

UNIVERSITY OF  
GOTHENBURG

# CRASH IN ECONOMY, CRASH IN CONFIDENCE

Perceptions of corruption and political support in Iceland before  
and after the financial crisis

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**WORKING PAPER SERIES 2013:16**

**QOG** THE QUALITY OF GOVERNMENT INSTITUTE

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Box 711, SE 405 30 GÖTEBORG

November 2013

ISSN 1653-8919

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## ABSTRACT

In the mid 00's Iceland was ranked as the least corrupt country in the world by Transparency International and enjoyed top positions in most comparative indices of governance and development. In 2008 the banking system collapsed and the country found itself in a serious financial crisis, a crisis which some observers believe to have been caused by clientelism and other forms of behaviour related to corruption. This article sets out to analyse how the crisis affected general political support, and in particular the importance of perceptions of corruption in that process. Using survey data we show that political support plummeted after the crisis and that public evaluations of the extent of corruption became the most important determinant of support. The results have implications for how we ought to approach the issue of corruption even in so called 'least corrupt' settings. The findings also call into question the validity and reliability of frequently used measures of corruption and governance.

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In May 2008, just a few months before the financial collapse in Iceland, the following lines could be read in *The Guardian* (2008-05-18):

Iceland... tops the latest table of the United Nations Development Programme's (UNDP) Human Development Index rankings, meaning that as a society and as an economy – in terms of wealth, health and education – they are champions of the world. To which one might respond: Yes, but – what with the dark winters and the far from tropical summers – are Icelanders happy? Actually, in so far as one can reliably measure such things, they are. According to a seemingly serious academic study ... Icelanders are the happiest people on earth.

But not only the richest and the happiest: in the mid 00's, Iceland was depicted as practically non-corrupt. According to the most frequently cited source in the field, Transparency International's *Corruption Perceptions Index* (CPI), Iceland was indeed *the least* corrupt country in the world in 2005 and 2006. Despite what has happened in Iceland since the financial breakdown, it is fair to say that in the mid 00's Iceland came close to being Utopia. If we look at a few variables deemed to be crucial for welfare, back then, it could no doubt be portrayed as the most developed country in the world. Against this backdrop, and then considering the deep financial crisis that followed the golden years – a crisis which some observers believe to have been caused by clientelism and other forms of behaviour related to corruption (cf. Kristinsson 2012; Vaim et al. 2011) – we believe that if one wants to learn more about the effects of perceptions of corruption, the Icelandic experiences are worth revisiting.

Hence, the Icelandic case is used to address more general issues related to public perceptions of corruption and political support. More precisely, we set out to investigate if the claim of earlier research – that public perceptions of corruption impact negatively on general system support – receives support also in the case of Iceland. The Icelandic case gives us an opportunity to examine the relationship between perceptions of corruption and political support in two interesting contexts: before the crisis (when Iceland was widely regarded as practically non-corrupt) and after the financial crash (when different aspects of corruption and public malpractice were revealed and brought up for public debate). Thus, we test the hypothesis if the effects of perceptions of corruption on political support are magnified in times of crisis after *real* and *known* corruption scandals

have been exposed, and at the end of the day negatively affect the legitimacy of the political system. As a side effect, since we argue that Iceland is a critical case, the paper provides new insights into how we should view the problem of corruption in countries traditionally viewed as non-corrupt.

We proceed as follows. In the next section, the Icelandic case is introduced. Thereafter, we present our theoretical framework, define and operationalize the independent and dependent variables, and discuss our theoretical expectations. Next, the data is presented and the methodological approach is introduced. In the fifth section, we present data on political support and public perceptions of corruption, measured both before and after the crisis. In the sixth section, the empirical analyses are carried out and our findings are presented. The seventh and concluding section sums up our main results and arguments, and the implications of our findings is discussed.

## **The context: Iceland and the financial crisis of 2008**

We start out by setting the stage and give context to our case. Iceland is a small island country with about 320,000 inhabitants, located in the middle of the North Atlantic between the European and American continent. Throughout the twentieth century and up until the 70s, it could fairly be described as – at least relatively, in a European context – comparatively poor and underdeveloped, with an economy heavily relying on fishery and agriculture. However, from the 80s and onward, the economy developed rapidly. In the late 90s it was one of the wealthiest nations in the world, and come mid-00s, fishery and agriculture no longer carried the economy. Instead, as a result of the privatisation of the banking sector which was completed in 2000, Iceland had quickly become a hotspot for financial services and investment banking.

The economic boom came to an abrupt halt in October 2008. The country's three largest banks – accounting for approximately 85 per cent of the country's banking system – collapsed. Iceland underwent the deepest and quickest economic crisis recorded after the Second World War (cf. Eythórsson et al 2011). This led to a massive increase in state debt, devaluation of the Icelandic Króna, and unemployment levels previously never recorded in Iceland's modern history. Riots in front of the Parliament followed suit and the political coalition that had governed Iceland resigned (cf Eythórsson & Kowalczyk 2013).

How did the exceptional crisis come about? In 2009, the parliament launched an independent Special Investigation Commission with a mandate to investigate the causes of the collapse. The com-

mission's report was presented in April 2010. As referred by Eythórsson et al (2011), the report blames the government, the Central Bank and the Financial Supervisory Authority for negligence and it hints at possible legal implications for the politicians and public officials that are named in the report. The commission exposed severe flaws in the Icelandic public administration, which – the report maintains – weakened the country's infrastructure and had an important role in the economic collapse.

Several commentators have highlighted that corruption – and remember, in a country that was ranked as the least corrupt country in the world 2005 and 2006 by Transparency International – constituted a crucial part in collapsing the country's economy. For example, Erlingsdottir (2009) goes so far as to state that 'Iceland's largely homemade crisis was created by a small group of powerful political and financial figures who literally have looted the nation's treasury'.<sup>1</sup> Vaim et al. (2011) maintain that it was a symbiosis of business and politics that allowed for self-serving and unethical decisions made by the Icelandic business and political elite. Similar arguments are found in the work of other scholars, claiming that privatization processes, and a far-reaching liberalization programme, not only reduced the state's capacity to regulate important policy areas (Wade and Sigurgeirsdottir 2010; Johnson et al. 2013), but also paved the way for close, unhealthy relationships between the business- and the political elites (Viken 2011). Furthermore, Kristinsson (2012) argues that clientelism and doubtful political appointments may well have had a role in generating the crisis, since they made the public administration weak and ineffective in carrying out its duties.

