

The Effect on Newspaper Competition and Investigative Journalism of Taxation:

A Case of Platform Competition with Endogenous Consumer Homing in an Uncovered Market

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Some facts and news media and taxation

- In 1970 Norway introduced the value-added tax (VAT) [moms].
 - Some items were exempt
 - [Printed] news media and books because of need to: *“a differentiated daily press and thereby create a foundation for a multi-faceted and free opinion formation”*
 - Until change in 2016, digital (electronic) news media were not exempted
- UK follows similar same chronology
- EU has opened for member states to apply zero-rates for print and digital news

Media VAT exemption debate: Norway

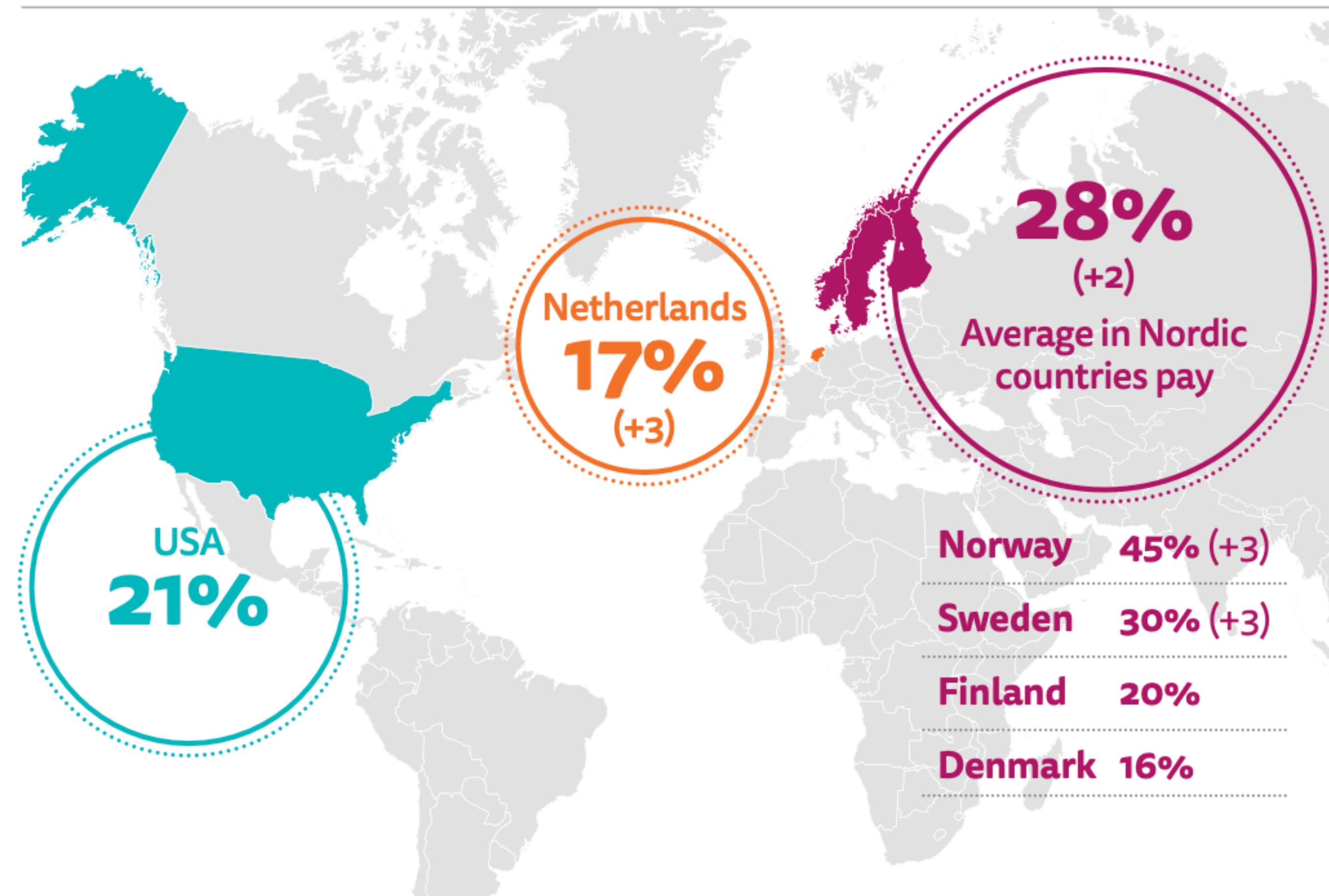
Recommend removing exemption(s)

