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Structural Imbalance and Distribution Crisis: Systemic Poverty under the Illusion of AE Economic Growth

Baojie Yu *

School of Politics and Public Administration, Qingdao University, China

*Corresponding author

Abstract: Behind the massive economic scale of A-E lies a severe systemic poverty problem. These issues stem from structural imbalances in economic development and unfair wealth distribution, with the core factor being the hollowing-out of industrial structures that has triggered concentrated outbreaks of problems. This paper analyzes the structural imbalances and distribution crises behind the "growth illusion" in A-E's economy, revealing the formation mechanisms and deep-seated contradictions of systemic poverty. The study identifies three major imbalances in A-E's economy: manufacturing hollowing-out and excessive concentration of financial capital, severe imbalance between capital returns and labor compensation, and regional development disparities. The distribution crisis forms a vicious cycle through uneven wealth distribution, employment crises caused by the flight of real industries, and polarization in the labor market, trapping 35 million people in persistent poverty while perpetuating intergenerational transmission and racial spatial lock-in. The nested feedback of structural contradictions and distribution distortions makes economic growth dependent on debt-driven models and reduces its resilience. The research warns that if the "imbalance-differentiation-inefficiency" cycle cannot be broken, A-E may fall into long-term stagnation and social fragmentation.

Key words: Structural imbalances; distributional crises; false prosperity; systemic poverty

1. Introduction

1. The economic connotation of structural imbalance and its performance in AE

Structural imbalances in economics refer to long-term economic issues arising from imbalances in resource allocation, industrial structure, and income distribution within an economy. These imbalances may manifest as uneven economic growth, declining industrial competitiveness, unfair income distribution, and imbalanced international trade. As a major player in the global economy, the European Union (EU) faces particularly prominent structural imbalance challenges.

(1) The economic definition of structural imbalance

Structural imbalance in economics refers to a situation where a nation's economic or industrial structure fails to adapt to changes in global market demands or shifts in the world market structure, resulting in imbalances in international payments. These imbalances typically manifest as trade account or current account deficits, characterized by factors such as a homogeneous industrial composition, low income elasticity of product export demand, and low price elasticity of import demand.

As a leading figure of New Keynesianism, James Tobin introduced the concept of "structural imbalance" in 1972. His analysis primarily focused on structural changes in labor markets and their economic impacts. He argued that economic restructuring caused by technological innovations, sectoral shifts, and regional disparities led to "structural unemployment" — where some regions or industries experienced labor oversupply while others faced shortages. This structural imbalance became the primary driver of stagflation (economic stagnation combined with inflation). Tobin further emphasized

that labor market equilibrium is extremely rare, noting that most of the time, labor markets remain in disequilibrium, characterized by simultaneous unemployment and job vacancies. He stressed that this imbalance creates wage rigidity, making it difficult for wages to decline, which in turn drives up prices and monetary wages, exacerbating inflation. William Petty observed that structural imbalances mainly manifest through shifts in industrial structures and their role in driving economic development. In his 17th-century work *Political Arithmetic*, he proposed that as economies develop, industries typically yield higher returns than agriculture, while commerce surpasses industry. This income disparity prompts labor migration from low-income sectors to high-income ones, thereby boosting economic growth. While reflecting the objective laws of industrial evolution, this factor allocation-induced structural imbalance leads to polarization in labor compensation, widening the income gap. Liu Wei, drawing on China's economic development model, identified structural imbalances as the root cause of economic disparities. These imbalances primarily manifest in the supply side, including insufficient momentum for industrial upgrading and structural imbalances in labor productivity across industries. These issues directly hinder the growth of investment demand and consumer demand. While demand-side challenges exist, the primary contradiction in China's economy lies on the supply side. The structural issues on the supply side are characterized by a comprehensive rise in production factor costs (such as labor expenses, natural resource costs, ecological environmental costs, and technological advancement costs), along with shifts in core competitive advantages.

(2) The Performance of structural imbalance in AE economy

The structural imbalances in the Asian economies primarily stem from industrial restructuring and deindustrialization, with manufacturing outflow and economic imbalance at their core. Since the 1970s, accelerated globalization, rising labor costs, and intensified international competition have driven massive production shifts to low-cost countries. This has led to job losses in domestic manufacturing and a continuous decline in its share of GDP—from 21% in the 1970s to 11% in 2022. Consequently, these economies have become increasingly reliant on service and financial sectors, while manufacturing contraction weakens technological innovation capabilities and exacerbates economic vulnerability. Although Asian governments have implemented measures like the "reindustrialization strategy" to reverse this trend, their effectiveness remains limited. The Trump administration's "counter-cyclical tariff" policy may instead drive up production costs, intensifying the vicious cycle of industrial hollowing and financial bubbles. Meanwhile, dollar hegemony and capital's profit-seeking nature further accelerate manufacturing relocation.