In addition to these scholarly arguments, the experienced corruption investigator Eva Joly, who was assigned to investigate corruption allegations in the Icelandic banking system, has claimed that the potential corruption in Iceland ought to be treated as one of the most important financial investigations Europe has ever known. She has also publicly criticised what she perceives as a lack of political will among Icelandic politicians to bring those who have committed economic crimes to justice (The Telegraph, 2009-06-11). The fact that corrupt practices have become to be known as one of the more important underlying structural causes of the financial crisis is important to bear in mind when we analyse the effects of corruption perceptions in Iceland.

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<sup>1</sup> To say that the crisis *largely* was homemade is a somewhat unfair depiction of what happened. Most portrayals of Iceland's collapse point out that the bankruptcy of Lehman Brothers preceded what later happened on Iceland, and that the Icelandic crisis well may have been delayed if this had not happened.

## Theoretical framework

In this section, we define and operationalize the central concepts employed in the empirical sections below. The core concepts are *political support* (the dependent variable) and *perceptions of corruption* (the main independent variable). We then move on to discuss how these variables are expected to be related to one another, i.e. why it is plausible to argue that public perceptions of corruption constitute an important determinant of political support, and in particular, why this is expected to be the case in Iceland.

### The dependent variables: political support

Almost everyone agrees that political legitimacy is important. However, the concept is widely debated and lacks a universally accepted definition. This is not surprising considering that, as Gilley (2006a: 499) puts it, ‘the concept of political legitimacy is central to virtually all of political science because it pertains to how power may be used in ways that citizens consciously accept’. However, in our conceptualisation of legitimacy, we side with the contemporary view that Wheatherford (1992) labels ‘the view from the grass roots’. This perspective is particularly concerned with *citizen evaluations* of the legitimacy of the political system they live in, thus being consistent with the mainstream theoretical basis of legitimacy since all definitions of the concept ultimately rely on public *perceptions* of the political system (Booth & Seligson 2009: 8; cf. Gilley 2009; Rothstein 2009; Easton 1975).

Most empirical research within this field take side with David Easton’s (1965; 1975) work. Easton places legitimacy within the framework of ‘political support’ (Booth & Seligson 2009: 8) and defines legitimacy as the conviction ‘that it is right and proper ... to accept and obey the authorities and to abide by the requirements of the regime’ (1975: 541). This conceptualization of political support builds on the idea that nation-states can be regarded as *political systems*, and his framework draws a crucial distinction between specific (oriented towards the performance of political *authorities* responsible for making and implementing political decisions) and diffuse (more abstract feelings towards the political *community* and the *regime* as such) levels of support.

In more recent theorizing, Easton’s framework has been refined and expanded. In two influential contributions, Pippa Norris (1999; 2011) has elaborated a framework that treats political support as

a multidimensional phenomenon ranging on a continuum from the most diffuse level of the political community to the most specific level of political actors:

1. the political community (feelings towards the nation-state)
2. regime principles (the underlying values of the political system)
3. regime performance (the functioning of the system in practice)
4. regime institutions (actual government institutions), and
5. political actors (actual incumbent officeholders) (Norris 1999; 2011).

Analyses of different surveys have demonstrated the fact that these dimensions are indeed reflected in the minds of citizens (Norris 2011; Booth & Seligson 2009; Klingemann 1999). In this paper, we explicitly set out to investigate the two ‘intermediate’ levels of political support: democratic regime principles and regime performance. According to this framework the former is diffuse in kind, and thus more stable and should not be immediately affected by dramatic political events. The latter, being a more specific type of support, is however expected to be more sensitive to short-term evaluations of the actual performance of the political system. Hence, we expect to see a pronounced effect of the economic crash on support for regime performance in Iceland, but only modest changes in support for regime principles (if any).

### **The key independent variable: public perceptions of corruption**

In the aftermath of the Icelandic financial crisis the debate has in part been about different aspects of corruption and clientelism. Our theoretical and empirical focus will therefore be directed towards the relationship between public perceptions of corruption and political support. Despite the large stock of research on different aspects of political support, not much is known about the importance of public perceptions of corruption and other aspects related to procedural fairness for people’s evaluations of the principles and performance of the political system. This is particularly the case in countries traditionally described as practically non-corrupt, such as Iceland and the other Nordic countries (cf. Erlingsson et al. 2012; Linde & Erlingsson 2013).

Ever since Weber theorized on the ideal-type modern state, it has been recognised that the delivery of public services ought to be implemented in an impartial manner. Thus, *fairness* has become a central concept in theories and empirical analyses dealing with the behaviour of public administration (Galbreath & Rose 2008; Tyler 2006). To be considered fair, the institutions of the political system must treat individuals *impartially* in the allocation of goods and services. This view has been advanced by Rothstein and Teorell (2008), who in fact argue that impartiality in the exercise of public power constitutes *the* essence of quality of government. Hence, quality of government – understood as impartiality in the implementation of public power – rules out all forms of corruption and particularistic practices such as clientelism, patronage and discrimination (Rothstein & Teorell 2008: 171). In fact, most research on different aspects of quality of government share the notion that corruption constitutes perhaps the greatest obstacle to high quality government (cf. Rothstein & Holmberg 2012). Simply put, corruption breaches the foundation of quality of government – the impartial exercise of public power.

#### **Political support and perceptions of corruption in times of crisis: what to expect?**

In this study we are interested in how political support (i.e. legitimacy) in an established democracy is affected by a large-scale economic crisis. And, second, we aim to investigate in what way public perceptions of political corruption affect political support in such a case, and in particular when the crisis by many observers are judged to be caused by issues related to problems of corruption.

Ever since the classic works by Seymour Martin Lipset (1959; 1960) and David Easton (1965) it has been acknowledged that democratic political systems, by overcoming crises and by good performance, build a reservoir of legitimacy that may be used in times of crisis and poorer performance. Democracies with such reservoirs will therefore have better chances to survive periods of severe crisis and thus persist than will democracies with track records of poor performance and lower levels of legitimacy (cf. Seligson 2002b; Seligson & Muller 1987).

Before the financial crisis, Iceland showed all the traits of a high-performing democracy enjoying high levels of popular support. In the following section we will investigate the development of political support over time. Iceland's status as a established democracy that had enjoyed a long period of economic development and growth leads us to expect that the legitimacy of the democratic political system should not have been severely affected by the economic crash. However, the multidimensional conception of political support employed in this study also predicts that public

evaluations of regime performance ought to have been negatively affected by the dramatic events that unfolded in 2008. And according to Lipset's 'legitimacy reservoir' theory – although in the long run this could have damaging effects on the level of support for the legitimacy of the political system – since Iceland entered the crisis with high levels of legitimacy and a good track record of performance it should be expected that the Icelandic democratic system still is recognised as legitimate by the public.

