Distrust in Utopia

Public perceptions of corruption and political support in Iceland before and after the financial crisis of 2008

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Abstract

Throughout the last decades, corruption and related practices have enjoyed much attention from social scientists. The common notion is that these problems constitute severe obstacles to political and economic development in large parts of the world. However, scholars interested in corruption have traditionally not shown much interested in countries found to be the world’s least corrupt in Transparency International’s Corruption Perception index and similar measures. This paper argues that this bias tend to obscure the problems and risks of corruption and abuse of power also in ‘least corrupt’ settings. Just because such problems are relatively smaller in these countries compared to those found at the bottom does not however imply they are immune against such problems, and it does not mean that corruption cannot have real and damaging effects in countries receiving high ratings by experts. In this paper we analyse public perceptions of corruption and their effects in Iceland - a particularly interesting case when it comes to questions concerning corruption. According to CPI, it was the least corrupt country in the world in 2005 and 2006. However, after the financial collapse in 2008, it plummeted in the CPI. However, survey data show that substantial shares of the public perceived political corruption as widespread even before the crisis, only to skyrocket in the aftermath of the financial crash. Drawing on survey data, we show that public perceptions of corruption exercised a strong and significant effect on political support, both before and after the crisis. However, after the crisis the effects of perceived corruption became much more pronounced, even to the extent that perceived corruption strongly affects support for the democratic regime. We argue that our findings have implications for how we ought to approach the question of corruption even in so called ‘least corrupt’ settings, and they also cast doubt on the validity and reliability of comparative subjective expert measures such as the CPI.

Keywords: Corruption, rule of law, procedural fairness, legitimacy, public support, democracy, Corruption Perception Index, Iceland
Introduction

In May 2008, just a few months before the financial collapse in Iceland, one could read the following lines 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 reported in The Guardian in 2006, Icelanders are the happiest people on earth.

But Icelanders were not only among the richest and the happiest in the world at this point in time. In the mid 00’s, Iceland was also perceived as practically non-corrupt. According to the most frequently cited source in the field, Transparency International’s Corruption Perceptions Index (CPI), in 2005 and 2006, Iceland was indeed the least corrupt country in the world. Despite what has happened in Iceland since the financial breakdown, it is fair to say that in the mid 00’s –considered as an ideal type – Iceland comes close to what could be regarded as Utopia: if we look at a few variables deemed to be crucial for welfare, back then, it was the most developed country in the world. Against this backdrop, and then considering the deep financial crisis that followed the golden years in the early 00’s – a crisis which some observers believe to have been caused by clientelism and other forms of behaviour related to corruption (Kristinsson 2012; Vaim et al. 2011) – we believe that the Icelandic experiences are worth investigating if one wants to learn more about the effects of corruption.

Thus, in this paper the Icelandic case will be used in order to answer three overarching questions connected to more general issues related to public perceptions of corruption and political support. The first question concerns public perceptions of corruption in a country
where corruption traditionally has been perceived to be close to absent by different comparative indices, such as the CPI. Do ordinary citizens, despite top rankings in the CPI, perceive corruption as a real existing problem and other indices based on the perceptions of experts (e.g. Iceland before the financial crash in 2008)? The second question is also descriptive in kind, and deals with how the crisis affected public perceptions of the extent of corruption and political support in general. Thirdly, we set out to investigate if the claim of earlier research – mostly focusing on new democracies and developing countries – arguing that public perceptions of corruption have a strong impact on general system support receives support also in the case of Iceland. Here, we have the opportunity to empirically examine the relationship between perceptions of corruption and political support in two interesting contexts: first before the crisis, when Iceland was widely regarded as practically non-corrupt, and then after the crash, when different aspects of corruption and public malpractice were revealed and brought up to public debate. Thus, we also have the opportunity to investigate if the effects of perceptions of corruption on political support are magnified in times of crisis, and in the end negatively affect the legitimacy of the political system.