Secondly, skill mismatch in the A-E labor market has led to a significant increase in unemployment rates. Skill mismatch refers to the mismatch between job seekers 'skills and employers' requirements, which contributes to structural unemployment. Research indicates that skill mismatch is one of the primary reasons for persistently high unemployment rates. For instance, during the 2006-2009 economic recession, skill mismatch accounted for about one-third of the rise in unemployment rates. Moreover, skill mismatch exacerbates employment disparities among different educational groups, with highly educated individuals often facing higher unemployment risks. Skill mismatch not only

affects unemployment rates but also intensifies wage inequality. It leads to wage increases for high-skilled workers and decreases for low-skilled workers. This trend further widens income gaps between people with different educational backgrounds and negatively impacts social equity.

The infrastructure investment gap and irrational public debt structure in the United States (USA) have further exacerbated structural imbalances in its economy. The long-term underinvestment in infrastructure has created a massive funding shortfall. According to assessments by the American Society of Civil Engineers (ASCE), the infrastructure funding gap is projected to reach $1.44 trillion between 2016 and 2025, potentially expanding to $5.6 trillion by 2039. Key sectors like transportation, power, water supply, and wastewater treatment all face significant funding gaps (see Table 1.1). Moreover, the enormous and growing public debt in the USA has compounded difficulties in infrastructure investment. As of 2024, federal government debt had approached $36 trillion, hitting a historic high as a percentage of GDP. The widening federal budget deficit and rising interest rates have constrained the government's ability to issue more bonds, further limiting infrastructure financing capacity. The lack of infrastructure investment is also closely tied to increasingly intense partisan struggles in the US. For instance, both the Trump and Biden administrations proposed large-scale infrastructure plans, but their implementation proved limited due to partisan divisions and bureaucratic rigidity. Additionally, cumbersome approval processes for infrastructure projects hinder investment efficiency. Overall, there exists a complex interplay between the infrastructure investment gap and public debt structure in the USA. On one hand, the heavy debt burden and funding gap restrict infrastructure investment capabilities; on the other hand, political factors and bureaucratic bottlenecks exacerbate this issue.

Table 1.1 Statistics of funding gap in some areas of infrastructure construction (2016-2025)

Infrastructure	Total demand (billion US$)	Available funds (billion of United States dollars)	Funding gap ($1 billion)	Gap Percentage	data sources,
Ground transportation (roads, bridges)	2,834	1,619	1,215	43%	ASCE 2021
Drinking/wastewater treatment	1,045	611	434	42%	ASCE 2021
school establishment,	870	490	380	44%	ASCE 2021
electric power system,	637	440	197	31%	ASCE 2021
airport	237	126	111	47%	ASCE 2021

dike	93.6	12.5	81	87%	ASCE 2021
dyke-dam	80	10.1	70	88%	ASCE 2021
Public Parks/leisure facilities	77.5	9.5	68	88%	ASCE 2021
inland waterways	42	17	25	60%	ASCE 2021
Hazardous waste disposal	21	14.4	7	31%	ASCE 2021
grand total	5,937	3,350	2,588	44%	ASCE 2021

Source: ASCE 2021 Report

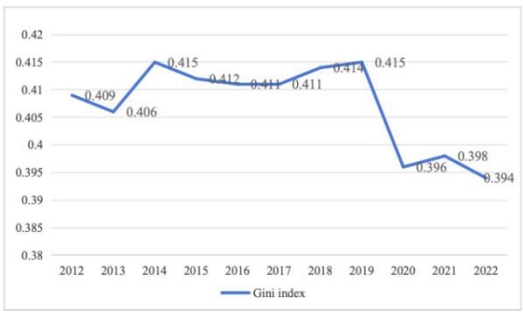
2. The specific embodiment of the distribution crisis in AE macroeconomy

An allocation crisis refers to social instability, economic recession, or political unrest caused by unfair distribution of income or resources. This crisis typically manifests as widening wealth gaps, intensified social stratification, and systemic risks arising from these imbalances. For instance, unequal income distribution may lead to insufficient effective demand, which could trigger an economic crisis. Key indicators for measuring wealth distribution include the Gini coefficient, Engel's Coefficient, Social Stability Index, and crisis metrics like the Distress Index (DI). The core of an allocation crisis lies in the inequity of income or resource distribution and its socioeconomic consequences. While the Gini coefficient serves as a primary indicator, supplementary perspectives can be gained through other measures such as the Engel's Coefficient and financial asset-liability ratios. In macroeconomic contexts, allocation issues in AE can also be analyzed through these dimensions.