Most research on corruption and its political consequences has dealt with macro-level relationships, such as the cross-country correlation between corruption and democracy (cf. Montinola & Jackman 2002; Sung 2004). Nevertheless, the few available empirical studies that deal with the effects of corruption on system support using individual-level data have shown that the actual level of corruption as well as people's perceptions of the extent of corruption play an important role for the way they evaluate the general performance of the political system. This effect has been found in different types of societies. Most frequently, empirical analyses have been conducted on data from new democracies with relatively high levels of corruption (cf. Seligson 2002a; Booth & Seligson 2009; Linde 2012; Rose et al. 1998). However, recent research has shown that people's perceptions of corruption also seem to have strong effects on satisfaction with democracy in West European democracies, such as Sweden (Linde & Erlingsson 2013) and Spain (Villoria et al. 2012). Also, extensive comparative studies using both micro- and macro-level data have pointed in a this direction (Manzetti & Wilson 2007; Anderson & Tverdova 2003; Wagner et al. 2009)

Why, then, are perceptions of corruption expected to be important in explanations of system support? The most straightforward answer is provided by procedural fairness theory. Scholars working within this framework argue that legitimacy first and foremost is dependent on people's perceptions and evaluations of whether or not the procedures leading to decisions and implementation of public policy are considered to be fair (cf. Tyler et al. 1989; Tyler 2006; Esaiasson 2010). Thus, beliefs about the fairness of political procedures are considered to be more important for political legitimacy than evaluations of actual outcomes in terms of individual self-interest. Procedural fairness is therefore explicitly subjective in its character (Esaiasson 2010).

In the context of our empirical case, this means that for general political support, people's *perceptions* of the extent of clientelism, nepotism and corruption in public decision-making are expected to be more important than the *actual* situation or the international image of Iceland as a clean and non-

corrupt society. And in the case of Iceland, we also have the possibility to investigate how public perceptions of corruption and system support are affected when a country perceived to be relatively clean is hit by a dramatic financial crash, in which clientelism, nepotism and corruption have been claimed to be important causes.

If procedural fairness theory has any explanatory power, public perceptions of the extent of corruption should be an important determinant of political support in general, and citizens that believe that corruption exists within the state and the public administration should be less likely to be satisfied with the overall performance of the democratic system. It could also be hypothesized that this effect ought to be magnified in the aftermath of the crisis, with increased media coverage and exposure of suspect acts.

## **Data**

The data we employ comes from the Icelandic National Election Survey (ICENES). The survey has been conducted by School of Social Sciences at the University of Iceland after each general election since 1983. However, we will only use the four waves that have been carried out from 1999 to 2009, due to the fact that the variables of interest for us have only been included since 1999 and the 2013 wave is not yet available.

ICENES is a post-election survey and the data is collected over telephone. Since 1999, the samples have included between 2,300 and 2,600 individuals 18–80 years of age and eligible to vote. They have been drawn from the national population register as simple random samples (SRS). The response rate has declined from 75 per cent in 1991 to 57 per cent in 2009, but the ICENES response rate is still relatively high compared to similar surveys in other European countries. The number of respondents in the waves analysed here amounts to between 1,385 and 1,721.

ICENES is ideal for the purposes at hand. It has a simple design that has been consistent over the years, and the response rate is still comparatively high. Many questions have been included using exactly the same wordings. The relevant questions include a question on corruption perception included both in 2003 and 2009. It should be stressed that in 2003, Iceland was generally considered to be a non-corrupt country and we are therefore fortunate that such a question still was included in the survey. Since the same question also was included in 2009, we have the opportunity to compare corruption perceptions before and after the outbreak of the financial crisis in 2008.

## Mapping political support before and after the crisis

### The dependent variables: political support

Let us start by descriptively looking at a number of indicators of political support. We begin by investigating the development of public support for regime performance. The ICENES data contains a battery of questions pertaining to different aspects of system support. However, the majority of these questions concern specific objects of support (i.e. specific political institutions and political actors). The most relevant question for our purposes is the standard question about satisfaction with the way democracy works. The satisfaction with democracy (SWD) question has been included in the ICENES studies since 1999, which makes it possible to map the levels of satisfaction at four points in time (three before, and one after the crisis). Table 1 presents the shares of Icelanders being ‘very’, ‘fairly’, ‘not very’ and ‘not at all’ satisfied with the way democracy works in Iceland from 1999 to 2009. In 1999, 2003 and 2007, levels of SWD were relatively high, ranging between roughly 70 and 80 per cent being very or fairly satisfied.

TABLE 1, ON THE WHOLE, ARE YOU VERY SATISFIED, FAIRLY SATISFIED, NOT VERY SATISFIED, OR NOT AT ALL SATISFIED WITH THE WAY DEMOCRACY WORKS IN ICELAND? (PER CENT)

	1999	2003	2007	2009	Difference 1999-2009
<b>Very satisfied</b>	16.5	10.9	10.4	3	-13.5
<b>Fairly satisfied</b>	62.9	58.4	60.4	39.4	-23.5
<b>Not very satisfied</b>	14.9	21.2	22.2	38.1	+23.2
<b>Not at all satisfied</b>	5.7	9.4	7	19.5	+13.8

*Source: Icelandic National Election Study (ICENES), 1999-2009.*

Levels of satisfaction 1999–2007 are more or less on par with the other Nordic countries – Denmark, Finland, Norway and Sweden – which have historically been characterized by their high levels of political trust and system support (cf. Norris 2011). In 2009, however, a sharp decline is observed in Iceland. Between 1999 and 2009 the share of citizens stating that they are very satisfied dropped sharply from 16.5 per cent to only 3 per cent. The share of citizens being fairly satisfied also plummeted from 63 per cent in 1999 to only 39 per cent in 2009. In total, the share of satisfied

citizens decreased from 79 to 42 per cent between 1999 and 2009 – in other words, an exceptional drop in satisfaction with democracy.

Although the level of support in 2007 was about ten percentage points lower than in 1999, we see an extremely sharp drop – by almost 30 percentage points – in the short time-span between the 2007 and 2009. And while national levels of satisfaction with democracy have been found to be relative volatile and sensitive to dramatic political events, such extreme losses in satisfaction with democracy are rare in advanced democracies like Iceland. In 2009, with 58 per cent expressing dissatisfaction with the way democracy works, Icelanders displayed levels of political support that can be found in post-communist countries such as the Czech Republic and Hungary, rather in their Nordic neighbours (cf. Curini 2010).

