

Biblical Perspectives on Prices and Profits, A Series of Faith Integration Exercises for
Accounting, Economics and Finance Classes

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Introduction:

The related topics of generating profit, accumulating wealth or adding value are examined at various places in Scripture. Examples include Deuteronomy 8:18-19 and Matthew 25:14-30. In these passages generating profit is viewed favorably because the profit was generated in a manner consistent with God's wishes and desires. In contrast, in Luke 12:13-21 generating profit is viewed negatively because the profit was generated in a manner that was inconsistent with God's wishes and desires.

While the importance that God places on honest weights and measures is presented at various places in Scripture, processes for measuring the amount of profit are not explicitly addressed. Profit measurement is implicit in Matthew 25:14-30 where the profit from a venture is the difference between talents invested in the venture and talents realized from the venture. There is a price or value ascribed to the talents invested in a venture and a similar price or value ascribed to the talents realized from the venture.

Prices can be determined in decentralized or centralized settings. While Scripture does not examine the details of decentralized or centralized approaches for determining prices and coordinating economic activity, Genesis 11:1-9 offers interesting insights concerning the nature of the invisible hand and why the invisible hand of the marketplace outperforms the visible hand of managerial coordination. In contrast to prices, which, once determined, are objective measures or benchmarks, value can have both objective and subjective dimensions.

The subjective dimensions of value depend on the preferences and perspectives of a given decision maker. This subjective dimension to value is illustrated in Matthew 13:44-46 and 19:16-22. The verses from Matthew 13 contain two of the shortest parables in Scripture. In both parables a man exchanges all he has for the Kingdom of Heaven. This was a value creating exchange for each man, as the value realized exceeded the value invested. In contrast, when faced with a similar proposition, the man in Matthew 19 was unwilling to

exchange all he had for the Kingdom of Heaven. In contrast to the subjective perspectives of the first two men, the man in Matthew 19 did not view this as a value creating exchange.

The preceding paragraphs provide an overview sketch of topics covered in Scripture that are also covered in accounting, economics and finance courses. Accountants use prices to measure assets, liabilities, revenues, expenses and profits. Some of those prices result from transactions in the market while other prices – transfer prices, for example – result from internal, managerial processes. Economics examines the processes that create prices and the characteristics of those prices. Economics also examines the process of maximizing profits and the characteristics of this process. This leads into the related discipline of finance where the characteristics of prices and profits are further explored.

What follows is a series of faith integration exercises that I have used in accounting, economics and finance classes over the years. The exercises have been effective in helping students develop the capacity to think biblically about prices and profits. The exercises can be used in the full range of accounting, economics and finance classes offered at most CCCU institutions. The exercises are presented in the order which the passages appear in Scripture. Christian business faculty colleagues are invited to use these exercises in any manner they might find them valuable or effective.

Observations from the complementary creation accounts, Genesis 1:1-2:3 and 2:4-25

These complementary creation accounts contain the first commands given by God to humans. In Genesis 1:26, 28 humans are instructed to subdue and have dominion over God's creation. Similarly, in Genesis 2:15 humans are instructed to work and keep God's garden. These commands almost create the need for the concept of profit. Without the concept of profit, how would one know whether value is being created or destroyed, whether the value of the output exceeds the value of the resources invested? Implicitly, subduing and having dominion over God's creation or, alternatively, working and keeping God's garden, is to be a value creating endeavor.

A) God engages in creative activity, and God finds this fulfilling.

All three persons of the God-head are present. God spoke things into existence (see John 1:1) in accordance with His will. God's Spirit hovered over the waters. The Father's will was affected through the agency of the Son (the Word) with the Spirit being present.

God found this creative activity fulfilling. Note the repeated formula "and God saw that the light was good", "and God saw that it was good", and "and God saw that it was very good."

B) The product of God's creative activity is good and is created for our enjoyment and benefit.

Note the repeated formula "and God saw that the light was good", "and God saw that it was good", and "and God saw that it was very good." See 1:29 and 2:16.

C) The first humans were the first managers, and God equipped them for this duty.

