Episode Book

EPISODE #5552

Why Ireland and Israel Feel Poorer Than Their GDP Says

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SYNOPSIS

Ireland sits second in the world by nominal GDP per capita, yet its household disposable income ranks 19th in the OECD. Israel's output sits below the OECD average while its price level ranks among the five highest. Two countries, both transformed from agricultural economies into high-tech ones, both leaving their citizens feeling poorer than the statistics claim. This episode digs into the actual mechanisms — Apple's 2015 onshoring of roughly $300 billion in intellectual property, Ireland's invention of GNI* to strip out the phantom profits, Israel's dual economy of high-tech exports and low-productivity traditional sectors, and the housing wealth that makes Israelis asset-rich but cash-poor. Along the way: why the profits booked in Dublin get spent in California, what "leprechaun economics" actually measures, and why the honest number may not exist at all.

TRANSCRIPT



Corn

Okay, I'll be honest, my first reaction reading this one was just... Ireland, wealthy? I've been to Ireland. It rains sideways.



Herman

It does rain sideways. That's not a wealth metric, that's a climate report.



Corn

Daniel grew up in Cork, moved here at twenty-five, and he's noticed something that doesn't sit right. He spent his formative years in a country he never experienced as particularly rich, just... normal, the level of development he was used to. And then people start asking him, is Ireland a rich country, and he looks at the GDP per capita tables and Ireland is near the top of the world. So he wants to know what the data actually says about Ireland's ranking. He points out both Ireland and Israel went through this rapid transition from agricultural economies to highly developed ones, but the way wealth divided and spread inside those two societies left them with different economic characteristics. He's noticed the Israeli version of the puzzle too: high cost of living, wealth concentrated visibly in tech, and a middle class that by reputation is less prosperous than its peers. His own read, growing up in Ireland versus living here, is that people in Israel have less disposable income overall, even where the wealth is more ostentatious and visible. So: what does the data actually say, and how did these two countries end up in such different places?



Herman

So let's start with the headline numbers, because they're strange.



Corn

Strange how?



Herman

Ireland is second in the world by nominal GDP per capita. A hundred and eight thousand nine hundred and nineteen dollars for 2025, IMF figures. Behind only Luxembourg. On a purchasing power basis, World Economics puts it third globally at a hundred and thirty-six thousand. That's the country Daniel grew up in, and he's right that it never felt like that.



Corn

And it never felt like that because it wasn't like that. Not in the way the number claims.



Herman

Here's the second case. Israel's GDP per capita on a purchasing power basis is fifty-three thousand nine hundred, below the OECD average of fifty-nine thousand. And yet Israel's price level is among the five highest in the OECD. So Israelis feel poorer than their GDP suggests, but for a completely different reason than the Irish do.



Corn

Which is the whole episode, isn't it. GDP per capita is supposed to measure output per person. It clearly doesn't measure how wealthy a country feels to live in. And these two countries are a beautiful natural experiment in why.



Herman

Two different mechanisms, same lived experience. In Ireland the number is inflated by profits that don't belong to the Irish. In Israel the number is roughly honest but the prices eat it alive. Daniel's asking the right question, and the answer is that the statistic is doing something different in each place.



Corn

So walk me through Ireland first. Because I want the actual mechanism, not the vibe.



Herman

July 2016. Ireland's Central Statistics Office announces 2015 GDP growth of twenty-six point three percent. Later revised up to thirty-four point four percent. One year.



Corn

Thirty-four percent. In one year. That's not growth, that's a typo.



Herman

Paul Krugman called it leprechaun economics on the twelfth of July 2016, and the name stuck, because that's what it was. Apple restructured its Irish subsidiary and on-shored something on the order of three hundred billion dollars of intellectual property. The assets moved onto Irish books. Nothing was built, nobody was hired, no factory opened. The GDP number just... inflated.



Corn

So the country didn't produce anything more. The accounting changed.