The data confirm our expectation that the 2008 financial crisis had a dramatic and deteriorating effect on Icelanders evaluation of the functioning of the democratic system. This is however not surprising given the large amount of research on this type of more specific type of political support, and the context dependence of the SWD indicator (cf. Easton 1965; 1975; Norris 1999; 2011; Linde & Ekman 2003). According to the logic behind the multidimensional concept of political support, dramatic events like the Icelandic crisis could very well have strong effects on specific political support, like confidence in the performance of the government, trust in politicians, and evaluations of more general system performance, like citizens' satisfaction with the way the democratic political system works. However, within the same analytical framework, more diffuse support for the underlying principles of the political regime should *not* be affected in the same dramatic way, but is supposed to more persistent and stable over time (cf. Easton 1975; Norris 2011; 1999).

The ICENES surveys of 2003 and 2009 contain one question that is often used to assess public support for the principles of the democratic regime. This item asks the respondents to agree or disagree with the proposition that 'democracy is not without flaws, but it is still the best form of governance available'. This single question is not ideal for measuring support for regime principles, but since it explicitly asks about democratic governance, and not an abstract democratic ideal, it suits our purposes. As shown in Table 2, in 2003 public support for regime principles was extremely high in Iceland. Almost 98 per cent of the respondents in some way agreed that democracy is the best form of governance.

TABLE 2, DEMOCRACY IS NOT WITHOUT FLAWS, BUT IT IS STILL THE BEST FORM OF GOVERNANCE AVAILABLE. (PER CENT)

	2003	2009	Difference 2003-2009
<b>Strongly agree</b>	67.8	53.9	-13.9
<b>Tend to agree</b>	30.1	41.1	+11
<b>Tend to disagree</b>	1.6	3.1	+1.5
<b>Strongly disagree</b>	0.5	1.9	+1.4

*Source: Icelandic National Election Study (ICENES), 2003 & 2009.*

The post-crisis survey of 2009 shows a slight decline in support – most notably that the share strongly agreeing has decreased – but combined support for democratic regime principles remained very strong (95 per cent). Although specific political support dropped sharply in the aftermath of the crisis, the dramatic events do not seem to have affected diffuse system support, at least not when it comes to support for having a democratic political system. As stated, this is to be expected from the analytical model of political support applied in this study.

### **The key independent variable: public perceptions of political corruption**

Up until the financial collapse, Iceland enjoyed the reputation of being one of the least corrupt countries in the world. Indeed, in 2005 and 2006, Transparency International (TI) ranked Iceland as *the* least corrupt country in the world. However, this rating must be viewed in a different light when looking at available surveys prodding Icelanders about their view about corruption and abuse of power among the political and economic elites. ICENES has covered the theme at two points in time – 2003 and 2009 – by asking the question ‘how widespread do you think corruption is among Icelandic politicians?’ Thus, we are able to measure citizens’ evaluations of the extent of political corruption both before and after the financial crisis.

Table 3 presents the answers to the question about the extent about corruption among politicians for 2003 and 2009. The data reveal surprising results: already in 2003, when Iceland was considered more or less non-corrupt, almost one third of the respondents stated that political corruption was ‘very’ or ‘rather’ widespread. Only 20 per cent believed that politicians hardly ever engaged in corrupt activities, and about half thought that corruption was not very widespread. Thus, public per-

ceptions about the extent of corruption among politicians in Iceland 2003 were approximately of the same magnitude as in the other Nordic countries, with the exception of Denmark where corresponding figures have been much lower. For example, in the 2006 survey from the International Social Survey Programme (ISSP) almost 22 per cent of the Swedish citizens reported that ‘quite a lot’ or ‘almost all’ politicians are taking part in corrupt activities (cf. Linde & Erlingsson 2013).

TABLE 3. HOW WIDESPREAD DO YOU THINK CORRUPTION IS AMONG ICELANDIC POLITICIANS (PER CENT)

	2003	2009	Difference 2003-2009
<b>Very widespread</b>	5.6	33.7	+28.1
<b>Rather widespread</b>	24.8	43.4	+18.6
<b>Not very widespread</b>	49.6	21.5	-28.1
<b>Hardly happens at all</b>	20.1	1.5	-18.6

*Source: Icelandic National Election Study (ICENES) 2003 & 2009.*

In 2009, however, the situation had changed dramatically. In the crisis’ aftermath, public trust in politicians behaving in a clean and correct manner had become more or less non-existent. The share of citizens perceiving corruption as very widespread increased from six to 34 per cent, and almost half of the population (43 per cent) thought corruption among politicians was rather widespread. An additional 21 per cent believed that corruption was taking place, but that it was not very widespread. In total, the share of Icelanders perceiving corruption among politicians as very or rather widespread skyrocketed from 30 per cent in 2003 to 77 per cent in 2009.

These are astonishing figures for a western democracy, and of course the dramatic increase in the share of people viewing corruption as widespread is to a large extent a direct effect of the severe crisis. However, our data show that such perceptions were relatively widespread also before the crisis. And more recent survey data suggest that the Icelandic public to a large extent is not expecting things to change in a positive direction due to crisis management. In the 2010/11 Global Corruption Barometer, a majority (53 per cent) of the Icelanders believe that the extent of corruption has increased in the last three years. Additionally, eight out of ten deem the government’s actions in the fight against corruption as ineffective, a figure which has almost doubled since 2007. This,

however, is not surprising when the political parties are judged as the institution most affected by corruption (Global Corruption Barometer 2010/11; 2007). The dramatic increase in perceptions of political corruption is also mirrored in a decrease in the levels of trust in politicians. In 2003, 15 per cent of the respondents stated that ‘few’ or ‘none’ politicians are trustworthy. In 2009 the corresponding figure was 41 per cent (ICENES 2003; 2009).

To sum up, we have shown that public support for the performance of the political system plummeted in 2009, from relatively high levels during the course of the first decade of the 2000’s (Table 1). Thus, it is safe to argue that the financial crisis had a major effect on system support in Iceland. That said, it is important to note that the growing public dissatisfaction does not seem to be directed towards the underlying democratic principles of the political system (Table 2). The crisis also seems to have affected the more specific types of support for political institutions, especially politicians and political parties. For example, the sentiment that Icelandic politicians are prone to engage in corrupt activities had seen a dramatic boost when measured in 2009, compared to more modest – but still relatively high – levels in 2003 (Table 3).

