence has implications for the estimates obtained and the conclusions drawn because the covariance matrix will increase with the number of cross-sectional units, leading to unreliable parameter estimates.

We will use the following cross-sectional independence tests:

- Lagrange Multiplier (LM) test (Breusch & Pagan, 1980)

$$LM = \sum_{i=0}^{N-1} \sum_{j=i+1}^N T_{ij} \hat{p}_{ij}^2 \rightarrow \chi^2 \frac{N(N-1)}{2}$$

- CD test (M. H. Pesaran, 2004) a first-generation test for detecting strong correlation

$$CD = \sqrt{\frac{2}{N(N-1)}} \sum_{i=0}^N \sum_{j=i+1}^N T_{ij} \hat{p}_{ij}^2 \rightarrow N(0, 1)$$

- Bias-adjusted LM test (M. Pesaran et al., 2008)

$$LM_{BC} = \sqrt{\frac{1}{N(N-1)}} \sum_{i=0}^{N-1} \sum_{j=i+1}^N (T_{ij} \hat{p}_{ij}^2 - 1) - \frac{N}{2(T-1)} \rightarrow N(0, 1)$$

- CD test for weak cross-sectional dependence (M. H. Pesaran, 2015)

$$CD = \frac{\sqrt{N}}{\sqrt{2}} \left( \frac{1}{N(N-1)} \sum_{i=1}^N \sum_{j=i+1}^N \hat{P}_{ij} \right) \approx N(0, 1)$$

This test is a second-generation test for detecting weak or mild correlation, where (M. H. Pesaran, 2015) confirmed that the problem of cross-sectional dependence tends to disappear as both T and N approach infinity, i.e., large samples.

Table 5: Results of Cross-sectional Independence Tests for Study Variables

Variables	Pesaran (2004) CD test	Bias-corrected scaled LM test	Breusch-Pagan LM test	Pesaran (2015) CD test for weak cross-sectional dependence

	CD	P-Value	CD	P-Value	CD	P-Value	CD	P-Value
UNMP	7.33	0.00	13.28	0.00	197.51	0.00	7.33	0.00
AI	28.23	0.00	71.44	0.00	807.51	0.00	28.23	0.00
INF	24.3	0.00	54.11	0.00	625.77	0.00	24.3	0.00
GDP_PC	28.77	0.00	73.83	0.00	832.63	0.00	28.77	0.00
LPRDTY	7.65	0.00	6.84	0.00	129.99	0.00	7.65	0.00

The results of the cross-sectional independence tests indicate the rejection of the null hypothesis of no cross-sectional dependence at a 1% significance level in all four tests applied. Since the presence of cross-sectional dependence means that any shocks in one country of the study sample can be easily transmitted to other countries, panel data techniques that account for cross-sectional dependence should be used.

### 5. Homogeneity Test:

Another important issue in panel data analysis is testing whether regression coefficients are homogeneous. In the homogeneity test, the null hypothesis assumes that all coefficients are equal, while the alternative hypothesis states that at least one coefficient differs from the others. The Wald test is suitable for both small and large T (Mutascu, 2016). Similarly, Swamy developed a new homogeneity test in 1970 after relaxing the homogeneity assumption (Swamy, 1970) However, this test requires N to be relatively small compared to the time dimension T.

Subsequently, Pesaran and Yamagata developed a homogeneity test for large panel data in 2008 (Hashem Pesaran & Yamagata, 2008). The test statistic can be defined as follows:

$$\tilde{\Delta} = \sqrt{N} \left( \frac{N^{-1}\tilde{S} - k}{\sqrt{2k}} \right)$$

The small sample properties of the  $\tilde{\Delta}$  test can be improved under normally distributed errors using the following bias-adjusted version:

$$\tilde{\Delta}_{adj} = \sqrt{N} \left( \frac{N^{-1}\tilde{S} - E(\tilde{z}_{it})}{\sqrt{var(\tilde{z}_{it})}} \right)$$

Table 6: Homogeneity Test Results

Tests	Delta	P-Value
$\tilde{\Delta}$	6.413	0.00

$\tilde{\Delta}$ adj	7.753	0.00
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The table above presents the results of the homogeneity test. According to the results of the two tests, the null hypothesis of homogeneous regression is rejected at a 1% significance level. Therefore, panel data techniques that account for both cross-sectional dependence and heterogeneity should be used.