Herman

And to Ireland's credit, they were the first country to admit it and abandon GDP as a credible measure. February 2017, they create Modified Gross National Income, GNI star, chaired by Philip Lane, who was Central Bank governor at the time. It strips out depreciation on intellectual property, depreciation on leased aircraft, and the net factor income of redomiciled PLCs.



Corn

Translate that.



Herman

It takes out the stuff that's on the books but isn't really the Irish economy. And even after stripping all that, by 2018 GDP was still a hundred and sixty-two percent of GNI star. In the EU as a whole, GDP and GNI are basically the same number. In Ireland, GDP is more



Herman (continued)

than half again as large as the honest measure.



Corn

That's a country whose official size is a fiction to the tune of sixty percent.



Herman

Patrick Honohan, the former Central Bank governor, said in July 2016 that the distortions had become so large as to, quote, make a mockery of conventional uses of Irish GDP. That's the central banker of the country saying don't use our own headline number.



Corn

What does it do to the per-person figure, though? Because that's what Daniel's asking about.



Herman

This is the part that lands. The OECD looked at it in 2016, using 2014 data. Ireland's GDP per capita was twenty-four percent above the OECD average. Household disposable income per capita was twenty-two percent below it. Same country, same year. Fourth in the OECD on GDP, nineteenth on household disposable income.



Corn

Fourth to nineteenth. That's not a rounding error. That's two different countries wearing one passport.



Herman

And the United States does the opposite. Third on GDP, first on household disposable income, because American multinationals bring the profits home. Ireland hosts them, America collects them.



Corn

So the profits are booked in Dublin and spent in California.



Herman

Roughly. The IMF estimated in June 2018 that about forty percent of global foreign direct investment, twelve trillion dollars, is what they call phantom. Ireland is one of eight pass-through economies hosting eighty-five percent of special-purpose-entity investment. Gabriel Zucman argued in June 2018 that Ireland's tax tools had made it the world's largest tax haven.



Corn

And this is the country Daniel grew up in. He's not misremembering. The wealth was never there in the way the number says.



Herman

Here's where it gets hard, though. GNI star is itself contested. Eurostat and plenty of economists point out it's still distorted by the same base-erosion tools, especially contract manufacturing. So there may be no clean measure of the true Irish economy at all. The honest number might not exist.



Corn

You can't audit a country that's decided to be an accounting construct.



Herman

That's roughly the position.



Corn

Okay, but Daniel asked how Ireland got here. Not just how the number got weird.



Herman

The transformation is real, it's just not organic. Agricultural economy, then manufacturing from the sixties, then knowledge-intensive services, and by the nineties it's Europe's Silicon Valley. The Celtic Tiger runs from the mid-nineties to 2008. Fueled by foreign direct investment, EU membership, the Social Partnership agreements, and a very low corporate tax rate.



Corn

There's a line from the Irish development agency in the eighties I love. Their ad said missing the Industrial Revolution was the best thing that ever happened to Ireland.



Herman

Because they skipped straight to the next thing. No legacy heavy industry to protect, no incumbents to fight. They could just build for the new economy.



Corn

That's either visionary or lucky, and I suspect it's mostly the second one dressed up as the first.



Herman

Possibly both. But the boom ends in the 2007 property bubble and the 2008 crash. Irish household debt to income hit a hundred and ninety percent. The most leveraged households in the OECD. And when the banks failed, that private debt moved onto the public balance sheet through the bailouts.



Corn

So the country that booked everyone else's profits also borrowed everyone else's money and lent it into houses.



Herman

And then the taxpayers wore it.



Corn

Right. So that's the Irish side. GDP inflated by foreign profits that leave the country. But Israel's story is different. Our GDP is below the OECD average, and our prices are among the highest. Let's dig into that.



Herman

Israel's GDP per capita on purchasing power is fifty-three thousand nine hundred, against an OECD average of fifty-nine thousand. So below average on output. But the comparative price level is among the five highest in the OECD, and the OECD's own 2025 survey says it's higher than the GDP per capita would predict.



Corn

Which is the anomaly. Normally rich countries have high prices. We have middling output and Swiss prices.



