Religion and the marginal utility of unemployment benefits.

Why is the replacement rate (*b*) lower in more religious societies?

Governments act to maximise welfare:

uU(Unemployment) + (1-u)U(Employment) – C(b).

where C(b) is the cost of unemployment benefits. We have:

U(Employment) = U(w)

U(Unemployment) = U(b - ψ)

where ψ is the psychological cost of unemployment.

We suggest that dψ/dR < 0, where R is religiosity. The government's problem is then to choose the replacement rate, *b*, to maximise:

u U(b - ψ) + (1-u)U(w) – C(b)   (1)

This gives a First-Order Condition of

$uU'(b - \psi) = C'(b)$ (2)

Totally differentiate (2) to obtain:

$uU''db - uU''\psi'dR = C''db$

Rearranging: $db/dR = (uU''\psi')/(uU''-C'')$

The denominator is negative by concavity. As for the numerator: $U'' < 0$ as utility functions are concave, and we hypothesise that religion plays a buffering role, so that ψ'. Hence:

$db/dR < 0$. Optimal unemployment benefits are lower in more religious countries.