In the following section we set out to analyse the relationship between the central variables of interest: to what extent can public perceptions explain political support on the individual level, when also other important factors are taken into account? And, since the financial crisis soon became an event where allegations of corruption were prominent, have public perceptions of corruption become even more important for people’s evaluations of the functioning of the political system in 2009 compared to in the mid-00s when Iceland was widely viewed as one of the least corrupt countries in the world?

## The relationship between perceptions of corruption and system support

### **Operationalization and measurements**

Since we are particularly interested in the effect of public perceptions of corruption on political support, the focus will be on the variable measuring the public’s evaluation of the extent of corruption among politicians presented above (Table 3). Since the variable only has four response categories and we do not know if the distances between those categories are equal, we treat the variable as a categorical variable in our analysis. The impact of perceptions of corruption is tested on the two dimensions of system support discussed above.

First we estimate the effect of perceived corruption on specific political support using ‘satisfaction with democracy’ as the dependent variable. In the analyses, the variable has been dichotomised so that all respondents stating that they are ‘very’ or ‘fairly’ satisfied with the way democracy works have been assigned the value of 1 and those being ‘not very’ and ‘not at all’ satisfied have been given the value of 0. We also model the effect of perceived corruption on support for regime principles, using the variable item ‘Democracy is not without flaws, but it is still the best form of governance available’. The variable has been recoded to a dichotomy where the response ‘strongly agree’ has been coded as 1 and all others as 0. Since our dependent variables are binary, we use logistic regression to estimate our models.<sup>2</sup>

The logistic regression analyses also include a number of control variables. First, we control for the impact of socio-demographic characteristics of the respondents. Gender is included as a dummy variable for women. Age is the respondent’s age in years. We also include a variable regarding urbanity, where people living in cities or suburbs get the value 1 and all other 0. Education is controlled for using a dummy variable for those who have a university education (regardless if they have finished it or not). To measure income we include a variable that takes the value 1 if the respondent has stated an income in one of the two highest household income quintiles.<sup>3</sup>

Second, we test for the impact of a number of factors that have shown to be of importance in earlier research on political support. In a recent article about political support in Iceland in the first decade of the 2000s, Önnudóttir and Harðarson (2011) find policy performance of the government to be the strongest determinant of satisfaction with democracy, both before and after the crisis. The dramatic decline in satisfaction with democracy is thus attributed to people’s evaluation of the performance of the government responsible for handling the period before and after the crisis. Drawing on Önnudóttir and Harðarson – who also use the ICENES studies – we thus expect evaluations of government policy performance to have a strong effect on the dependent variable.<sup>4</sup>

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<sup>2</sup> Another possibility would be to use ordinal logistic regression, but since some of the response categories of the dependent variables are only used by a few respondents we do not have much variation for those respondents regarding our independent variables. Still, our main conclusions would be the same.

<sup>3</sup> For those respondents who have not stated an income, we assume they do not have a high income. The same assumption is made regarding education. Excluding those observations would not affect our conclusions.

<sup>4</sup> The item used for the 2003 model is a question where the respondents were asked to rate the performance of the government over the past four years: ‘How good or bad a job in general do you think the government has done in the last four years? Do you think it has done a very good, a good, a bad or a very bad job?’. In the 2009 survey, a different question was used: ‘How good or bad a job in general do you think the government of the Independence Party and the Social Democratic Alliance, that was in power from 2007 until February 2009, has done while it was in power?’ In both

Moreover, we include another item tapping a more diffuse type of political performance than the ‘government performance’ variable. The question pertains more to political trust than performance, or more specifically the trustworthiness of politicians (‘Do you think that politicians are in general trustworthy, that many of them are trustworthy, some are trustworthy, few, or perhaps none?’).<sup>5</sup> Although not a question about performance per se, it seems safe to assume that the trustworthiness of politicians is of course not assessed in isolation from their policy record and personal performance (Newton 1999, 179). Thus, this item is closely related to our main explanatory variable, i.e. perceptions about corruption among politicians. Considering this, and our theoretical emphasis on the importance of fairness and impartiality, we expect this variable to have a solid impact on system support.

Since interest in political issues has shown to be related to political support and political efficacy, we include respondents’ self-reported level of political interest as a control variable.<sup>6</sup> Considering the results from earlier research on system support, it is not clear what to expect with regard to this variable. On the one hand, some argue that citizens with an understanding of the political process are more likely to harbor a more optimistic view of democratic governance and express higher levels of political support (cf. Anderson & Tverdova 2003). On the other hand, recent research has pointed to increasing shares of ‘critical citizens’, or ‘dissatisfied democrats’, i.e. well-informed and politically sophisticated individuals that state strong support for democracy as a system of government, but nevertheless express discontent with the way democracy works (cf. Norris 1999; 2011; Doorenspleet 2012; Qi & Shin 2011).

The last control variables are related to different aspects of democratic representation. It has been argued that one of the key solutions to the problem of widespread political discontent could be to improve the institutions of representative democracy because large portions of the electorate feel that their views are not represented by the political elites governing them (Norris 1999b). According to this perspective, political support is thus contingent on the quality of representation and participation in the democratic process (cf. Aarts & Thomassen 2008). Widespread public discontent regarding representation contributes to a democratic deficit, which in the long run could lead

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cases, a dummy variable has been created by coding responses ‘very good’ and ‘good’ to 1, and ‘bad’ and ‘very bad’ as 0.

<sup>5</sup> This item has been recoded so that the first two categories equal 1, and the other categories equal 0.

<sup>6</sup> The question reads: ‘Do you consider your interest in politics very great, great, some, little, or are you not interested in politics at all?’ It has been recoded so that the first two categories equal 1, and the other 0.

to a loss of legitimacy (Norris 1997; 2011). We include three variables connected to political representation. The first item measures party support, indicating whether the respondent supports or does not support any political party or organization.<sup>7</sup> The second item asks the question if it matters who people vote for<sup>8</sup>, and the last item measures to what extent it matters who is in power<sup>9</sup>.

### **Perceptions of corruption and satisfaction with democracy**

Table 4 presents a series of logistic regression models using the ICENES data from 2003 and 2009. The first two models in Table 4 investigate only the bivariate relationship between public perceptions of corruption and satisfaction with democracy, for each of the two years. As mentioned, corruption is a categorical variable that can take four different values depending on how widespread the respondent think corruption is among politicians. The response 'hardly happens at all' is the reference category in the models. Corruption had a strong and statistically significant impact on satisfaction with democracy in 2003, and the effect is stronger among them who think that corruption is more widespread. In 2009 people's perceptions about the extent of corruption exercised an even stronger impact on support for overall regime performance (model 2); the coefficients for the categories 'very' and 'rather' widespread are bigger than in 2003. However, the category 'not very' is not significantly different from 'hardly happens at all' in 2009.