Herman

Median disposable household income here is twenty-six thousand two hundred, purchasing power adjusted, against an OECD median of thirty thousand. Average earnings thirty-nine thousand three hundred a year against an OECD average of forty-nine thousand one hundred.



Corn

So we earn less than the average rich country and pay more for everything.



Herman

And yet. Average household net wealth in Israel is above the OECD average of three hundred and twenty-four thousand.



Corn

Hold on.



Herman

I know.



Corn

Below-average income, above-average wealth.



Herman

That's the income-versus-wealth divergence, and it's the key to Daniel's observation. The wealth is real, but it's locked in housing and real estate. It doesn't flow as spendable income. You can be asset-rich on paper and still feel the squeeze at the supermarket, because the asset isn't cash.



Corn

Your apartment is worth a fortune and you can't eat it.



Herman

Housing alone is over a third of consumption expenditure here. The overall price level is the second highest in the OECD, after Switzerland.



Corn

Second. After the country famous for charging twenty francs for a coffee.



Herman

And this is where the OECD's framing of Israel matters. They describe the economy as dual. A highly productive high-tech sector alongside low-productivity traditional sectors that employ most of the workforce. High-tech products were fifty-three percent of total exports in 2023.



Corn

So the export economy is basically a tech company with a country attached.



Herman

And that's exactly what Daniel's seeing. The visible, ostentatious wealth is concentrated in tech. Most workers are in the traditional sectors, lower productivity, lower wages, and they're paying those high prices. The middle class here is fifty-four percent of the population against an OECD average of sixty-two. Among the smallest. Only the US, Chile and Mexico had smaller middle-income groups in 2021.



Corn

So the middle is thinner. Fewer people in the comfortable band, more people either visibly rich or quietly stretched.



Herman

That's the shape of it. But here's the counter-narrative, and it's important because it cuts against the easy story. Israeli median equivalised disposable household income grew about forty-five percent between 2001 and 2021. That's one point eight percent a year. France grew ten percent over the same period. Germany twenty. The US thirty-five.



Corn

We outpaced all of them.



Herman

And income inequality narrowed. Unlike most advanced economies over that stretch.



Corn

That's surprising. The reputation is the opposite.



Herman

The gains are unevenly distributed, though, and this is where it gets uncomfortable. Only thirty-seven percent of Arab Israelis and thirty-three percent of Haredim reach the middle-income group, against sixty-three percent of non-Haredi Jews.



Corn

So the aggregate story is improvement and narrowing, and the disaggregated story is whole communities outside the door.



Herman

Both true at once.



Corn

Which is the honest version of the inequality question. Not "is Israel unequal" but "who's in and who's out."



Herman

And it connects back to the dual economy. The high-tech sector pulls a slice of the population into very high productivity. The rest of the economy is a different country with the same postcode.



Corn

So both countries had the rapid agricultural-to-high-tech transition Daniel describes. But the mechanisms producing the "the numbers don't match reality" feeling are completely different. Ireland's GDP is inflated by profits that leave. Ours is roughly honest but the prices eat it.



Herman

Two distinct failures of the same statistic. In Ireland GDP overstates what households have. In Israel GDP understates the cost of living. Same conclusion for the person on the street: the number doesn't describe my life.



Corn

The OECD said the quiet part out loud back in 2016. High levels of GDP per capita do not necessarily mean high levels of household disposable income.



Herman

That's the whole episode in one sentence from the people who compile the numbers.



Corn

If I'm Daniel, and I grew up in Cork never feeling rich, and I now live somewhere the salary is below average and the groceries are above average, I'm not confused. I'm reading two different statistics correctly.



Herman

You're reading the right number. The GDP number is the wrong one.



Corn

There's a question about the Celtic Tiger that I want to press on, though. Because the story we've told is FDI, low tax, EU membership. But that feels incomplete.



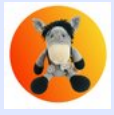
Herman

It is incomplete.



Corn

What's missing?



Herman

Credit. Irish banks borrowing cheaply on international markets and lending recklessly into property. That's the part that made the boom feel like a boom for ordinary people. The FDI was real but it was concentrated. The credit was what let everyone participate.