God, the Creator, is different from all of creation. Still, humans, as a result of their being created in God's image, are qualitatively different from the rest of creation. Humans possess a creative genius or potential that differentiates them from the rest of creation. This creative genius or potential is a direct result of humans being created in God's image. See 1:27.

As Creator, all of creation belongs to God; He is the owner. God delegates the responsibility of managing creation to the first humans. The first humans were to subdue and have dominion over God's creation. See 1:26 and 28. Similarly, the first humans were to work and keep God's garden. See 2:15.

The responsibility of subduing and having dominion over, of working and keeping includes high level cognitive tasks. See 2:19 where the man is charged with naming all the animals. In the Old Testament period to name a thing was to capture the essence of that thing such that when a person hears the name the image that appears in the person's mind matches the essential characteristics of the thing. Thus, naming the

animals was a high level cognitive task. In general, planning and executing the activities that go with subduing and having dominion over, with working and keeping span the range of cognitive domains.

The first humans found work fulfilling and satisfying. This will be further explored when the effects of the fall are examined. See 3:17-19.

The first humans were to manage God's creation or garden consistent with God's wishes and desires. Given that the first humans were created in God's image, God did not have to explicitly articulate His wishes and desires, as God's wishes and desires were congruent with the wishes and desires of the first humans.

D) The command to subdue and have dominion over God's creation, to work and keep God's garden has never been repealed. Thus, it remains in effect to this day.

Given this, regardless of how mundane the activity may be, all economic activity that is consistent with God's wishes and desires represents fulfillment of this command. In this sense, a career devoted to manufacturing tires or laundry detergent, to moving freight or installing carpet can rightfully be thought of as a career devoted to "doing the Lord's work."

The key requirement is that the product being produced or the service being provided is consistent with the command to subdue and have dominion over God's creation, to work and keep God's garden.

E) The importance of creativity for fulfilling work and economic growth.

The assembly line approach to production saw employees as selling their time to employers in return for compensation. From this perspective, any reconfiguration of the job that allowed employees to receive greater compensation in return for time sold should be a positive for employees. Thus, the assembly line approach to production made sense. However, there is more to work than the monetary or pecuniary compensation received. Employees also seek creative fulfillment or satisfaction from

their work. This is where the assembly line approach failed, as it removed much of the creative fulfillment or satisfaction from the job.

Economic well being is often measured in terms of real GDP per person. Similarly, economic growth is often measured in terms of growth in real GDP per person. But, how does economic growth take place? Does economic growth primarily come from using existing technology more efficiently, or does economic growth primarily come from imagining, developing and implementing new technology? Economic history indicates that it is the latter, and the key to imagining, developing and implementing new technology is human creativity.

Observations from the account of the fall and its consequences, Genesis 3:1-24

This passage provides a theological explanation for the superior performance of decentralized market economies in motivating humans to perform at their best in terms of working hard and smart and in maximizing their creative potential.

A) God created humans with certain desires. Among these are the desires to be fulfilled and content, to be secure and protected. Ultimate fulfillment of these desires comes from humans being in a relationship with the infinite Creator.

These desires are also fulfilled in a subsidiary sense through human enjoyment of God's creation. God created a hierarchy where humans look to God first and then look to creation in a derivative or subsidiary sense.

In effect, humans being in a proper relationship with the Creator, seeking fulfillment of desires that can only come from a proper relationship with the Creator, frees and liberates humans to enjoy creation in its proper derivative or subsidiary sense.

The fall fundamentally altered this God ordained hierarchy.

B) Note that the tree described in 3:6 is part of creation. Note also how the tree's attributes are described. The tree, or, if you will, a mere tree, is described as being good for food, a delight to

the eyes, and to be desired to make one wise. But, by what standard does one classify food as good, something as a delight to the eyes, and/or something as being desired to make one wise?

Note that prior to the fall the first humans enjoyed perfect communion with God, as He came to the garden and walked with them on a daily basis. [Note the use of “walking with God” to describe the relationships that Enoch and Noah had with God (Genesis 5:24 and 6:9). Enoch and Noah are the only post fall humans to be described as having such a relationship with God.]

