

### **Abstract**

The paper offers reasons indicating that the spillovers from innovation activity are surprisingly large; and argues that individuals who have invested directly or indirectly in the economy's innovation processes can be estimated, conservatively, to obtain less than ten percent of the total economic benefits contributed by new technology and new products. In contrast to standard analysis, the paper asserts that there is a tradeoff between increased flow of invention and the distribution of benefits because of which zero spillovers cannot be expected to optimal; and that there is a range of values of what will be called the spillover ratio, that is, the share of the benefits that goes to persons other than the investors, such that all values of the ratio within this range are Pareto-optimal. It can be suspected that the high spillover ratio found in reality falls within the range of Pareto optimality. The reason is that, in contrast with most of the literature, here spillovers are considered to be capable of offering social benefits, and do not always simply impede or prevent the attainment of optimality. The results of the paper may offer a step toward reconciliation of the poor innovation performance of our economy that standard theory leads us to expect, and the historically unprecedented actual performance in terms of income growth and innovation of the free market economies.

JEL Classification: O30

Key Words: Spillovers, real wages, optimality in innovation.