Corn

The wealth people felt wasn't wages. It was leverage.



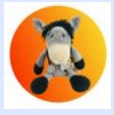
Herman

Leverage feels exactly like wealth until it doesn't.



Corn

Which is a story that has never once gone wrong in the history of finance.



Herman

Never once.



Corn

Okay, I want to bring Hilbert in here. He's had a look on his face this whole time.



Hilbert

I worked at a fund in Dublin in the early two thousands. Junior analyst. They sent me down to Cork for a conference in 2003, and the keynote speaker stood up and said the boom would never end because we'd cracked the code.



Corn

Cracked the code.



Hilbert

That's what he said. I wrote it in my notebook because it sounded like something you'd want to remember. I've been skeptical of forecasts ever since.



Herman

What did the code turn out to be?



Hilbert

Cheap money and houses, mostly. The FDI was real but it wasn't what was moving the prices. The banks were borrowing on the international markets and lending it into property, and everybody was doing it, so it looked like it was just how things were. The fund I worked for quietly sold out of its Irish property in 2006. I remember because I had to help prepare the paperwork on a Friday and nobody explained why.



Corn

Why did they sell?



Hilbert

They got nervous. That's the whole reason. They looked at the numbers, didn't like them, and wanted to lock in the profit. It wasn't genius. It was nerves.



Herman

The exit wasn't foresight.



Hilbert

It was luck dressed as judgment. I've thought about that a lot. Everybody afterward said the crash was unforeseeable, and it wasn't. Some people saw it. They just didn't know they were seeing it. They thought they were being cautious.



Corn

Did anyone at the conference believe him? The code guy?



Hilbert

Everybody clapped. That's the part I remember. Two hundred people in a room in Cork and everybody clapped, because he'd said the thing they all wanted to be true. I clapped too.



Herman

And then 2008.



Hilbert

The fund was fine. The people in the room mostly weren't. I kept the notebook for years. I don't know where it is now. My brother-in-law has a box of my things from that period and he's never given it back.



Corn

The macro data misses the groupthink.



Hilbert

The macro data is the groupthink, after the fact. It just shows you the number. It doesn't show you the room.



Herman

There's a line from Honohan I keep coming back to, about the numbers making a mockery of conventional uses of GDP. He was talking about the accounting. But he could have been talking about the confidence.



Hilbert

He could have. I liked that job, for what it's worth. I was good at it. You learn to read a balance sheet, you learn to read a room. Not the same skill. Both useful.



Corn

The most common wrong belief about all of this is that GDP per capita tells you how wealthy the people in a country are.



Herman

It tells you how much output happens on that country's territory. In Ireland, a huge share of that output belongs to foreign shareholders who never set foot there. In Israel, the output is mostly real but the prices take a bigger bite than in peer countries. The number measures production. It doesn't measure prosperity.



Corn

Prosperity is what people actually feel.



Herman

It's what they feel at the checkout.



Corn

Where does that leave us? If GDP per capita is this distorted, what do you actually use instead?



Herman

Household disposable income, median rather than mean, purchasing power adjusted. That's the closest thing we have. But even that has problems.



Corn

GNI star is contested, and it's the honest one.



Herman

Eurostat says it's still inflated by contract manufacturing. There may be no clean measure of a modern economy that's been deliberately structured to be hard to measure.



Corn

Two countries with completely different economic structures, and the same lived experience: the numbers don't match reality. That's not a coincidence. It's a feature of how these economies work. GDP per capita measures output, not prosperity.



Herman

As global tax rules tighten, the Irish distortion may shrink. But Israel's version isn't about tax at all. It's about prices and a dual economy, and that doesn't get fixed by a treaty.



Corn

Daniel's original observation was right. The gap between the statistics and the lived experience isn't a bug. It's just what happens when you measure the wrong thing.



Herman

The producer on this one, as always, is Hilbert Flumingtop.



Corn

This has been My Weird Prompts. If you want to send us something, email us at show at my weird prompts dot com.



Herman

We'll be back soon.