The paper proceeds as follows. In the next section, we briefly introduce the Icelandic case. Thereafter, in the third section, we introduce our theoretical framework, define and operationalize the independent and dependent variables, and discuss what we should expect to find in our empirical material. We then go on to describe our data and present a few notes on our methodological approach. In the fifth section, we present data on political support and public perceptions of corruption, as measured before and after the crisis. In the sixth section, our empirical analyses are carried out and the results are presented. The seventh and concluding section sums up our main arguments and results, and we discuss the implications of our findings.
The context: Iceland and the financial crisis of 2008

Let us start out by giving context to our case – i.e. the country we have chosen, and the economic crisis on Iceland, which plays an important role for our analysis. Iceland is a small island country with about 320,000 inhabitants, located in the middle of the North Atlantic, almost exactly between the European and American continent. Throughout the twentieth century up until the 70s and 80s, it could fairly be described as a comparatively poor and underdeveloped country, with an economy heavily relying on fishery and agriculture. However, from the mid-1980s and onward, the economy developed rapidly. In the late 1990s it was one of the wealthiest nations in the world, and come mid-00s, fishery and agriculture no longer carried the economy. Instead, since the privatisation of the banking sector – which was completed in 2000 – Iceland had quickly become a hotspot for financial services and investment banking.

However, the economic boom came to an abrupt end in October 2008 when the three largest banks – accounting for around 85 per cent of the country’s banking system – collapsed. Iceland underwent the deepest – and quickest – economic crisis ever recorded in 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 rampant unemployment. Riots in front of the Parliament followed and the ruling political coalition came to an end (cf Eythórsson & Kowalcyk 2013).

In 2009, the parliament launched an independent Special Investigation Commission with a mandate to investigate the causes of the collapse. The commission’s report was presented in April 2010 (which is worth bearing in mind in the light of the data we analyse, that were collected in 2009). As shown 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. Without doubt, 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.

In this context, it is important to note that several commentators have highlighted that corruption (or practices that resemble corruption) – and, remember, in a country that was ranked by CPI as the least corrupt country in the world 2005 and 2006 – indeed seems to have constituted a crucial part in explaining the collapse of the economy. For example, Erlingsdottir (2009) writes 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’. Vaim et al. (2011) argue 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. Furthermore, Kristinsson (2012) maintains that clientelism and doubtful political appointments could well have had an important role in generating the crisis, since they made the public administration weak and ineffective in carrying out its duties.

The fact that corrupt practices may be an underlying structural cause of the financial crisis is, we argue, important to bear in mind when we analyse the effects of corruption perceptions on Iceland. In addition to this, the experienced corruption investigator Eva Joly, who was assigned to investigate corruption allegations in the Icelandic banking system, has argued that the potential corruption in Iceland should 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).
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 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 ought to be the case in Iceland.

**The dependent variable: political support**

Political legitimacy is no doubt important. However, the concept is widely debated and lacks a universally accepted definition. This is hardly 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’.

In comparative politics two different understandings of legitimacy can be singled out. Wheatherford (1992) argues that the earliest understanding of legitimacy consisted of ‘the view from above’, resting on the assumption that an outside observer, relying on aggregate evidence of regime actions and performance, could measure the legitimacy of a political system. Wheatherford (1992: 150) identifies four main attributes of this formulation of legitimacy:

1) *Accountability*. Are rulers accountable to the citizens via a process that allows wide and effective participation?

2) *Efficiency*. Is the government set up to accomplish the ends of society without wasting resources and time?
3) *Procedural fairness*. Is the structure of the system such that issues are resolved in a regular and predicted way, and access to decisional arenas open and equal?

4) *Distributive fairness*. Are the advantages and costs allocated by the system distributed in an equal manner?

The strength of this view is its broad theoretical view and that it formulates legitimacy in terms of systemic properties that enhance the possibilities of comparative analysis. The main weakness lies in its focus on formal structures and aggregate processes. One particular shortcoming is the insufficient recognition of the need to observe the ‘subjective’ micro-level aspects of the political system, i.e. the perceptions and attitudes of the general public. Take for example the attribute of procedural fairness, which is central to the purposes of the present study: is it at all possible for an outside observer to ‘objectively’ assess levels of procedural fairness in different countries? It is doubtful. Rather, we believe that in order to empirically measure a concept like procedural fairness we need micro-level data that tap into ordinary people’s perceptions of the procedural fairness of the political system they live in.