- Ministry of Finance:
 - NOU 2022:20 Et helhetlig skattesystem
 - NOU 2019:11 Enklere merverdiavgift med én sats
 - NOU 2007:8 En vurdering av særavgiftene
 - NOU 2003:9 Skatteutvalget
 - NOU 1993:8 Bør merverdiavgiften differensieres?
 - NOU 1991:30 Forbedret merverdiavgiftslov
- Ministry of Culture:
 - NOU 2008:7 Kulturmomsutvalget
 - Support should be direct transfer, not through taxation
- VAT should be universal because exemption categories tend to be expanded
- Interferes with competition

Recommend maintaining exemption

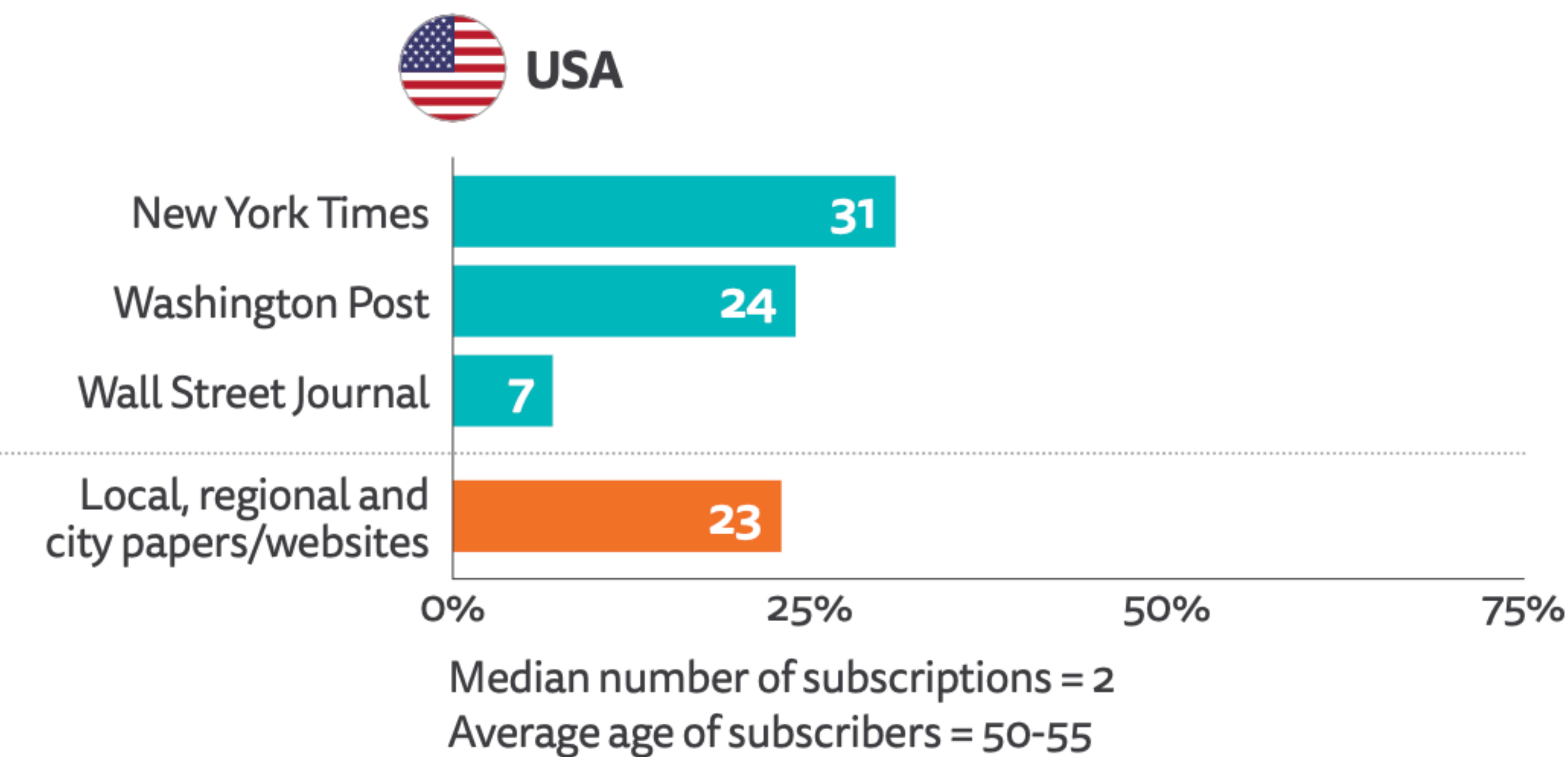
- Ministry of Culture:
 - NOU 2017:7 Det norske mediemangfoldet
 - NOU 2010:14 Lett å komme til orde, vanskelig å bli hørt – en moderne mediestøtte
 - NOU 2000:15 Pressestøtte ved tusenårsskiftet
 - NOU 1995: 3 Mangfold i media
 - NOU1988: 36 Om eierforhold i dagspressen
 - NOU 1983:3 Massemedier og mediepolitikk
- Ministry of Government Administration and Consumer Affairs:
 - NOU 1982:44 Pressestøtten — mål og midler
- Ministry of Finance:
 - NOU 1975:67 Merverdiavgiftssystemet
- Negative effect on prices
- Contribute to media diversity