(1) The persistently high Gini coefficient reveals the imbalance of income distribution

As a core indicator of income distribution, the AE Gini coefficient has consistently exceeded international warning thresholds (see Figure 2.1). Data shows that the coefficient rose from 0.353 in 1974 to 0.415 in 2019 and further climbed to 0.49 in 2021, far surpassing the OECD average of 0.35. Although this trend saw a slight dip after 2020 (reaching 0.394 in 2022), it remains within the severe inequality range (0.4 as the warning threshold). Notably, discrepancies between statistical agencies reflect complexities in data collection. For instance, the U.S. Census Bureau reported a 2018 Gini coefficient of 0.485, while the World Bank recorded 0.394 in 2022 – differences stemming from variations in statistical frameworks (including whether capital gains and tax adjustments are included).

Figure 2.1 A E Gini coefficient from 2012 to 2022

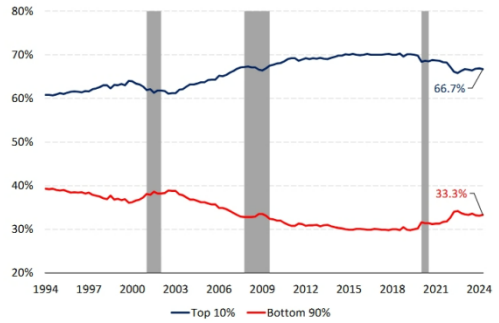


Source: World Bank

(2) The concentration of wealth shows extreme characteristics

The high Gini coefficient also leads to the excessive concentration of social wealth in AE (see Figure 2.2).

Figure 2.2A E Wealth distribution ratio statistics (share of total net worth)



Note: Data from the Federal Reserve Bank of Louisville. Gray bars indicate recessions

According to data from the Federal Reserve and Census Bureau, the top 1% of households hold 30.8%-34.9% of national wealth (2022-2024), while the bottom 50% own merely 2.5%-2.6%. The top 10% account for over 70% of wealth. Excluding primary housing assets, this elite group even controls 43% of non-residential wealth nationwide. Moreover, the wealth structure of American households shows extreme polarization: the top 10% own 94% of stocks and 80% of non-residential real estate, whereas the bottom 50% have over 60% of their assets in property. Additionally, intergenerational wealth disparities are growing more pronounced. Younger generations face greater challenges accumulating wealth due to student loans and soaring housing prices, leading to entrenched wealth transfers between generations.

(3) Structural fracture of consumer market

The structural fragmentation in the AE consumer market stems from significant disparities and imbalances caused by economic, social, and policy factors. The most pronounced manifestation is the divergence between consumption capacity and willingness: high-income groups engage in "enjoyment-oriented consumption," while low-income groups are trapped in "painful consumption" – forced to allocate most income to basic necessities like housing, healthcare, and education, creating a vicious cycle of "work → mortgage → consumption." Furthermore, the polarization trend in AE market consumption structure intensifies. On one hand, the proportion of goods consumption declines while service consumption rises, reflecting a shift from traditional commodity spending to service-oriented consumption. On the other hand, under high-interest-rate conditions, interest-sensitive industries (e.g., automobiles, furniture) see weakening demand, whereas daily necessities and retail consumption remain relatively stable. Simultaneously, the AE market faces challenges from high inflation, debt pressures, and deteriorating economic prospects. Consumer behavior shifts from "impulse buying" to "defensive savings," leading to increased credit card delinquency rates and heightened risks in credit markets. Additionally, income inequality further exacerbates consumption disparity, with high-income groups dominating spending while low-income groups' purchasing power is severely compressed, intensifying structural market imbalance.

(4) The social reproduction mechanism is blocked

The imbalance in wealth distribution also threatens the sustainability of AE's economy, hindering social reproduction mechanisms. First is the degradation of human capital. In education, the quality of basic education in AE has further declined, with students consistently ranking lower than East Asian and Nordic countries in mathematics and science scores on the Programme for International Student Assessment (PISA), leading to reliance on immigration or outsourcing for technical positions. Data from 2024 shows only 43% of

workers meet intermediate skill requirements, yet intermediate-skilled jobs account for 50% of the labor market. Educational costs and equity issues remain another chronic problem in AE's education system. Over the past three decades, university tuition fees have surged by over 200%, exacerbating debt burdens for low-income families and limiting human capital accumulation. Although 59.2% of STEM workers held bachelor's degrees in 2021, significant racial and income disparities exist, with under 20% being non-Hispanic and Hispanic STEM professionals. Additionally, manufacturing hollowing out and skill mismatches pose major challenges. Since the 1980s, AE's manufacturing sector has lost 40% of its jobs to automation and overseas production, driving up unemployment rates among low-skilled workers. Meanwhile, high-skilled positions face both growing demand and supply shortages — such as an estimated 850,000 IT expert vacancies by 2030. The degradation of human capital directly weakens AE's innovation capacity. Middle-income households' wealth share has dropped from 36.6% (1989) to 25.7% (2023), with shrinking middle classes undermining market innovation drivers. Moreover, the STEM field in AE is highly dependent on foreign talents. 37% of the doctoral workforce holds temporary visas, and foreign talents account for 71% in fields such as machine learning. However, the Trump administration tightened H-1B visas during the first term of office and the Biden administration relaxed the policy repeatedly, resulting in increased uncertainty in talent flow.