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<sup>7</sup> The wording of the question reads: 'Many people consider themselves supporters of political parties while others do not feel solidarity with any party. Do you in general consider yourself as a supporter of any political party or organization?'. Respondents supporting a party are assigned the value 1 and those not supporting a party are coded as 0.

<sup>8</sup> The question reads: 'Does it matter who people vote for?'. It is measured on a scale from 1 (who people vote for won't make any difference) to 5 (who people vote for can make a big difference). It has been recoded into a variable with the value 1 for those who answered 'who people vote for can make a big difference' and 0 for all others.

<sup>9</sup> The question reads: 'Does it make a difference who is in power?' The response categories are on a scale from 1 (it doesn't make any difference who is in power) to 5 (it makes a big difference who is in power). It has been recoded into a variable with the value 1 for those who answered 'it makes a big difference who is in power' and 0 for all others.

TABLE 4. DETERMINANTS OF SUPPORT FOR REGIME PERFORMANCE 2003 AND 2009  
(LOGISTIC REGRESSION COEFFICIENTS AND ROBUST STANDARD ERRORS)

	(1)	(2)	(3)	(4)	(5)	(6)
	2003	2009	2003	2009	2003	2009
<i>Corruption: How widespread?</i>						
<b>Not at all (reference)</b>	-	-	-	-	-	-
<b>Rather little</b>	-0.435*	-0.191	-0.466*	-0.225	-0.168	-0.099
	(0.182)	(0.538)	(0.185)	(0.545)	(0.212)	(0.651)
<b>Rather</b>	-1.159**	-1.347*	-1.337**	-1.473**	-0.773**	-1.227
	(0.194)	(0.528)	(0.204)	(0.539)	(0.236)	(0.647)
<b>Very</b>	-2.012**	-2.290**	-2.131**	-2.449**	-1.425**	-2.016**
	(0.290)	(0.534)	(0.298)	(0.546)	(0.343)	(0.657)
<b>Woman</b>			0.051	0.423**	0.035	0.443**
			(0.128)	(0.128)	(0.145)	(0.136)
<b>Age</b>			-0.019**	-0.014**	-0.017**	-0.015**
			(0.004)	(0.004)	(0.005)	(0.005)
<b>Urban</b>			-0.080	0.005	-0.087	0.103
			(0.132)	(0.130)	(0.148)	(0.139)
<b>High education</b>			-0.115	-0.027	0.036	0.111
			(0.146)	(0.134)	(0.168)	(0.144)
<b>High income</b>			0.100	0.248	0.003	0.292*
			(0.140)	(0.134)	(0.155)	(0.142)
<b>Positive view on government performance</b>					1.490**	0.718**
					(0.149)	(0.187)
<b>Trust in politicians</b>					0.520**	0.814**
					(0.162)	(0.212)
<b>Political interest</b>					-0.390*	-0.487**
					(0.168)	(0.151)
<b>Party supporter</b>					0.498**	0.518**
					(0.156)	(0.142)
<b>Vote important</b>					0.177	0.048

					(0.166)	(0.158)
<b>People in power important</b>					-0.119	-0.139
					(0.169)	(0.154)
<b>Constant</b>	1.479**	1.030*	2.423**	1.509*	0.717*	0.914
	(0.158)	(0.521)	(0.283)	(0.596)	(0.356)	(0.709)
<b>N</b>	1,318	1,270	1,290	1,234	1,194	1,159
<b>Pseudo R<sup>2</sup></b>	0.05	0.10	0.06	0.12	0.17	0.16

Note: \*\*= $p < .01$  \*= $p < .05$ . Source: ICENES 2003 & 2009.

*Comments: Robust standard errors are presented within brackets below each estimate. Urban refer to people living in cities or suburbs. People who have studied at university (regardless if they have a degree or not) are considered to have a high education. High income refers to those who have incomes in the two highest income quintiles. Those who have stated that the government has done a 'very good' or a 'good' job, are considered to have a 'Positive view on government performance'. Those who have answered that politicians 'in general' are trustworthy or that 'many' are so, have been coded to have trust in politicians. Political interest refers to those who have stated that they have a 'very great' or a 'great' political interest. Party supporter is based on a yes/no question. On a question on how important it is who you vote for, those who have stated the highest value on a five point scale have been considered to think that the vote is important. Similarly, those who have stated the highest value on a five point scale on how big difference who is in power makes, has been treated as someone who thinks it is important.*

The next two models – (3) and (4) – introduce the socio-demographic control variables. Interestingly, when controlling for these factors, the effect of perceptions of corruption increase, both in 2003 and 2009. Among the controls, only age have significant effects on support in both years, i.e. older people are less likely to be satisfied with the state of democracy. In 2009, we also find a significant effect of gender; women tend to be more satisfied with democracy. In models (5) and (6) a number of variables that have shown to be important for political support are introduced. Looking at the data from 2003 (model 5) we find, as before, a statistically significant negative effect of the perceived corruption variable on SWD. However, the magnitude of the effect substantially decreased after the introduction of the last set of control variables.

The effect of government performance is substantial and significant, thus lending support to Önnudóttir and Harðarson's (2011) findings that Icelandic political support is first and foremost driven by the public's evaluation of the policy performance of the government. Trust in politicians is also positively correlated to satisfaction with democracy. Interestingly, the effect of political interest is negative (and statistically significant). Thus, people who are interested in political matters tend to evaluate the working of the democratic political system more negatively than the politically uninter-

ested, when controlling for all other variables in the model. Furthermore, there is a positive impact of party support on political support. Contrary to the findings of Önnudóttir and Harðarson (2011), the items measuring the dimension of political representation show only weak – or in two instances non-significant – effects on SWD in 2003.

The last column of Table 4 presents the results from the same regression model, but with data from 2009. A simple inspection shows that the issue of corruption had gained in importance compared to 2003. Thus, it seems like the issue of corruption gained in salience for the public in the aftermath of the crisis. In line with this, in 2009 perceived trustworthiness of politicians exercises a stronger effect than in 2003. It is also worth noting that the relationship between political interest and political support remains strong. Of the representation variables, the effect of party support is still the only significant variable and it is of roughly the same magnitude. However, it is worth noting that the effect of perceptions of government performance has decreased by more than 50 per cent compared to 2003. Still, the effect is strongly significant.

