

## MY WEIRD PROMPTS

Podcast Transcript

EPISODE #361

# The Dual Economy: Israel's Tech Boom and Social Bust

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## EPISODE SYNOPSIS

In this episode, Herman Poppleberry and Corn explore the dramatic economic transformation of Israel, tracing its journey from a centralized, socialist agrarian society to a global high-tech superpower. They dissect the "dual economy" phenomenon, where a small tech elite thrives while the majority of the population faces stagnant wages and an astronomical cost of living. By comparing Israel's current trajectory to international models like Nordic "flexicurity" and the Dutch "Polder Model," the hosts ask whether it is possible to repair the social contract without stifling the engine of innovation. This deep dive into hyperinflation history, the 1985 stabilization plan, and the modern housing crisis offers a sobering look at the price of rapid progress and the urgent need for long-term structural reform.

## DANIEL'S PROMPT

### Daniel

Following your discussion on Jerusalem's high-rise development and "performative density," I'd like to explore the broader case study of Israel's economic transformation. The country has shifted from a poor, agrarian, socialist backwater into a prosperous, ultra-capitalist, high-tech superpower, but this growth has created a significant economic divide. How and when did this shift occur, and is there a way to restore a more balanced social contract? Additionally, which countries might provide a model for charting a more equitable and cohesive path forward?



# TRANSCRIPT

## Corn

You know, Herman, I was looking out the window this morning at those new towers going up over by the entrance to the city, and I couldn't help but think about our conversation last week. We talked about those vertical safety deposit boxes and the ghost apartments in one of our earlier episodes, but Daniel sent us a follow-up that really pushes the lens back even further. He was reflecting on his own recent housing nightmare, being displaced because of that leak and dealing with the sheer inequality of the Jerusalem rental market, and it got him thinking about the bigger picture.

## Herman

It is a massive picture, Corn. And honestly, it is one of the most dramatic economic transformations of the last century. By the way, for those just joining us, I am Herman Poppleberry. And yes, Daniel's prompt is hitting on something we feel every day living here in Jerusalem. We are essentially living in a case study of what happens when a country undergoes a total personality transplant, economically speaking. We went from being this austere, socialist, agrarian experiment to an ultra-capitalist high-tech superpower in what feels like the blink of an eye.

## Corn

It really does feel like a transplant. And the rejection symptoms are starting to show, right? Daniel's question is basically, how did we get here, and can we fix the social contract without breaking the engine that made us prosperous? It is a tough needle to thread. Most people see the high-tech success and think it is all sunshine, but as Daniel pointed out, it has created this massive economic divide. So, Herman, let's start with the when. Because Israel wasn't always the land of venture capital and unicorns.

## Herman

Not even close. If you look back at the first thirty years of the state, from nineteen forty-eight through the late seventies, Israel was essentially a centralized, labor-led economy. We had the Histadrut, which was this massive labor federation that wasn't just a union, it actually owned many of the country's biggest industries. It was a weird, hybrid system. You had the kibbutz movement, which was the ideological heart of the country, focused on agriculture and collective living. The state controlled everything from the price of bread to who got a telephone line. It was poor, it was egalitarian, and it was deeply bureaucratic.

## Corn

I remember reading that back then, if you wanted a phone, you might wait years for the government to install one. It is wild to think about that now, in a country that basically lives on its smartphones. But there was a breaking point, right? That socialist model didn't just fade away; it crashed.

## Herman

It crashed hard in the early nineteen eighties. We are talking about hyperinflation that reached four hundred forty-five percent in nineteen eighty-four. Imagine going to the grocery store in the morning and the price of milk has changed by the time you leave in the afternoon. People were literally rushing to the bank to dump their shekels for dollars the second they got paid. It was unsustainable. That led to the nineteen eighty-five Economic Stabilization Plan. That is the moment, Corn. That is the pivot point where the old Israel started to die and the new one was born.

## Corn

Nineteen eighty-five. That was a bipartisan effort, right? Shimon Peres and Yitzhak Modai. They basically forced the country into a cold-turkey transition. They slashed government spending, froze wages and prices, and started the process of privatization.

## Herman

Exactly. It was brutal, but it worked to stop the inflation. But more importantly, it changed the DNA of the economy. It moved the power away from the labor unions and the government and toward the private sector. And then, the nineties happened. That was the perfect storm. You had the end of the Cold War and the massive wave of immigration from the former Soviet Union. We got over a million new citizens, many of whom were highly educated scientists, engineers, and doctors.

## Corn

Right, and we also had the Yozma program in the early nineties. The government basically said, if foreign venture capitalists invest in Israeli startups, the government will match that investment. It was a masterclass in using state funds to jumpstart a private market.

### Herman

It was genius, honestly. It de-risked the investment for outsiders. And because we had all that human capital from the Soviet Aliyah, and the technological spillover from the military's elite units like eight two hundred, the tech sector just exploded. But here is where Daniel's point about the divide comes in. That growth was incredibly lopsided. We created what economists call a dual economy.

