Examining Housing as a Driver of Poverty and Inequality Amid Political Instability: Palestinian Evidence (2012 and 2022)

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Abstract

This research explores the role of housing affordability as a key driver of poverty and inequality in Palestine, specifically amid ongoing political instability and conflict between 2012 and 2022. It addresses how rising housing costs disproportionately burden low-income households, exacerbating poverty and widening economic disparities, particularly under politically unstable conditions marked by Israeli occupation, land confiscation, and settlement expansions. Utilizing data from the Palestinian Expenditure and Consumption Survey (PECS) for 2012, 2017, and 2022, the study applies an advanced version of the Oaxaca–Blinder decomposition method enhanced by the Recentered Influence Function (RIF) regression. This methodology allows detailed analysis of how housing expenditures, demographic characteristics, socio-economic factors, and political instability (measured by the intensity of Israeli settlements) affect inequality and poverty across different income distributions. Findings underscore that persistent political instability significantly distorts housing markets by constraining urban planning, reducing housing availability, and inflating costs, thereby disproportionately affecting vulnerable groups. Consequently, housing affordability emerges as not merely an economic issue but a critical component influencing overall socio-economic stability in Palestine. The study calls for targeted policy interventions, including affordable housing initiatives, improved land-use planning, and international advocacy to protect land rights. It emphasizes integrating housing affordability into broader national strategies aimed at poverty reduction and equitable economic growth. Enhanced data collection on housing costs and affordability benchmarks is also recommended to support evidence-based policymaking and resource allocation.

Keywords: Housing affordability, Poverty, Inequality, Political instability, Palestine

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Background

Rising housing costs have increasingly become recognized as significant drivers of economic inequality globally, disproportionately affecting low-income households. Recent studies demonstrate how increases in housing expenditures place heavier financial burdens on disadvantaged groups, exacerbating poverty and widening economic disparities (Bérard & Trannoy, 2021; Fielding, 2004). For instance, Bérard and Trannoy (2021) found that inequality in housing expenditures surpasses inequality in general consumption expenditure, highlighting the critical role housing costs play in overall economic inequality and poverty dynamics. Similarly, Tunstall et al. (2013) suggest that growing disparities in housing affordability significantly widen socio-economic divides, as low-income households allocate increasingly larger proportions of their limited resources toward housing.

Globally, political instability further compounds these dynamics by directly influencing housing market stability. Political uncertainty often reduces investor confidence, thereby constraining long-term investment, limiting construction activities, and inflating housing prices due to shortages in supply (Fielding, 2004; Cerutti, Dagher & Dell'Ariccia, 2017). Fielding (2004) demonstrates how prolonged instability negatively affects investor decisions, constraining capital flows into the housing sector, which results in escalating prices. Cerutti et al. (2017) corroborate these findings, noting that political uncertainty inflates housing prices and volatility, severely impacting low-income and vulnerable populations.

This relationship becomes particularly pronounced in conflict-prone regions like Palestine, where political instability directly undermines housing security, restricts access to resources, and limits employment opportunities (World Bank, 2015; Badarin, 2020). Persistent political uncertainty, characterized by constrained urban planning and infrastructure development, inflates construction and housing costs and exacerbates housing affordability crises (Abu-Rashed & Alkhatib, 2018; UN-Habitat, 2021). Consequently, these dynamics disproportionately impact low-income and vulnerable groups, intensifying poverty and socio-economic inequality (Justino, 2011; Brueckner & Selod, 2009).

The Palestinian context particularly highlights these challenges. Political instability in Palestine, marked by persistent conflict and restricted economic opportunities, has distorted the housing market, significantly influencing housing affordability and accessibility. The resulting higher

housing expenses burden low-income households, limiting their ability to invest in education, health, or other essential needs, thereby deepening poverty and exacerbating inequality (Badarin, 2020; World Bank, 2018). Despite the significance of these impacts, a clear gap remains in the empirical analysis of how housing expenditures specifically affect poverty and inequality in Palestine, particularly within the context of ongoing political instability.

This research aims to bridge this knowledge gap by analyzing the role of housing spending in explaining economic disparities in Palestine, using nationally representative data from the Palestinian Expenditure and Consumption Survey (PECS) for 2017 and 2022. It seeks to quantify the extent to which increasing housing expenditures drive economic inequality and poverty, set against the backdrop of Palestine's prolonged political instability and associated socio-economic vulnerabilities.

The relationship between political instability and housing affordability in Palestine is further complicated by the ongoing Israeli occupation, particularly through land confiscations and settlement expansions. The systematic seizure of Palestinian lands and subsequent restrictions on construction severely limit housing availability, driving up costs and disproportionately burdening low-income households (Badarin, 2020; UN-Habitat, 2021). Land confiscation not only restricts the space available for residential development but also forces displacement, disrupts local economies, and contributes directly to increased poverty rates and deepening inequalities within Palestinian society (World Bank, 2018; UN-Habitat, 2021). Furthermore, settlement expansion fragments Palestinian territory and disrupts urban planning efforts, exacerbating existing disparities and limiting the effectiveness of housing interventions. Consequently, addressing housing affordability and inequality in Palestine necessitates understanding how these political realities shape market dynamics and economic vulnerability (Abu-Rashed & Alkhatib, 2018; Badarin, 2020; UN-Habitat, 2021).

Research Methodology

To examine how housing expenditures contribute to poverty and inequality in Palestine across time—specifically during 2012, 2017, and 2022—this study employs an extended version of the Oaxaca–Blinder decomposition method (Oaxaca, 1973; Blinder, 1973). Unlike the traditional Oaxaca–Blinder decomposition, which primarily examines differences in means, this study adopts the advanced decomposition method proposed by Canavire-Bacarreza and Rios-Avila (2017). This approach extends the standard Oaxaca–Blinder framework, enabling decomposition analysis beyond the mean and facilitating the exploration of changes across the entire distribution of economic outcomes (such as poverty and inequality measures).