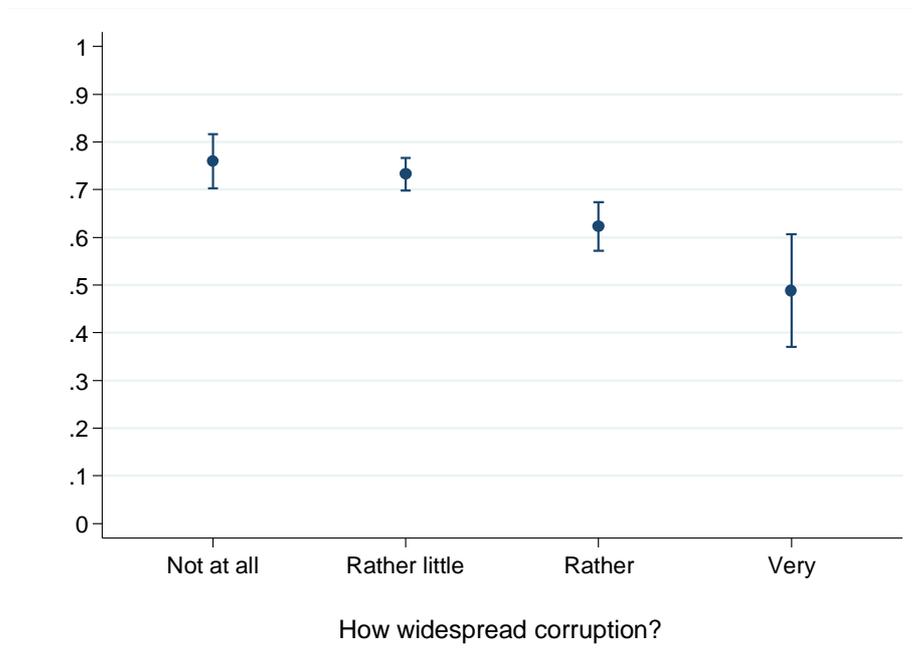
The regression analysis provides ample support for the claim that perceptions of corruption constitute an important determinant of support for the performance of the democratic political system. It also provides support for the hypothesis that evaluations of the fairness and cleanness of the political system and the political elites became even more important in the wake of the financial collapse.

Since the logistic regression coefficients can be difficult to interpret intuitively, in Figures 1 and 2 we present graphs illustrating the effect of perceived corruption on satisfaction with democracy.<sup>10</sup> Figure 1 shows the predicted probabilities of being satisfied with the way democracy works at different levels of perceived corruption in 2003, when controlling for all other variables included in the full model (5). This year, a person believing that corruption among politicians is widespread was in fact almost as likely to be satisfied (.49) as to be dissatisfied with the way democracy works. However, the importance of trusting politicians to be non-corrupt is demonstrated when looking at the lower values of the corruption variable. A citizen perceiving corruption to be ‘not widespread at all’ had a 76 per cent probability to also be satisfied with democracy.

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<sup>10</sup> The predicted probabilities presented are average predicted probabilities, i.e. for each level of the corruption variable and across all the actual values of the models’ covariates in each of the datasets.

**FIGURE 1. PREDICTED PROBABILITIES OF SATISFACTION WITH DEMOCRACY AT DIFFERENT LEVELS OF PERCEPTIONS OF THE EXTENT OF CORRUPTION AMONG POLITICIANS, 2003**

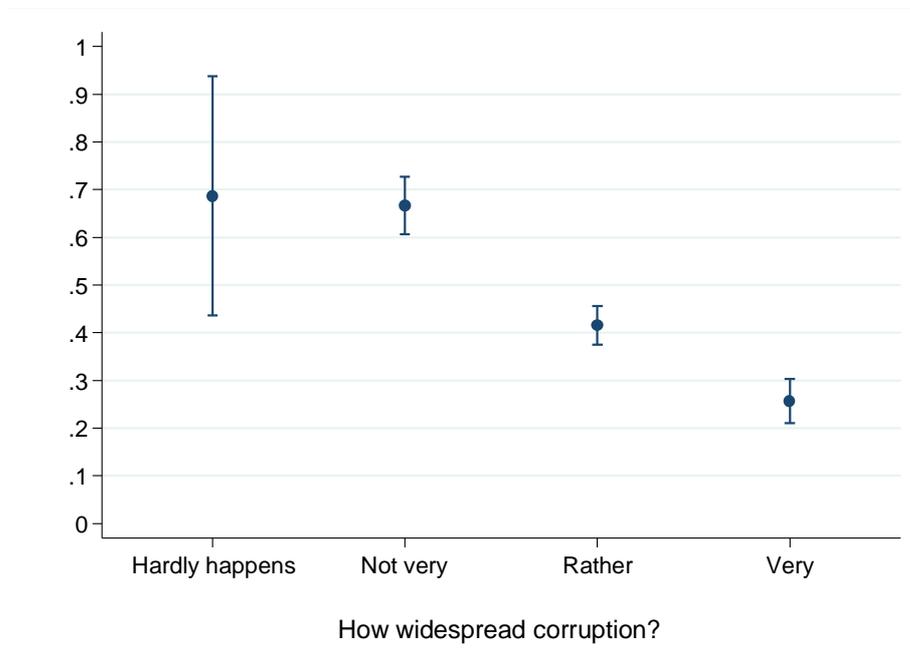


*Note: The predicted probabilities are based on the logistic regression model 5 in Table 4. The predicted probabilities presented are average predicted probabilities, i.e. for each level of the corruption variable and across all the actual values of the models' covariates in each of the datasets.*

Thus, even in 2003, when Iceland was regarded as one of the least corrupt countries in the world, perceptions of the extent of corruption among politicians had a strong and statistically significant impact on the likelihood to express support for the performance of the political system.

Figure 2 shows the corresponding figures for the data collected after the financial crisis (2009). A simple inspection gives at hand that the differences in effect between the extreme positions are more pronounced. And, those perceiving corruption among politicians as a major problem are much less likely to express support for regime performance. The likelihood for a person perceiving corruption as very widespread to be satisfied with democracy is only .26 compared to .68 for those not viewing corruption as a severe problem.