Implicit in the woman’s observations in 3:6 is that the tree, a part of creation, is superior to the Creator. The tree represents superior food; the tree is more delightful to gaze upon; and the tree is a superior source of wisdom.

In contrast, note that Jesus Christ, God the Son, describes Himself as “the bread of life; whoever comes to me shall not hunger, and whoever believes in me shall never thirst” (John 6:35). Similarly, Jesus observes, “If you knew the gift of God, and who it is that is saying to you, ‘Give me a drink,’ you would have asked him, and he would have given you living water” (John 4:10). In other words, the Creator is offering the bread of life and living water, food and beverage that, if consumed, will result in humans never being hungry or thirsty. When compared against this standard of the bread of life and living water, how could the woman pronounce the tree and its fruit as being “good for food”?

In Exodus 33:18 “Moses said, ‘Please show me your glory.’” To which God responded, “You cannot see my face, for man shall not see me and live” (Exodus 33:20). Moses wanted to gaze on God’s glory, but as a post-fall, sinful human this was not possible. In contrast, the two pre-fall humans were able to gaze on God’s glory on a daily basis. When compared against the standard of God’s glory, how could the woman pronounce the tree as being “a delight to the eyes”?

Proverbs 1:7 states that “The fear of the Lord is the beginning of knowledge...” Similarly, Proverbs 15:33 states that “The fear of the Lord is instruction in wisdom...” The Creator, then, is the only true source of wisdom, with the pre-fall humans enjoying perfect communion with this only true source of wisdom. When compared against the standard of God as the true source of wisdom, how could the woman pronounce “that the tree was to be desired to make one wise”?

Note the importance of what is happening here: The first humans are pushing the infinite Creator aside and elevating derivative, secondary creation to a place of supremacy. From the perspective of economics, this is a key consequence of the fall. After the fall, the God given desires for contentment and fulfillment, for security and protection remain a part of (now fallen) human nature. Yet, the only true source of ultimate satisfaction of those desires – a relationship with the infinite Creator – has been forsaken. This creates a problem: Humans are left to look to finite creation to provide a level of satisfaction that only a relationship with the infinite Creator can provide.

Seeking to be content and fulfilled, secure and protected, humans set about acquiring created “stuff.” Their goal is to accumulate sufficient created stuff so that their desires for contentment and fulfillment, security and protection are satisfied. But, the outcome is never the degree of satisfaction that is desired. However much created stuff fallen humans are able to accumulate, that quantity of created stuff never provides the degree of contentment and fulfillment, security and protection that they desire. They are left perpetually frustrated. Yet, the only answer they know is to seek to acquire more created stuff. This is the classic definition of greed: Whatever a person may have accumulated, it is never enough. There is a continuing desire, a continuing need to acquire more created stuff. You see, this is a theological explanation of why it is natural for fallen human beings to be greedy. They are seeking a level of satisfaction from finite created stuff that can only be attained through a relationship with the infinite Creator. No

matter how much created stuff a person may accumulate, that person can never have an infinite amount of such created stuff.

Fallen humans are not programmed to look to the infinite Creator in the quest for their desires to be satisfied. John 3:19 notes that “this is the judgment: the light has come into the world, and people loved the darkness rather than the light because their deeds were evil.” The assessment is stark, leaving no room for neutrality or a middle ground: Fallen people love the darkness, and they hate the light (God). It is only after fallen, estranged humans are reconciled with God the Father through the work of God the Son that these now redeemed humans are able to look to the Creator for the ultimate satisfaction that only God can provide. For Christians (literally, Christ followers) the infinite Creator has been restored to His place of superiority and priority. This also returns finite creation to its proper derivative, secondary place. In effect, Christians are freed and liberated so that they can enjoy created stuff in its proper derivative, secondary place.

C) Implications for motivating fallen human beings. Fallen human beings are programmed to look only to created stuff in their quest for contentment and fulfillment, for security and protection. This provides fallen human beings with a strong desire to accumulate created stuff. The prospect of accumulating created stuff motivates fallen human beings to perform at their maximum potential, both in terms of the quantity and quality of their effort and in terms of their creativity.