The decomposition method implemented in this study involves two key analytical steps. In the first stage, regression models are estimated separately for each period (2012, 2017, and 2022)

using the Palestinian Expenditure and Consumption Survey (PECS) datasets. Each regression model includes socio-economic and demographic characteristics (household income, size, education, employment status, housing tenure, and urban/rural residence), as well as housing expenditure as the main explanatory variables. Additionally, a dummy variable representing political instability (the intensity of illegal Israeli settlement expansions in the West Bank) is included as a critical explanatory variable. The inclusion of this conflict dummy enables capturing the unique impact of political instability and settlement activities on housing affordability and the broader socio-economic outcomes in Palestine.

The decomposition involves two main analytical steps. First, regression models for each year (2012, 2017, and 2022) are estimated to capture how socio-economic, demographic, and conflict-related factors affect the distribution of housing expenditures and household economic conditions. The Recentered Influence Function (RIF) regression method, as suggested by Canavire-Bacarreza and Rios-Avila (2017), is applied to estimate the influence of these factors at various points along the expenditure distribution, allowing for a richer understanding of how factors influence inequality at different points of the distribution.

Formally, the linear model underlying the RIF regression for each year tt is specified as:

$$Y_{it}=X_{it}'\gamma_t+Z_{it}\beta_t+\delta_t Conflict_{it}+\varepsilon_{it}$$

Where:

- Y_{it} is the housing expenditure-related outcome (poverty or inequality measure).
- X_{it}' and Z_{it} represent vectors of demographic, socio-economic, and housing-related variables.
- $Conflict_{it}$ is a dummy indicating political instability measured by the intensity of Israeli settlements.
- $\gamma t, \beta t, \delta t$ are coefficients estimated for each survey period (t = 2012, 2017, 2022).

In the second step, using the Oaxaca–Blinder decomposition, differences in the distribution of outcomes between periods (2012–2017 and 2017–2022) are decomposed into two effects: the composition effect, resulting from differences in observed characteristics (endowments), and the structure effect, reflecting differences in returns or penalties associated with these characteristics, including impacts driven by the political instability (settlements expansion).

Formally, the decomposition can be expressed as:

$$\Delta Sq = X_1'\gamma_1 - Xc'\gamma c = (X_1 - Xc)'\gamma c + X_1'(\gamma_1 - \gamma c)$$

Here, the decomposition separates:

- Composition effect: the part attributable to differences in socio-economic, demographic, and conflict-related characteristics between periods.
- Structure effect: the part resulting from differences in returns or coefficients linked to those characteristics, potentially influenced by external factors, such as intensified political instability, constrained construction, or market distortions due to conflict conditions.

To robustly incorporate the impact of political instability, the methodology employs a dummy variable representing the annual intensity of illegal Israeli settlement construction in the West Bank, based on UN and human rights organizations' data. This measure effectively captures political risk and its implications for housing affordability, poverty, and inequality outcomes over the studied periods.

Finally, robustness checks will be conducted by analyzing different poverty thresholds and inequality measures, ensuring results' reliability. Sensitivity analyses will also consider varying housing expenditure definitions, further validating the consistency of findings. This comprehensive approach ensures the research's relevance and rigor, particularly given its aim to inform effective housing policies and targeted social interventions in Palestine's unique context of ongoing political instability and economic vulnerability.

Policy Implications

This research provides critical insights into the intersection of political instability, housing costs, and socioeconomic disparities in Palestine, highlighting key implications for policymakers and stakeholders in the housing sector. Given that housing affordability significantly shapes poverty and inequality levels—particularly in politically unstable contexts—policymakers must recognize housing as not merely an economic sector but a critical domain that directly influences overall socio-economic stability. The findings emphasize the urgent need for targeted interventions addressing housing affordability, particularly given the structural constraints imposed by ongoing political instability and occupation, which drive housing costs upward and disproportionately burden vulnerable groups.

To effectively reduce housing-driven poverty and inequality, Palestinian policymakers should prioritize affordable housing programs, potentially through direct cash subsidies or targeted social housing projects, as evidenced by successful European policy approaches (Bérard & Trannoy, 2021). Given the constraints on land availability and urban planning resulting from settlement expansions, policies promoting vertical urban development, relaxation of zoning restrictions, and sustainable land-use planning might mitigate market distortions and ease affordability pressures.

Moreover, considering the significant role of political instability in shaping housing markets in Palestine, advocacy efforts at the international level are essential. Policymakers should underscore the importance of land-right protections, equitable urban planning, and housing infrastructure

investments as fundamental components of socioeconomic stability and development. This approach can strengthen Palestine's resilience against external shocks and mitigate adverse effects of political instability on economic inequality and poverty.

Additionally, improving data collection and measurement practices related to housing expenses is paramount, particularly given existing gaps identified in housing cost measurement and affordability benchmarks in conflict-affected contexts. Better measurement and transparency can enhance policymakers' capacity to track housing affordability challenges accurately and develop evidence-based interventions. It will also support international bodies, donors, and humanitarian agencies in allocating resources more effectively.

Lastly, the results of this research underline the need for integrating housing policy within broader national strategies aimed at poverty alleviation and inequality reduction. Housing affordability must be viewed not merely as an isolated policy challenge, but as a central pillar of comprehensive social and economic development policies. By aligning housing strategies with poverty reduction programs, Palestine can mitigate the disproportionate impact of rising housing costs exacerbated by political instability, ultimately fostering more equitable economic growth and improving long-term socioeconomic outcomes for marginalized populations.

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