**FIGURE 2. PREDICTED PROBABILITIES OF SATISFACTION WITH DEMOCRACY AT DIFFERENT LEVELS OF PERCEPTIONS OF THE EXTENT OF CORRUPTION AMONG POLITICIANS, 2009**



*Note: The predicted probabilities are based on the logistic regression model 6 in Table 4. The predicted probabilities presented are average predicted probabilities, i.e. for each level of the corruption variable and across all the actual values of the models' covariates in each of the datasets.*

### **Perceptions of corruption and support for regime principles**

According to our analytical framework, which treats political support as a multidimensional phenomenon, the results are more or less in the expected direction. A dramatic event such as the crisis in 2008 should have consequences for political support on the level of regime performance. However, when it comes to the more diffuse type of support for regime principles, the effects of a shock-like event like the crisis are more difficult to predict. Table 2 showed that the level of public support for democracy as a system of government remained more or less the same during the period from 2003 to 2009. But, what are the factors that contribute to diffuse regime support in Iceland, and although it seems like diffuse support has not been affected by the crisis, were there any differences in the determinants of diffuse support when comparing the data from 2003 and 2009?

Table 5 presents two regression analyses with support for democratic regime principles as dependent variable. The independent variables are the same as in Table 4. What we are interested in here is to investigate if performance/output-related factors have gained in salience after the crisis in such a way that they exercise an important impact on regime principles. Looking at the data for 2003, we can note statistically significant effects from four variables.

TABLE 5. DETERMINANTS OF SUPPORT FOR REGIME PRINCIPLES 2003 AND 2009  
(LOGISTIC REGRESSION COEFFICIENTS AND ROBUST STANDARD ERRORS)

	(1)	(2)
	2003	2009
<i>Corruption: How widespread?</i>		
Not at all (reference)	-	-
Rather little	0.025 (0.189)	-1.639 (0.983)
Rather	-0.397 (0.215)	-1.904 (0.980)
Very	-0.470 (0.318)	-2.231* (0.983)
Woman	0.190 (0.134)	-0.039 (0.129)
Age	0.007 (0.005)	0.021** (0.004)
Urban	0.377** (0.135)	0.291* (0.131)
High education	0.160 (0.154)	0.534** (0.141)
High income	0.101 (0.147)	0.168 (0.136)
Positive view on government performance	0.191 (0.148)	0.207 (0.187)

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<b>Trust in politicians</b>	0.310*	0.012
	(0.147)	(0.204)
<b>Political interest</b>	0.627**	0.631**
	(0.164)	(0.142)
<b>Party supporter</b>	-0.036	0.070
	(0.141)	(0.138)
<b>Vote important</b>	0.477**	0.372*
	(0.151)	(0.152)
<b>People in power important</b>	0.191	0.383**
	(0.153)	(0.147)
<b>Constant</b>	-0.510	0.174
	(0.331)	(1.020)
<b>N</b>	1,190	1,147
<b>Pseudo R<sup>2</sup></b>	0.07	0.09

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*Note: \*\*= $p < .01$  \*= $p < .05$ . Source: ICENES 2003 & 2009.*

*Comments: Robust standard errors are presented within brackets below each estimate. For more information on the variables, see table 4.*

First people residing in urban areas tend to be more convinced about the importance of having a democratic political system. Also, people who are interested in politics and are trusting politicians are more likely to be convinced democrats. When it comes to representation, those who think that the choice of voting alternative makes a difference tend to be more supportive towards democracy. Regarding the two variables that displayed the strongest impact on satisfaction with the way democracy works – perceptions of the extent of corruption and government performance – we find no significant effects on regime principles in 2003.

In 2009, however, perceptions of the extent of political corruption play an important role also when it comes to support for democracy as political system. This indicates that factors associated with political output – related to public evaluations of the actual performance of politicians and political institutions – are important also for generating (or eroding) diffuse political support. As expected, respondents with great interest in politics and higher education are more likely to support democracy as a system of government after the financial collapse. As in 2003, those who live in cities or suburbs and those who think that who people vote for is important tend to be more supportive of democracy. In 2009, we can also find a positive and significant effect of age, i.e. older persons are more supportive.

## **Conclusions**

In the mid 00's, Iceland was one of the wealthiest and most successful countries in the world. It was ranked as number one on comparative indices of development such as the CPI and the HDI. Additionally, the political system enjoyed a relatively high level of legitimacy among its citizens. In 2008, Iceland's financial system crashed. The country experienced an economic crisis that stands out as one of the most serious in post-war history, and the government was forced to resign. Investigations of corruption and abuse of markets and power followed suit. We argue that these dramatic economic and political events make up an excellent opportunity for empirical studies of the relationship between public perceptions of corruption and political support with the purpose of investigating how such dramatic events affect these two variables.

Drawing on survey data from both before and after the crisis, we find that the crisis had devastating effects on the way the Icelandic public perceived the performance of the political system in general.

In particular it meant that citizens came to view political corruption as a real and existing societal problem. Also, even *before* the crisis – i.e. at a time when Iceland occupied top positions in international indices of development, good government and control of corruption – a substantial share of the citizens viewed corruption as widespread.

Regarding the expected effects of public perceptions of corruption and political support our results provide – in line with a small but growing body of research on public perceptions of corruption in established democracies – evidence for the fact that the way the public perceives problems of corruption is an important determinant of general political support. Evaluation of the performance of the government was a very important determinant before the crisis, but also views about corruption had a strong and statistically significant independent effect on satisfaction with democracy. After the crash, the salience of corruption increased and in 2009 perceived extent of corruption comes out as the strongest determinant of satisfaction with democracy, and also shows a significant impact on support for democracy as a system of government. Here we believe that it is particularly interesting that before the crisis, one may assume that perceptions of corruption were largely built on suspicions and rumors. However, after the crisis, many Icelanders became aware that there indeed may have been real abuse of power going on, leading up to the crash. This, we hypothesize, may explain why perceptions of corruption exert a much stronger negative influence on political support after the crisis.

In general, our results thus provide strong evidence of the claim made by research on procedural fairness and quality of government: when citizens form their beliefs and judgments of the legitimacy of the political system in general, they first and foremost emphasize the fairness and impartiality on behalf of the political authorities. Our results also provide evidence for the fact that dramatic events such as the crash and the following allegations of official misconduct and corruption may affect citizens' perceptions so strongly that it may have significant negative effects on the legitimacy of the democratic political system.

To round up, we believe that the results from this empirical study also are interesting in relation to the validity and reliability of frequently used comparative indices of corruption and governance. Already before the crash in 2008, there was obviously a discrepancy between the perceptions of citizens and the international image of the country as perceived by the expert-surveys that make up indices such as the CPI. This index was beyond doubt off the mark pinpointing the actual levels of

corruption on Iceland 2005 and 2006, when the country enjoyed the top position. Only a couple of years later, the experienced corruption investigator Eva Joly maintained that suspicions of corruption on Iceland should be treated as one of the most important financial investigations Europe has ever known. Most likely, the fraud and corruption found after the crisis, was present already in 2005 and 2006.

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