### Corn

A dual economy. I like that term, though the reality is pretty grim. It is like we have two different countries occupying the same space. You have the high-tech elite, maybe fourteen percent of the workforce, who are earning global-level salaries and generating over fifty percent of the country's exports. And then you have the other eighty-six percent who are working in the traditional economy, services, retail, public sector, where wages have basically stagnated while the cost of living has skyrocketed.

### Herman

And when we say skyrocketed, we mean it. Even in early twenty twenty-six, Israel remains one of the most expensive countries in the world. Tel Aviv is consistently ranked at the top of the list for cost of living. Jerusalem isn't far behind. And because that fourteen percent of tech workers has so much purchasing power, they drive up the prices for everyone else. It is that sugar high we talked about with the luxury towers. The developers build for the people with the high-tech salaries or the foreign investors, and the average teacher or social worker gets pushed further and further out.

### Corn

It is a feedback loop. The more successful the tech sector is, the more expensive the country becomes, which makes it even harder for anyone outside of tech to survive. Daniel mentioned the brain drain, and we see it all the time. Our friends moving to Berlin or Portugal or the States because they just can't see a future where they can afford a three-bedroom apartment here. It is heartbreaking because the very people who make a society function, the nurses, the artists, the researchers, are the ones being priced out of their own homes.

### Herman

It is a fundamental threat to the social contract. The original Zionist dream was about collective responsibility. Now, it feels more like every man for himself in a hyper-competitive race. And it is not just about money, it is about the feeling of belonging. When you can't afford to live in the city you grew up in, you start to feel like a guest in your own country.

## Corn

So, let's look at the second part of Daniel's question. Is there a way back to a more balanced social contract? Or maybe the word shouldn't be back, because we probably don't want to return to the days of four hundred percent inflation and waiting three years for a phone line. How do we move forward?

## Herman

Well, the first thing is acknowledging that the current model of extreme neoliberalism has reached its limit. We can't just keep hoping that the wealth from the tech sector will trickle down, because it doesn't. It stays in the bubble. We need to talk about structural changes. For one, we need a massive investment in the traditional economy. We need to raise the productivity of the non-tech sectors. Why is a supermarket in Israel so much less efficient than one in the Netherlands? Why is our public transport still so far behind?

## Corn

That is a great point. If you improve the productivity of the service sector, you can justify higher wages without just fueling inflation. But there is also the tax side of things. Israel has a very high cost of living but actually a relatively low tax burden compared to some of the models Daniel asked about. If we want better public services, better education, better healthcare, someone has to pay for it.

## Herman

And that brings us to the comparative models. Daniel asked which countries provide a better path. The obvious answer that everyone points to is the Nordic model, countries like Denmark, Norway, or Sweden. They are fascinating because they are incredibly competitive, high-tech economies, but they have maintained a very strong social safety net.

## Corn

I've been looking into the Danish model recently. They have this concept called flexicurity. It is a portmanteau of flexibility and security. Basically, it is very easy for a company to fire someone, which gives the economy flexibility, but the state provides massive support for the person who lost their job, including high unemployment benefits and proactive retraining programs. So the worker feels secure, but the economy stays dynamic.

### Herman

I love that. It acknowledges that in a modern economy, you can't guarantee a job for life, but you can guarantee a life for the worker. In Israel, we have the flexibility for the employers, especially in tech, but we don't have the security for the workers. If you lose your job here and you aren't in that top tier, you are in real trouble very quickly.

### Corn

Another interesting model is the Netherlands. They have a very sophisticated way of handling housing and urban planning. They don't just let the market rip. They have a huge percentage of social housing that is actually high quality and integrated into the cities. It prevents that performative density we talked about where you have luxury towers standing empty while people are sleeping in basements.

### Herman

Right. And they have a culture of consensus-building between labor, employers, and the government, what they call the Polder Model. It is the opposite of the winner-take-all mentality we see here. In the Polder Model, everyone accepts a bit less so that the whole system stays stable. It is about long-term thinking over short-term profit.

### Corn

It is interesting you mention long-term thinking. That seems to be the biggest missing piece in the Israeli puzzle right now. Because of the political instability and the constant security threats, everything is managed in three-month or six-month cycles. You can't rebuild a social contract on a six-month timeline. It takes decades of consistent policy.

### Herman

Exactly. And we have to address the sectoral divides too. We talked about the dual economy in terms of tech versus non-tech, but in Israel, that also maps onto cultural and religious divides. You have the Haredi community and the Arab-Israeli community, both of which have much lower participation rates in the high-tech economy for various reasons. If we don't bring those sectors into the fold, the burden on the shrinking middle class just becomes unbearable.

### Corn

It is like that hidden hierarchy we discussed in one of our earlier episodes regarding economic tiers. There are these tiers of citizenship based on your economic utility. If you are a coder, the red carpet is rolled out. If you are anyone else, you are basically fighting for scraps. We need to break that hierarchy.

### Herman

So, practically speaking, what does that look like? I think it starts with education. Not just teaching more kids to code, but raising the floor of education across the board. We have one of the highest gaps in educational outcomes in the developed world. If your kid goes to school in north Tel Aviv, they are getting a world-class education. If they go to school in a peripheral town or a poor neighborhood in Jerusalem, they are starting ten steps behind.