## 6. Estimation Using the Two-Step Generalized Method of Moments (GMM)

Several econometric methods have been proposed to estimate dynamic panel data models. Dynamic panel data models allow for the homogeneity of explanatory variables and account for unobserved individual effects (Gao et al., 2022). To address the issue of endogeneity with explanatory variables, (Arellano & Bond, 1991) first proposed the difference GMM method. This approach uses instrumental variables to derive GMM for the corresponding moment conditions. The fundamental principle is to take the first difference of the regression equation to remove fixed individual effects and then use lagged variables as instruments for endogenous variables in the differenced equation. Although this method effectively mitigates endogeneity, it suffers from the "weak instruments" problem in small samples, leading to low accuracy (Bond et al., 2001). To address this issue, (Arellano & Bover, 1995) (Blundell & Bond, 1998) proposed the system GMM estimator, which uses lagged variables as instruments in both the difference and level equations.

$$y_{i,t} = \sum_{j=1}^p a_j y_{i,t-j} + x_{i,t}\beta_1 + w_{i,t}\beta_2 + v_i + \epsilon_{i,t} \quad ; i = 1, \dots, N \quad t = 1, \dots, T$$

where  $y_{i,t}$  : The dependent variable for individual  $i$  at time  $t$

$\sum_{j=1}^p a_j y_{i,t-j}$  : The sum of the lagged dependent variables.

$x_{i,t}\beta_1$  : The explanatory variables that vary over time and individuals.

$w_{i,t}\beta_2$  : The explanatory variables that may be specific to individuals but constant over time.

$v_i$  : The unobserved individual-specific effect. This captures time-invariant characteristics of each individual that are not included in the explanatory variables.

$\epsilon_{i,t}$  : The idiosyncratic error term for individual  $i$  at time  $t$ . This represents the random error component that varies over individuals and time.

This method includes a system of two equations: one for the differences with lagged levels and another for the levels with lagged differences. Besides addressing endogeneity, system GMM can handle omitted variable bias, multicollinearity, unobserved cross-sectional heterogeneity, and measurement errors, which are common issues in pooled OLS and fixed effects regression methods. It can also yield better results than different GMM estimators, which may produce biased and inaccurate estimates (Blundell & Bond, 1998)

Thus, this study relies on the system GMM estimation method to analyze dynamic panel data. Despite the robustness of system GMM results, it's essential to evaluate the consistency of these estimates, determined by the validity of instruments and the absence of second-order serial correlation. Instrumental variables are valid when there is no correlation between the error term and the instruments, tested using (Sargan, 1958) and (Hansen, 1982) tests. The second-order serial correlation is tested using Arellano-Bond tests (Teixeira & Queirós, 2016)

There are two variants of the system GMM: one-step and two-step estimation methods, depending on whether the weighting matrix is homoscedastic or heteroscedastic. It's widely accepted that two-step estimators are more efficient because they reduce the bias of standard errors of the estimates with limited samples. However, system GMM can generate numerous instrumental variables as the number of periods increases, potentially leading to overfitting and poor model specification (Roodman, 2009).

Given our analysis involves data from 11 highly advanced technological countries over 19 years, we prefer the results of the two-step GMM system. The dynamic panel data model is designed to address several econometric issues, including endogeneity, omitted variable bias, multicollinearity, unobserved cross-sectional heterogeneity, and measurement errors. The system GMM estimator proposed by (Arellano & Bover, 1995) and (Blundell & Bond, 1998) provides a robust method for estimating such models by using lagged variables as instruments in both the difference and level equations.