PROPORTION THAT PAID FOR ANY ONLINE NEWS IN THE LAST YEAR – SELECTED MARKETS

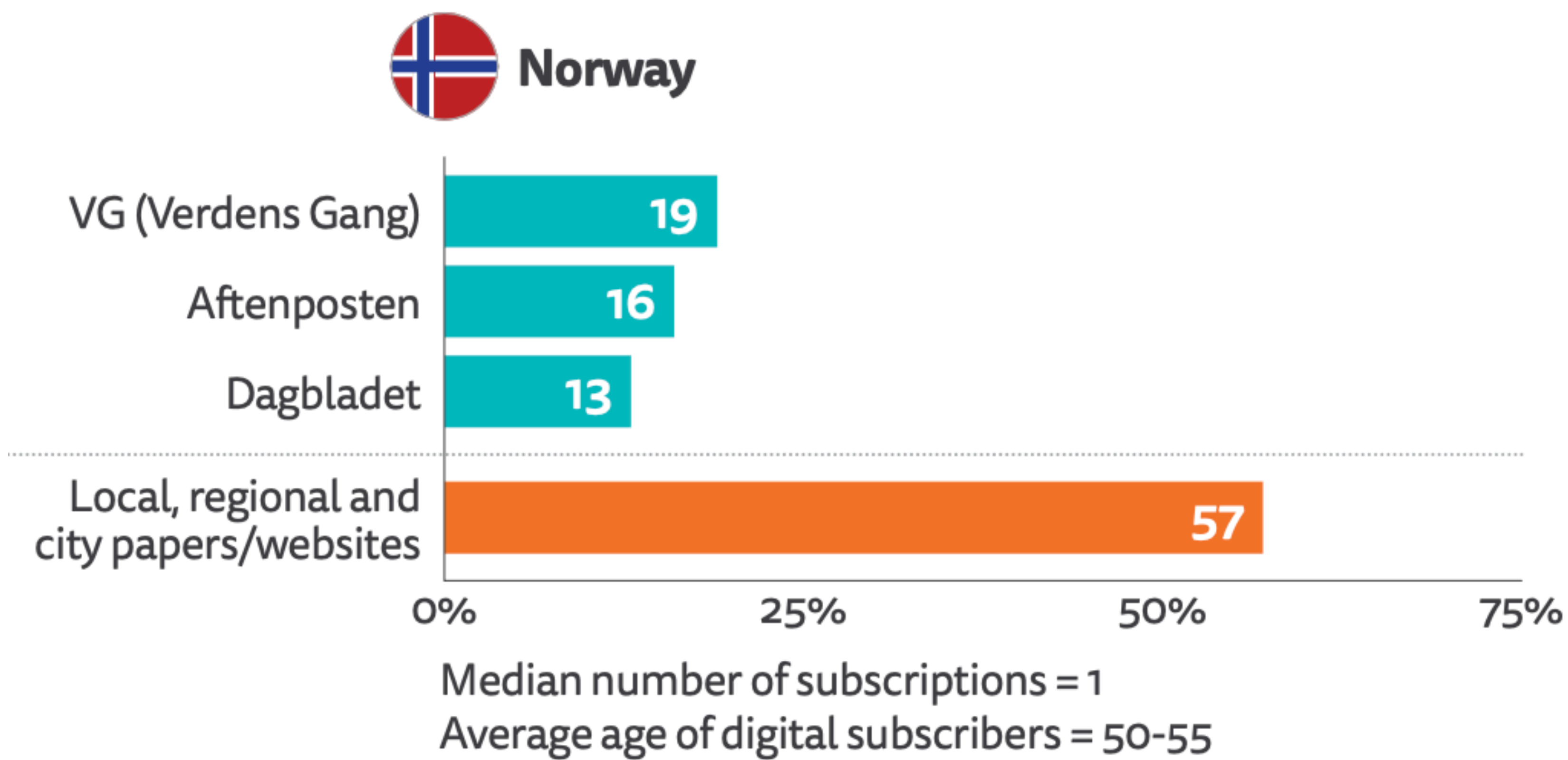


In USA

PROPORTION OF ONGOING DIGITAL SUBSCRIBERS THAT PAY FOR SELECTED BRANDS – USA, UK, NORWAY



In Norway



A remark on how VAT increases prices

- Hotelling model with line of length 1, firms located at either end

- $\pi_i = \left(\frac{p_i}{1 + \tau} - c \right) D_i$

- $\implies p_i^* = t + (1 + \tau)c, \text{ and } \pi_i^* = \frac{t}{2[1 + \tau]}$

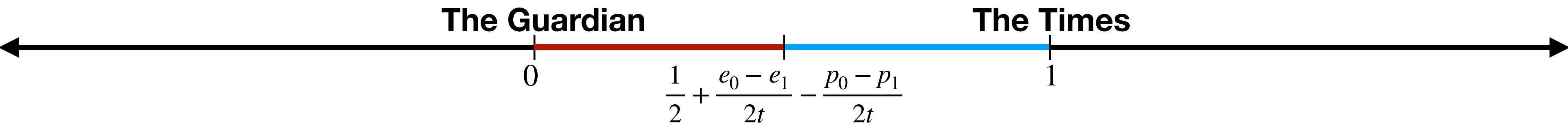
- Digital platforms are characterised by $c = 0$
 - Ebooks versus newspapers