What kind of economic organization – a decentralized market economy or a centrally planned economy – is going to provide the best setting for motivating fallen human beings? What kind of economic organization provides the most direct relationship between a person’s performance and that same person’s rewards? The answer to both questions is a decentralized market economy.

The evidence from economic history is clear: In terms of the quantity of goods and services produced, decentralized market economies outperform centrally planned economies. Given that the majority of the world's population consists of fallen, unredeemed individuals, the account of the fall provides a theological explanation for this evidence from economic history.

D) As noted in 3:17-19, the consequences of the fall radically changed the nature of work. To make full sense of these verses remember that Adam was essentially a farmer. He subdued and had dominion over God's creation by working and keeping God's garden.

Note how farming became more difficult: "cursed is the ground", "in pain you shall eat of it", "thorns and thistles it shall bring forth", and "by the sweat of your face you shall eat bread." Cursed ground with thorns and thistles combined with pain and sweat – yes, farming was certainly different after the fall.

Today, however, relatively few people work in agriculture. So, our challenge is to imagine how our various occupations and careers have changed for the worse as a result of the fall. In your particular occupation or career, what is your cursed ground, what are the thorns and thistles you encounter, what is the source of your pain and sweat?

2 Corinthians 5:17 observes "Therefore, if anyone is in Christ, he is a new creation. The old has passed away; behold the new has come." This verse does not refer to the particular facts and circumstances of a Christian's life. Instead, this verse refers to how a Christian perceives, sees and understands those particular facts and circumstances. The consequences of the fall remain real for Christians. The nature of work remains changed for the worse. Still, given that Christians see and understand work from a redeemed perspective, Christians can enjoy a degree of satisfaction from work that is similar to what God intended in a pre fall world.

Observations from the tower of Babel and the resulting change in human nature, Genesis

11:1-9

This passage provides a theological explanation for the superior performance of decentralized market economies in using information to organize and coordinate economic activity.

A) This passage demonstrates that post-fall, post-flood humans remained capable of creatively formulating and carrying out complex plans.

B) Note that language, culture and worldview go together. All of this is implied when it is noted that “the whole earth had one language and the same words. All people saw and understood the world from essentially the same perspective. This enhanced the capacity of people to work together in a cooperative, productive fashion.

C) The capabilities noted above are used for fallen purposes as the people propose to “build ourselves a city and a tower with its top in the heavens, and let us make a name for ourselves.” Building a city of sufficient size to hold all the people and a tower that reaches to the heavens are complex exercises in central planning. The motive for these projects is man-centered, as opposed to God-centered.

The visible hand of human coordination is working quite well.

However, this capacity is being used for fallen purposes, and this is not a good combination.

D) God comments on the effectiveness of human central planning as follows: “Behold they are one people, and they have all one language, and this is only the beginning of what they will do. And nothing that they propose to do will now be impossible for them.”

Ponder this observation. The people are united as one. They have one language, culture and worldview. All the people see and understand the world from essentially the same perspective. This enables the people to work together in a productive, effective fashion.

Building this city and tower, massive and impressive as they are, is only the beginning of what they will do. For emphasis, God observes that nothing they propose to do will be impossible for them. The plans of post-fall, post-flood humans will be successful.

Considering God's creative genius and power put on display in the two creation accounts and that humans were created in God's image helps one make sense of the above observations. However dimly, even post-fall, post-flood humans reflect God's creative genius and power.

E) This capacity of fallen humans, working in unity toward a common goal, to accomplish whatever they plan must be thwarted. So, God acts to "confuse their language, so that they may not understand one another's speech."

Here God radically changes human nature, significantly diminishing the ability of humans to work together toward a common goal. The visible hand of human planning and coordination is withered and crippled by divine action. Though fallen humans still bear God's image, on this dimension, the extent to which they reflect God's image has been forever changed.

Yet, God still has a plan to carry out, a people of His own to be redeemed. Until that plan reaches its culmination with Jesus Christ's second coming, God needs to ensure the survival of humanity, the ability of humans to produce, food, clothing and shelter. So, God replaces the visible hand of human planning and coordination with the invisible hand of Divine planning and coordination.