Along with the growth of publicly available public opinion data, this perspective has, to a large extent, been replaced by what Wheatherford calls ‘the view from the grass roots’. This perspective is particularly concerned with *citizen evaluations* of the legitimacy of their political system. Thus, it is more 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 takes as its departure the pioneering work of David Easton (1965; 1975), who places legitimacy within the framework of ‘political support’ (Booth & Seligson 2009: 8). Easton 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). Easton’s conceptualization of political support is built 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 on political support, 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).

Empirical analyses of different surveys have convincingly demonstrated the fact that the theoretical dimensions are indeed reflected in the minds of citizens (Norris 2011; Booth & Seligson 2009; Klingemann 1999). In this paper, we explicitly 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 should however be more sensitive to short-term evaluations of the actual performance of the political system. We could thus expect to see a pronounced effect of
the economic crash on support for regime performance, and more modest changes in support for regime principles (if any).

*The independent variable: public perceptions of corruption*

As indicated previously, parts of the debate in aftermath of the financial crisis in Iceland has 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 perceived as practically non-corrupt welfare states, such as Iceland (and the other Nordic countries, cf. Erlingsson et al. 2012; Linde & Erlingsson 2012).

Ever since Weber theorized on the ideal-type modern state, it has been recognised that the delivery of public services ought to be decided 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 further advanced by Rothstein and Teorell (2008) who argue that impartiality in the exercise of public power actually constitutes the essence of quality of government (QoG). Hence, QoG – 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 one of the – if not the – greatest obstacles to quality of government (cf. Rothstein & Holmberg 2012).
Simply put, corruption breaches the main foundation of quality of government, the impartial exercise of public power.

**Corruption and political support in times of crisis: what to expect?**

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). Nonetheless, the few available empirical studies dealing 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 (Seligson 2002; 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 established West European democracies, such as Sweden (Linde & Erlingsson 2012) and Spain (Villoria et al. 2012). Also, broader comparative studies using both micro- and macro-level data have pointed in a similar direction (Manzetti & Wilson 2007; Anderson & Tverdova 2003; Wagner et al. 2009).

Why, then, are perceptions of corruption expected to play such an important part 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 supposed 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. Departing from the analytical model of political support and the results of the previous studies in the field, three hypotheses about the Icelandic case can be formulated:

\[ H_1: \text{Citizens regarding corruption as widespread are less likely to evaluate the working of the political system in positive terms, and this effect should remain strong and significant under control for other theoretically relevant factors.} \]

\[ H_2: \text{Since the financial crisis contained aspects that allegedly were related to corruption and clientelism, the effect of perceptions of corruption on political support should be even stronger after the crisis, resulting from increased public awareness of the problem.} \]
If the analytical framework of specific and diffuse political support is adequate, the effect of the crisis on political support is expected to be substantial on support for regime performance, but weaker on support for regime principles.

Data

The data used here 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, i.e. eight times. However, we will only use the four most recent waves that have been carried out from 1999 and onwards. This is due to the fact that the variables of interest for us have only been included in those waves.

ICENES is a post-election survey and the data is collected by 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 well suited for our purposes. It has a simple design that has been consistent over the years, and the response rate is still comparatively high. Many for this article relevant questions have been included using the same wordings. Those relevant questions include a question on corruption perception included both in 2003 and 2009. It should be stressed that in 2003, Iceland was, as mentioned earlier, generally considered to be a non-corrupt country and we are therefore very fortunate that such a question still was included in the survey. Since the same question also was included in 2009, we are able 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 variable: system support

Let us start the empirical section by 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 investigate 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 about here **

Levels of satisfaction 1999–2007 are more or less on par with the Nordic neighbouring countries Denmark, Finland, Norway and Sweden, which have historically been characterized by their high levels of political trust and support (cf. Norris 2011). In 2009, however, a sharp decline can be observed. 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 80 to 42 per cent between 1999 and 2009 – in other words, an exceptional drop.

Although the level of support in 2007 was about ten percentage points lower than in 1999, we can observe a very 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, Iceland displays levels of political support that are found in post-communist countries such as the Czech Republic and Hungary, rather in their Nordic neighbours (cf. Curini 2010).

At this point it is safe to say that the data confirm the hypothesis that the 2008 financial crisis had a dramatic and deteriorating effect on Icelanders evaluation of the functioning of the democratic political 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. 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 of course 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 well. 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 about here **

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 before, this is what we should expect according to the analytical model of political support applied in this study.