Table 7: Two-Step Generalized Method of Moments (GMM) Estimation

Variables	Coefficient	P-Value
<i>UNMP<sub>i,t-1</sub></i>	0.5461	0.04
<i>AI<sub>i,t</sub></i>	0.0796-	0.03
<i>INF<sub>i,t</sub></i>	-0.2068	0.03
<i>GDP_PC<sub>i,t</sub></i>	-0.0002	0.01
<i>LPRDTY<sub>i,t</sub></i>	0.1599-	0.02
cons	10.8482	0.03
Wald test	99.32	0.00
AR (1)	-0.89	0.37
AR (2)	-1.75	0.18
Sargan test	110.06	0.84
Hansen test	6.5	0.98

Pesaran (2015) CD test	7.25	0.13
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The last section of the table displays the diagnostic test results for the dynamic panel data model. All pre and post-diagnostic tests indicate that the model is statistically acceptable and that all included variables are statistically significant at the 5% level. (Sargan, 1958) and (Hansen, 1982) for over-identifying restrictions show p-values ( $p > 0.10$ ), indicating that the instruments are well-specified and valid. (Arellano & Bond, 1991) test for autocorrelation shows p-values for AR(2) errors ( $p > 0.10$ ), suggesting that there is no second-order serial correlation in the residuals. The results of the (M. H. Pesaran, 2015) CD test for cross-sectional independence, suitable for panel data where  $N < T$ , confirm no cross-sectional dependence in the estimated model. Consequently, the estimated model using the two-step system GMM estimator by biased and inaccurate estimates (Blundell & Bond, 1998) is valid.

The results in the final table indicate that the variables included in the model are statistically significant at least at the 5% level. A 1% increase in the unemployment rate from the previous year has a 0.5461% increasing effect on the current year's unemployment rate. On the other hand, a 1% increase in labor productivity corresponds to a 0.1599% decrease in unemployment. Conversely, a 1% increase in inflation and economic growth reduces unemployment by 0.2068% and 0.0002%, respectively.

Overall, the results consider the process of unemployment along with previous year's unemployment and suggest that the adjustment process for unemployment remains rigid, with current unemployment positively correlated with the previous year's unemployment. Labor productivity increases the unemployment rate, whereas inflation and economic growth reduce unemployment in the 11 sample countries. Therefore, both the (Phillips, 1958) Curve and (Okun, 1963) hold true for the sample countries.

The key findings concerning the primary variable of the study indicate a negative relationship between artificial intelligence and unemployment. The unemployment rate decreases by 0.0796% with an increase in AI-related search volumes in the 11 countries. Consequently, the study demonstrates the "displacement effect." Thus, new technologies like artificial intelligence do not increase unemployment; on the contrary, they create new job opportunities and reduce unemployment.

### Conclusion:

This study investigates the impact of artificial intelligence on unemployment in 11 OECD countries from 2004 to 2022 using dynamic panel data estimation. The dynamic panel data model incorporates explanatory variables such as inflation, economic growth, and labor productivity, along with the primary explanatory variable, the Global Trends Index (GTI) related to AI. The relationship between AI and unemployment was assessed using the two-step system GMM estimator by (Blundell & Bond, 1998), which provides robust results when accounting for the lag of the dependent variable in the dynamic panel data model. All diagnostic tests confirm the

econometric model's validity, with all included variables being statistically significant at the 5% level.

The negative impact of inflation on unemployment aligns with the (Phillips, 1958) Curve, while the inverse relationship between economic growth and unemployment is consistent with (Okun, 1963) Law in the sample countries. Additionally, labor productivity is negatively associated with unemployment. The most significant finding of this study is the negative relationship between AI and unemployment, validating the "displacement effect" of AI. Thus, AI enhances efficiency across various sectors by automating routine tasks, optimizing logistics, improving decision-making processes, and boosting productivity. High productivity can drive economic growth, leading to job creation. As companies become more efficient and profitable, they may expand and hire more employees. Moreover, new job categories, such as data scientists, AI specialists, and machine learning engineers, emerge, potentially offsetting job losses in more traditional fields.

The increasing demand for AI-related skills suggests that workers acquiring these skills may find new employment opportunities, thereby reducing overall unemployment rates. AI is a significant driver of innovation and a critical component of economic growth. Economies that effectively adopt AI may experience faster growth, leading to more job creation. AI also fosters the development of new industries and diversification of economies, generating employment opportunities in emerging sectors.

The long-term effects of AI on employment might differ from the short-term impacts. While AI may displace some jobs in the short term, it tends to create more jobs in the long term as economies adapt and new sectors emerge.

In conclusion, AI presents a multifaceted impact on the labor market, necessitating proactive policies to harness its potential for job creation and economic growth. By investing in AI technologies and equipping the workforce with the necessary skills, countries can navigate the transition towards an AI-integrated economy, ensuring that the benefits of technological advancements are widely distributed.

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