3. historical correlation analysis of structural imbalance and distribution crisis

The historical correlation study of economic structural imbalance and distribution crisis in AE shows that there is a close causal relationship between the two. From the historical data, the outbreak of economic crisis in AE is often closely related to income distribution inequality and structural imbalance.

(1) Uneven income distribution leads to economic crisis

Historically, many economic crises in the European and American economies can be traced to severe imbalances in income distribution (see Figure 3.1). For instance, before the 1929 Great Depression, widening wealth gaps led to insufficient consumer demand, which ultimately triggered an economic crisis. Similarly, prior to the 2008 subprime mortgage crisis, uneven income and wealth distribution exacerbated financial market instability. Low-income groups relied on credit expansion for consumption, while high-income individuals excessively invested in real estate and financial assets, ultimately causing the crisis.

(2) The interaction between structural imbalance and distribution crisis

Structural imbalances manifest in multiple dimensions: the disconnect between the real and financial sectors, industrial hollowing out, and widening income disparities. These imbalances not only suppress economic growth potential but also exacerbate distribution crises. For instance, while the real economy serves as the primary engine of employment, its decline reduces job opportunities, whereas financial sector expansion concentrates wealth in a select few. This severe imbalance between the real and virtual economies ultimately leads to systemic wealth distribution inequities. Moreover, the Austrian School's long-standing reliance on consumption-driven growth has been compounded by outdated manufacturing capabilities and export-oriented industries, further aggravating structural challenges.

(2) The impact mechanism of industrial hollowing out on income distribution

Industrial hollowing out typically results in manufacturing job losses, directly impacting the income levels of blue-collar workers and middle-class populations. For instance, the decline in manufacturing jobs in AE has led to reduced earnings for blue-collar workers and exacerbated their living difficulties. Simultaneously, this industrial hollowing has compressed the middle class's survival space, further widening wealth disparities. Another negative consequence is the concentration of asset-based income, where financial institutions and high-income groups benefit while workers' wages and benefits are cut. This phenomenon is particularly evident in developed countries, such as AE, where the extreme imbalance in financial asset distribution has intensified social polarization. Moreover, industrial hollowing causes capital and resources to drain from real economy sectors (like manufacturing) while overstimulating virtual economy sectors (such as finance and real estate). Such structural imbalances not only weaken the development potential of the real economy but also widen income gaps. In short, industrial hollowing profoundly affects income distribution through multiple channels: reducing manufacturing jobs, exacerbating income inequality, and weakening the competitiveness of the real economy.

(3) The dual role of globalization and technological change in structural imbalance and income distribution

Globalization and technological progress have jointly led to the polarization of the AE labor market. Globalization has caused massive outflows of low-skilled jobs in manufacturing to emerging economies with lower wages, such as China, India, and Mexico, directly resulting in unemployment among blue-collar workers in AE. Meanwhile, technological advancements have dramatically increased demand for high-skilled labor, significantly raising incomes of the "knowledge worker class" and further widening income disparities. Additionally, technological progress has reduced demand for low-and medium-skilled workers while increasing demand for highly skilled professionals, leading to wage differentiation. Furthermore, globalization has prompted AE enterprises to relocate production to low-cost countries, further shrinking job opportunities for low-skilled positions. From an industrial structure perspective, globalization and technological progress have driven the AE economy's transition from labor-intensive to capital-and technology-intensive models. Although emerging sectors like information technology and high-end services have created new employment opportunities, these positions require higher skill levels, while traditional manufacturing and low-end service industries have seen substantial job losses. This structural shift leaves some workers unable to adapt to market demands, exacerbating structural unemployment. IV. Systemic Poverty Under the False Prosperity of AE Economy While the manifestations of structural imbalances in the AE economy are multifaceted, the core lies in the long-term outflow of real industries. Thus, the AE economy appears prosperous on the surface but lacks real economic support, relying instead on financial market bubbles, debt expansion, and excessive consumption to sustain growth. This prosperity often masks deep structural problems, such as the widening gap between the rich and the poor, the intensifying contradiction between production and consumption, and the instability of financial markets. This also determines that most of the wealth created by the A E economy is occupied by the elite class, and the negative impact of economic imbalance is increasingly eroding the lives of ordinary people, leading to the increasingly severe phenomenon of systemic poverty among the AE people.

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