** The 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. For example, 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 reveals some interesting facts. Already in 2003, when Iceland was considered more or less non-corrupt, almost a 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. Although we lack comparative data for exactly the same question, public perceptions 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 2012, 8).

In 2009, however, the situation had changed dramatically. In the aftermath of the crisis, 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 some 30 per cent in 2003 to 77 per cent in 2009.

These are remarkable 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, 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. Data from the 2010/11 Global Corruption Barometer show that a majority (53 per cent) of the Icelanders believe that the extent of corruption has increased in the last three years. And, eight out of ten judge the government’s actions in the fight against corruption as ineffective, a figure almost doubled since 2007. This is however not very 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 this part, 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 seems safe to argue that the financial crisis had a major effect on system support in Iceland. It is however 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, and 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 we set out to take a closer look at the relationship between the central variables of interest. The main question is to what extent public perceptions can 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 was prominent, could it be the case that public perceptions of corruption had 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?

**Perceptions of corruption and system support**

*Operationalization and measurements*

In this section we set out to investigate the determinants of political support in Iceland before and after the financial crisis. 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). In the following analyses, it has been recoded so that 1 represents ‘hardly happens at all’ and 4 ‘very widespread’. 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.
The multivariate 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 coded 1 for men and 2 for women. Age is the respondent’s age in years. Urban/rural is measured on a scale from 1 (rural area or small village) to 4 (city with more than 100,000 inhabitants). Education is coded on a scale from 1 (incomplete primary) to 7 (complete university undergraduate degree). To measure income we use household income quintiles, from lowest (1) to highest (5).

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.\(^1\)

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?’).\(^2\) Although not a question about performance per se, it

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\(^1\) 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?’ The item has been recoded so that 1 depicts ‘very bad’ and 4 ‘very good’. 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?’ It has been recoded to a scale from ‘very bad’ (1) to ‘very good’ (4).

\(^2\) This item has been recoded so that the higher the value, the trustworthier the respondent finds politicians to be.
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 rather 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. 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 to a loss of legitimacy (Norris 1997; 2011). We

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3 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 higher values represent greater political interest on a scale from 1 to 5.
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. The second item asks the question if it matters who people vote for, and the last item measures to what extent it matters who is in power. More information about the coding of variables and correlations are found in the appendix.

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 models in Table 4 investigate only the bivariate relationship between public perceptions of corruption and satisfaction with democracy. Corruption had a strong and statistically significant impact on SWD in 2003. However, in 2009 people’s perceptions about the extent of corruption exercised an even stronger impact on support for overall regime performance (model 2). In 2009 this variable alone explains almost ten per cent of the variation in SWD, compared to less than five per cent in 2003. Thus, it seems like the issue of corruption gained in salience for the public in the aftermath of the crisis.

**Table 4 about here**

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 and gender (2009) have

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4 The wording of the question reads: ‘Many people consider themselves supporters of political parties while others do not feel a 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.

5 Does it matter who people vote for? 1= who people vote for won’t make any difference; 5= who people vote for can make a big difference.

6 Does it make a difference who is in power? 1= it doesn’t make any difference who is in power, 5= it makes a big difference who is in power.
significant effects on support. 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 expected, 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 (from $b=-1.090$ to $b=-.386$).

The effect of government performance is substantial ($b=1.097$) 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 connected 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 uninterested. Although only statistically significant at the 95 per cent level, 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. The coefficient ($b=-.825$) is more than twice as large as in the corresponding model for the year 2003 ($b=-.386$), and only slightly smaller than in the bivariate model (2). It is also interesting to note that the effect of perceptions of government performance has decreased by more than 50 per cent compared to 2003. However, the effect is still strongly significant. In line with this, in 2009 perceived trustworthiness of politicians exercises a stronger effect than in 2003. It is also interesting to note that the direction of the relationship between political interest and political support has flipped between 2003 and
2009. It remains about equally strong, but the negative effect has changed to positive. Of the representation variables, we only observe a statistically significant effect for the importance of the belief that who people vote can make a big difference.

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 cleanliness of the political system and the political elites became even more important in the wake of the financial collapse.