Here we have a theological explanation for the superior performance of economies where activity is coordinated through decentralized, market mechanisms. These economies rely on the invisible hand of Divine planning and coordination. Post-Babel attempts at coordinating economic activity through human based central planning structures will not be successful. This applies both to "big government" and

“big business.” In both instances central planning structures replace decentralized market mechanisms.

Austrian economists have referred to this as the coordination or information problem. Central planners never have access to the quantity and quality of information that is reflected in market prices. The market works to aggregate the information of all participants on both the demand and supply sides, so that the resulting price reflects the information of all participants. Individual participants in any market combine their own limited knowledge with the aggregate information reflected in the market price and act accordingly. The market price is an informationally efficient signal to all market participants. When the market price changes, market participants adjust their behavior accordingly. All they need to know is that the price has changed. They can safely remain ignorant of the reasons for the price change.

F) Study of the fall and its consequences along with the tower of Babel episode result in two reasons for the superior performance decentralized market economies over centrally planned economies:

1) On the motivation dimension, decentralized market economies provide a stronger, more direct relationship between effort and reward. As a person works more productively and creatively, the resulting rewards accrue to the person doing the work.

2) On the coordination dimension, decentralized market economies make use of superior information in coordinating economic activity. The market price reflects the aggregate information of all market participants, while central planners only have access to a subset of such information.

Observations Regarding the Ultimate Source of Wealth, Deuteronomy 8:18-19

These two verses provide a biblically based model or theory of the firm: Firms purchase resources that are consumed by the firm as it produces output. The value of these resources, as determined by market determined prices, is value consumed in the production process.

Firms then sell the output produced in the marketplace, with the price received for the output measuring the value created by the firm in the production process. Profit, then, is the difference between value created and value consumed. Always assuming that the product being produced and the means of production being utilized are consistent with God's wishes and desires, profit is a measure of how well a firm is subduing and having dominion over God's creation or, alternatively, of working and keeping God's garden.

A) These two verses note that God is the ultimate source of all wealth, "it is he who gives you power to get wealth." If the capacity to create wealth is a God given capacity, it follows, then, that creating wealth is a good thing.

B) Creating wealth or adding value is consistent with the Divine commands to subdue and have dominion over God's creation (Genesis 1:28) and equivalently to work and keep God's garden (Genesis 2:15). How do businesses create wealth? They do so by engaging in productive activity in a productive, efficient fashion. In doing so they mimic the creative activity that God engaged in as recorded in the two creation accounts. God created something out of nothing, while humans create something (output) out of something (inputs), so the creative activity of finite humans is inferior to the creative activity of an infinite Creator. Yet, this ability to productively, efficiently engage in creative activity separates humans from the rest of God's creation.

C) In accounting both the concepts of operating income from the income statement and operating cash flows from the cash flow statement can serve as measures of wealth created or value added. Provided that the goods produced or services provided by a business are consistent with God's wishes and desires, the operating income or cash flow of a business provides a measure of how well that business is faithfully carrying out the Divine commands to subdue and have dominion over God's creation, to work and keep God's garden.

D) The responsibility to create wealth consistent with the Divine commands to subdue and have dominion over God's creation, to work and keep God's garden is also seen in the Parable of the

Talents in Matthew 25:14-30. (The Parable of the Ten Minas in Luke 19:11-27 is similar.) This parable compares wealth produced with wealth originally entrusted, resulting in a concept similar to return on investment (ROI). The servant entrusted with five bags of gold and creates five more bags, a 100% return on investment, receives the same reward as the servant entrusted with two bags and creates two more bags, also a 100% return.

F) The Israelites were primarily farmers and ranchers, so they created their wealth through the practice of farming and ranching. A successful harvest requires three components:

1) The farmer needs land on which to plant a crop. In Israel the land belonged to God. He brought the Israelites to the Promised Land, the land God promised their ancestor Abraham. Though each family had an inheritance in the land, the land ultimately belonged to God. This helps explain the prohibitions on the buying and selling of land, and the provision that land returned to the family of original inheritance every Year of Jubilee. Just as the master in the Parable of the Talents entrusted bags of gold to his servants, God entrusted land to each Israelite family. The long lived asset most crucial to planting and harvesting a crop belonged to God.