Model

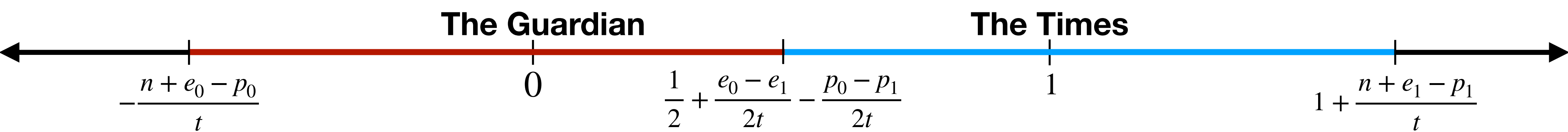
Uncovered market

Consumer Singlehoming

Covered Market



Uncovered Market



Uncovered Market

(Partial) Consumer Multihoming

Covered Market



Uncovered Market



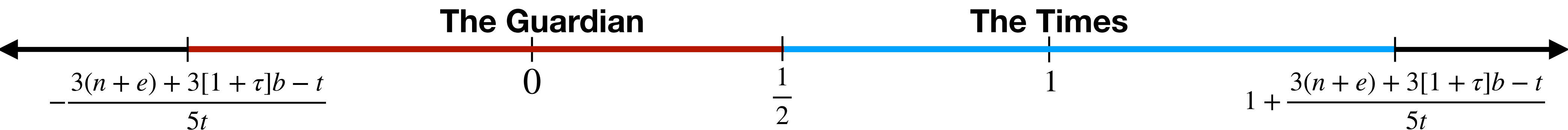
Model

- Two horizontally differentiated newspapers, $i = 0, 1$
 - $\pi_i = (\frac{p_i}{1 + \tau} + b)s_i + (\frac{p_i}{1 + \tau} + \sigma b)m$
- Consumers who singlehome get utility $u_i(x) = n + e_i - p_i - t |X_i - x|$, and consumers who multihome get utility $u_B = n + e_0 + e_1 - p_0 - p_1 - t$

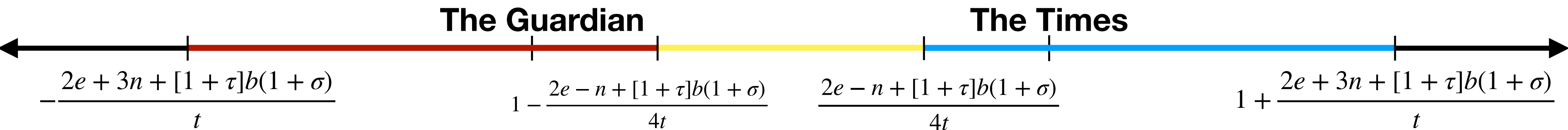
Competition in Prices

Competition in Prices

Consumer singlehoming



Consumer multihoming



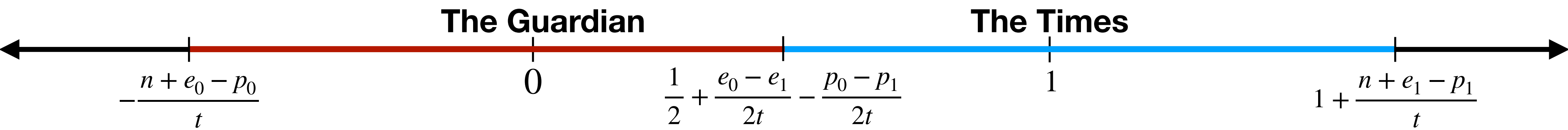
Incentives to Invest

Investments in journalism

- Content can be exclusive to one newspaper, or it can be non-exclusive
- Platforms have (e, n) level of news content in their catalogue ex-ante, now consider decision to choose level of journalistic resources to devote to story.
- If exclusive story, it increases level of exclusive content by ΔJ_i
- If non-exclusive story, it increases level of non-exclusive content by $\Delta(J_i + J_j)$
- Platform cost is $\phi J_i^2/2$

Investment in journalism

Consumer singlehoming



Consumer multihoming



Effect of hinterlands on investments

- With hinterlands, both newspapers have incentives to invest in non-exclusive content — which neither do without hinterlands — in order to attract new hinterland consumers
- With hinterlands, the level of existing content (exclusive + non-exclusive) increases the optimal investment level, J_i , for a given story (Δ)
- Incentives to invest in journalism increases with the level of marginal benefit under singlehoming
- VAT reduces investment incentives

Conclusion

- If media policy objective is to enhance market size:
 - VAT exemption bad idea with digital news
- If media policy objective is to enhance newspapers' investments in journalism:
 - VAT exemption good idea with digital news
- Effect of no-hinterland assumption on two-sided Hotelling model:
 - Managerial insights for price setting aligns between single- and multihoming
 - Non-exclusive content affect equilibrium prices and profits