

The Effect on Newspaper Competition and Investigative Journalism of Government Intervention: A Case of Platform Competition with Consumer Multihoming and Market Expansion

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Abstract

We analyse competition between two horizontally differentiated digital newspapers in a two-sided market, where in equilibrium we capture that some consumers choose to subscribe to one newspaper (singlehome), some to subscribe to multiple (multihome), and some to opt out entirely. This differs from conventional assumptions with the Hotelling model, namely consumer singlehoming and market coverage. Interpreting the Hotelling line as a political spectrum, consumers located further from the centre -- those in the hinterlands -- represent more ideologically fringe readers.

Our model captures market expansion along both the extensive margin (people further away from the center choosing to subscribe) and the intensive margin (more consumers subscribing to both outlets). We show that a reduction in VAT leads to higher equilibrium prices, as platforms focus more on subscription revenue over advertising reach.

Our contribution is showing how this results in market contraction on both margins, both reducing circulation by having a narrower segment choosing to subscribe to any newspaper, and by fewer consumers choosing to read news with both a left-wing and a right-wing slant.

At the same time, VAT reductions strengthen incentives for newspapers to invest in original journalism. These findings highlight a policy trade-off between investments in journalism and reach of circulation, and challenge the continued use of VAT reductions — a common media policy tool — in the context of digital news platforms.