Equally if not more important is the input of ideas and innovation. The entrepreneur who conceives an idea for a better product or process, organizes the human and natural resources toward this idea, takes action, and bears the risk for his decisions, is certainly as important, perhaps even more important, than capital itself. Without new ideas and innovation, we would merely replicate the present, and such is the road to a stagnant society.

It is clear that whenever a nation or a community wants to increase its standard of living, the way to do it is to produce more. Not much can be gained by trying to redivide the pie in different ways. It is much more important to increase the total size of the pie. The individual has two options: he may produce more, or he may find a way to get part of another's production. Society, however, has only one option; it must produce more. Of course, countries as a part of the total world society may, through gifts and aid programs, through war reparations, or through unequal trade practices, conceivably benefit at the expense of some other nation or peoples. This, however, is not an effective way for a permanent improvement in a standard of living.

It is clear, then, that trade in and of itself is not a direct way to increase living standards. There are, however, some ways in which foreign trade may affect the factors of production. Examination reveals that there are five economic reasons why a nation may benefit from international trade:

1. If a nation is lacking in certain essential raw materials, it will need to import them. In fact, if a nation's sources yield essential raw materials of only low grade, it may import them more cheaply from nations with sources of high-grade minerals. Some nations are more favored than others in the abundance of natural resources. Few, if any, find themselves with adequate quality and quantity of all desired raw materials. Hence, all nations will probably need foreign trade to get certain raw materials.

2. A second reason why nations may want foreign trade is to get a full variety of animal and plant life. Nations with an overabundance of suitable soil and climate for growing certain products may profitably sell these in world markets. Coffee, bananas, rubber, and spices are products, for example, that grow readily in tropical areas, while edible grains and food animals are more efficiently produced in tempered climates.

3. Another reason for foreign trade is to obtain a mass market. Whenever production can be mechanized, unit costs decrease in proportion to the size of the production unit. Outstanding examples are large steel mills, petroleum and chemical plants, and the production-line automobile plants. Large-scale production is not possible, however, unless there is a mass market. Wherever a country is too small to represent by itself a mass market, it will need trade with its neighbors to expand the market and get the advantages of large-scale production.

4. Conversely, a nation may profit by foreign trade if its technology, ingenuity, and inventiveness lag behind. By trading services and craft products with neighboring nations for mass-produced items, a backward nation can obtain manufactured products not otherwise available to it. Industrial nations can get new and/or patented products that it does not yet produce.