Since logit 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. Figure 1 shows the predicted probabilities of being satisfied with the way democracy works at different levels of perceived corruption in 2003. This year, a person believing that corruption among politicians is widespread was in fact more likely (.56) to be satisfied than 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 an 80 per cent probability to also be satisfied with democracy.

**Figure 1 about here**

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 much 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 .25 compared to .80 for those not viewing corruption as a severe problem.

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 five variables.
First, women and 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. In fact this variable has the strongest effect of all variables in Table 5. This indicates that factors related to 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.

In relation to our hypotheses, the multivariate analyses clearly confirm the first two hypotheses. First, although government performance shows to be the strongest determinant of political support in 2003, explanatory factors closely connected to procedural fairness/QoG theory were also important in determining public support. However, the financial crash of 2008 seems to have made issues of corruption and clientelism more important for citizens when evaluating the performance of the political system. As visualized in Figure 1 and 2 the importance of perceptions of corruption increased substantially between the two points of measurement. The third hypothesis, stating that support for regime principles would be less
affected by the dramatic events in 2008, is also supported by the data. However, in 2009 perceptions of corruption come out as the strongest determinant also for regime principles.

**Concluding remarks**

In the mid 00:s, Iceland was widely perceived as one of the most successful countries in the world, ranked as number one on comparative indices of development such as the CPI and the HDI. Additionally, according to surveys the political system enjoyed a high level of legitimacy among the citizens. Then, in 2008, the financial system crashed and Iceland experienced an economic crisis that stands out as the most serious crisis in post-war history. The state debt and unemployment rates skyrocketed, and the government was forced to resign after riots outside the parliament. Investigations of corruption and abuse of markets and power followed suit. In this paper we have argued that these dramatic economic and political events make a good case for an empirical study 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 before and after the crisis, we find – not surprisingly – that the crisis had devastating effects on the way the Icelandic public perceived the performance of the political system in general, and in particular when it comes to viewing political corruption as a real and existing societal problem. What is particularly interesting to note, however, is that 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 among politicians as widespread. Thus, before the crash, there was a clear 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. Insights into the case of Iceland, hence, have potential to cast the validity of the CPI into doubt. This index
was beyond doubt far off the mark pinpointing the actual levels of corruption on Iceland 2005 and 2006, when it enjoyed the top position. Only a couple of years later, an experienced corruption investigator such as 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 in 2005 and 2006 too.

When it comes to the hypothesized effect of public perceptions of corruption and political support we present some interesting findings. In line with small but growing body of research on public perceptions of corruption in established democracies, we find that the way the public perceives problems of corruption is an important determinant of general political support. Although evaluation of the performance of the government was the most important determinant before the crisis, views about corruption had a strong and statistically significant independent effect on satisfaction with democracy. After the crash, however, corruption comes out as an extremely strong determinant of political support, both in terms of support for regime performance and regime principles (although less stronger when it comes to the principles dimension). The results thus provides strong evidence of the claim made by research on procedural fairness and quality of government: that 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. It also provides 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 in the end has an effect on the legitimacy of the democratic political system.
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The Telegraph 2009-06-11. “Iceland corruption investigator Joly may quit in frustration”.


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)

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<td>10.9</td>
<td>10.4</td>
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<td>Fairly satisfied</td>
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Table 2. Democracy is not without flaws, but it is still the best form of governance available. (per cent)

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<td>+1.4</td>
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Table 3. How widespread do you think corruption is among Icelandic politicians (per cent)

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<td>Very widespread</td>
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<td>Rather widespread</td>
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<tr>
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<td>Hardly happens at all</td>
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<td>1.5</td>
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Table 4. Determinants of support for regime performance 2003 and 2009 (logit regression coefficients and standard errors)

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<td>(.005)</td>
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Note: ***=p<.001 **=p<.01 *=p<.05. Source: ICENES 2003 & 2009.
Table 5. Determinants of support for regime principles 2003 and 2009 (logit regression coefficients and standard errors)

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Note: ***=p<.001 **=p<.01 *=p<.05. Source: ICENES 2003 & 2009.
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 logit regression model 3 in Table 4. The effects of the independent variable (corruption) are calculated when all other variables in the model are held at their mean.

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 logit regression model 3 in Table 5. The effects of the independent variable (corruption) are calculated when all other variables in the model are held at their mean.