2) Land alone is not sufficient to secure a crop. The farmer has to prepare the soil, plant the crop, cultivate the land during the growing season, and harvest the crop at maturity. Thus, human effort is necessary. But even here the Israelites were to thank God, as it was He who provided the health and insight necessary to successfully carry out the farming enterprise.

3) Beyond land and labor, a successful crop also needs rain and sun in the right amounts and at the right times and protection from the weeds, diseases and pests that can harm any crop. Here, the farmer must trust God for the provision of optimal amounts of rain and sun at optimal times. The farmer must also trust God to keep weeds, diseases and pests away from the crop.

All three components of a successful harvest, then, served to keep a farmer's focus on God and His gracious, merciful provision. The Feast of the Harvest (Exodus 23:16-17) or the equivalent Offering of the Firstfruits (Deuteronomy 26:1-11) both served to remind the Israelites that it was God who gave them the power to get wealth. The Thanksgiving Holiday is a modern-day equivalent of these events.

G) In modern economies relatively few individuals or businesses are engaged in agricultural activities, but the general concept that it is God who gives us the power to get wealth remains in effect. How often do we give thanks to God when customers come through the door or orders come in via the internet? How often do we give thanks to God when a new production technology is developed and perfected or an existing production technology is improved? It's so easy to forget that God is the ultimate cause of our success. Instead, it's easy to focus on the more immediate human means through which God works to bring about this success. However, as Deuteronomy 8:18-19 indicates, when we forget about God and forget to offer Him proper thanks, we do so at our peril.

Observations on the Importance of Subjective Values, as Opposed to Objective Prices, in Decision Making, Matthew 13:44-46 and 19:16-22

These passages illustrate a subjective, opportunity cost approach in decision making. Three men face a common decision: In return for all that they have, they can receive the kingdom of heaven in return. Alternatively, they are presented with a business proposition: If they are willing to invest all that they have, the investment offers a return of the kingdom of heaven.

A) The man in Matthew 13:44 and the merchant in Matthew 13:45-46 both willingly and gladly purchase the kingdom of heaven foregoing all that they have as the purchase price. The joy of the man in verse 44 is explicitly mentioned, and one can almost sense the joy of the merchant in verses 45 and 46. In both cases their thinking is similar to the following: "You mean that I can purchase the kingdom of heaven and all it costs me is all that I have? That's all, nothing more?"

What a great deal. Let's sign the papers before the seller comes to his senses and changes his mind." The consumer surplus in these two transactions is huge.

B) In contrast, the rich young man in Matthew 19:16-22 is presented with the same proposition, but his reaction is the opposite of the man and the merchant in Matthew 13:44-46. (Note that eternal life is the equivalent of the kingdom of heaven.) For the rich young man the price of eternal life is too high. He is unwilling to give up all that he has to secure eternal life. No joy is present here. Instead, verse 22 observes that the rich young man went away sorrowful.

C) Subjective utility theory and opportunity cost work perfectly to explain the different behaviors of the man and merchant in Matthew 13:44-46 and the rich young man in Matthew 19:16-22.

The subjective perspectives, preferences and values of the man and merchant differed radically from those of the rich young man. Just as the concept of profit is present in the objective context of an income statement, it is also present in the subjective concept of human decision making.

D) In 2 Corinthians 5:17 Paul observes that when a person becomes a Christian that person becomes a new creation: The old has passed away and the new has come to replace it. Paul is not referencing the objective facts and circumstances of a person's life, as those objective facts and circumstances remain unchanged. Instead, Paul is referencing how the person's subjective perspective has been radically changed. As a Christian, the person sees, understands and values those objective facts and circumstances from a radically different perspective.

E) Two foundational concepts from economics – subjective utility theory and opportunity cost – fit perfectly with how Scripture depicts the differences between the old and new natures.