### Corn

And we need to talk about the land. The government owns something like ninety-three percent of the land in Israel, managed by the Israel Land Authority. The housing crisis is, in many ways, an artificial one created by the state's management of land and the slow pace of bureaucracy. If the government wanted to prioritize affordable housing over maximizing land revenue, they could do it tomorrow. But they are addicted to the income from selling land to the highest bidder.

### Herman

It is that sugar high again. They take the quick cash from a land sale to cover a budget deficit, but they ignore the long-term cost of a generation that can't afford to buy a home. It is exactly what Daniel was getting at with the greed of previous generations. People who bought apartments in the seventies for the equivalent of a few years' salary are now sitting on assets worth millions, while their children can't even afford the rent.

### Corn

It is a massive transfer of wealth from the young to the old, and from the poor to the rich. So, if we look at those models like Denmark or the Netherlands, the common thread is a high level of social trust. People are willing to pay high taxes because they trust the government will provide high-quality services and that their neighbors aren't cheating the system.

### Herman

And that is the hardest thing to build, isn't it? Social trust. In Israel, trust in public institutions is at an all-time low. People feel like the system is rigged, so they try to rig it in their own favor just to survive. It is a vicious cycle. To get to a Nordic model, we don't just need different laws; we need a different civic culture.

### Corn

But maybe the crisis itself is the opportunity. We've seen in the last few years, especially with the social protests and the civil society mobilization, that there is a huge hunger for a new social contract. People are tired of the divide. They want a country that works for everyone, not just the people in the skyscrapers.

### Herman

I think you're right. The tech sector itself is starting to realize this. You see more tech leaders getting involved in social causes and education because they realize that a high-tech island in a low-tech sea is eventually going to sink. They need a stable, cohesive society to keep their businesses running. You can't have a world-class artificial intelligence company if the city around you is crumbling.

### Corn

That is a powerful realization. The high-tech sector isn't an alternative to society; it is a part of it. And its success depends on the health of the whole. So, if we were to summarize the takeaways for someone listening to this, what are the steps toward that more equitable path?

### Herman

Number one, we need to shift the focus from growth at all costs to inclusive growth. That means measuring success not just by Gross Domestic Product or the number of exits, but by the Gini coefficient and the affordability of basic needs. Number two, we need a massive, decade-long investment in infrastructure and education in the periphery. We have to bridge the geographic and digital divide.

### Corn

And number three, I would say, is land reform. The state needs to stop acting like a real estate speculator and start acting like a provider of a basic human right. We need long-term rental protections, similar to what they have in Germany or the Netherlands, so people like Daniel don't have their lives turned upside down every time a landlord decides to sell or a pipe bursts.

### Herman

Absolutely. And finally, we need to foster that civic culture of shared responsibility. We have to move past the tribal politics and realize that we are all in the same boat. Whether you are a secular tech worker in Tel Aviv, a Haredi scholar in Bnei Brak, or an Arab teacher in the Galilee, the current economic path is failing you in different ways.

### Corn

It is a tall order, but looking at Israel's history, we are a country that thrives on doing the impossible. We built a superpower out of an agrarian backwater. Now we just have to figure out how to make that superpower a home for everyone who lives here.

### Herman

It is a shift from the survival of the state to the flourishing of the society. We've mastered the survival part. The flourishing part is the next great Zionist project. And honestly, it is the only way to ensure the survival part in the long run.

### Corn

I think that is a perfect place to leave it for today. Daniel, thanks for the prompt. It really forced us to look at our own backyard with a more critical eye. It is easy to get caught up in the excitement of the tech boom, but the human cost is something we can't afford to ignore.

### Herman

Definitely. And for everyone listening, we would love to hear your thoughts on this. Have you seen models in other countries that you think could work here? You can get in touch with us through the contact form at my weird prompts dot com. We actually read those, unlike a lot of the bureaucracy we've been talking about today.

**Corn**

And hey, if you've been enjoying the show, we would really appreciate it if you could leave us a review on Spotify or your favorite podcast app. It genuinely helps other people find the show and join these deep dives. We've been at this for over three hundred episodes now, and the community of curious listeners is what keeps us going.

**Herman**

It really is. We're also on Spotify, so make sure to follow us there to get every new episode as it drops. We've got some fascinating topics lined up for the coming weeks, including a deep dive into the microbiome and how it might be controlling your moods, which connects back to some of the health topics we've explored in previous episodes.

**Corn**

Oh, that is going to be a good one. Herman has been reading a stack of papers on gut bacteria that is taller than he is.

**Herman**

Hey, it is a fascinating world down there! But for now, we'll sign off. This has been My Weird Prompts.

**Corn**

Thanks for listening, and we'll see you in the next one.

**Herman**

Stay curious, everyone.

**Corn**

See you next week, Herman. I'll see you at the coffee machine.

**Herman**

I'm already on my way. Bye everyone!

**Corn**

Bye!