

# Competition, Contracts, and Creativity: Evidence from Novel Writing in a Platform Market

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## Abstract

We study the effects of competition on worker effort and creative outcomes under different incentive structures on a Chinese novel-writing platform. Authors produce and sell their works chapter-by-chapter under a revenue-sharing or pay-by-the-word contract with the platform. Exploiting an anti-pornography regulation that induced a massive entry of romance novels but not others, we find that intensified competition on average led authors to produce content faster while the effect on book novelty was weak. However, revenue-sharing books responded substantially more than pay-by-the-word books, particularly regarding novelty. Finally, the platform increased promotion of contracted books, and this increase disproportionately favored pay-by-the-word books.

## 1 Introduction

In creative production such as entertainment, arts, design, and software development, workers' efforts that lead to product innovation are crucial for consumer welfare and industrial dynamics. A key concern is that workers may not exert sufficient creative effort when provided incentives are insufficient. Starting from Hicks (1935), one Darwinian view posits that this concern is not important in a highly competitive environment, because product market competition will discipline organizational slack and individual inactivity (e.g., Leibenstein 1966; Machlup 1967; Hart 1983; Nickell 1996). However, some other economists argue that increased competition may discourage creative (or innovative) effort if competition destroys the rent that inspires the exertion

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