

# Policy performance and satisfaction with democracy

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## Abstract

In this paper we examine how subjective perception of government's policy performance affects satisfaction with how democracy works in Iceland. This we base on the argument that the public is aware of and evaluating the governments' performance when the political system is faced with a major crisis that has been extensively publicly debated and triggered widespread protests. The financial and political crisis in Iceland 2008-09 provides an opportunity to examine if government performance can be seen as a causal factor explaining satisfaction with the democratic process. We take into account two alternative explanations; that satisfaction with how democracy works depends on citizens' belief in how well the representative system works; and if they are more satisfied when their party is represented in government. Our principal conclusion is that subjective policy performance is the main explanation for citizens' increased dissatisfaction with democracy during a severe crisis.

**Keywords:** Satisfaction with democracy, policy performance, representation, financial and political chrisids

## 1. Introduction

The global credit crunch in 2008 had serious consequences for the financial system in Iceland, with all three major banks collapsing and taken into public ownership in the fall of that same year. As will be established below, the crisis was an urgent problem that had to be dealt with and we examine if the perception of the policy performance of the government is the main factor explaining a major increase in dissatisfaction with how democracy works in Iceland after the crisis.

The general contribution of this paper is that we establish that dissatisfaction with the democratic process (also referred to as satisfaction with how democracy works) reflects dissatisfaction with the political system, using policy performance as our major



explanation. We clarify that satisfaction with how democracy works is not a reflection of how happy people are with democracy *per se*; instead it is a reflection of how happy they are with how democracy functions or the political process (Westle 2007). More specifically we demonstrate and argue that a low policy performance results in growing dissatisfaction with how democracy works when a crisis occurs. This point has only been suggested - not established - in earlier research on satisfaction with how democracy works in long-term democracies (see for example Norris 2011). We base our causal argument on the assumption that the subjective perception of a low policy performance causes dissatisfaction with how democracy works, not the other way around. The Icelandic crisis in 2008-09 provides a ground for demonstrating this as a causal chain of events, comparing alternative explanations for an increase in dissatisfaction, and establishing that the only factor that changed dramatically along with dissatisfaction with how democracy works is the subjective policy performance of the government.

Arguing this causality is not without problems. The obvious criticism is that both policy performance and dissatisfaction with democracy might be caused by a common factor. This criticism refers to where the focus is in the causal chain. While we acknowledge that there might be a common factor affecting both subjective policy performance and satisfaction with how democracy works, it does not exclude a causal mechanism between policy performance and satisfaction. If the common factor is for example that citizens are in general more critical of the political system (Dalton 2008) it might be that it makes them more critical of the policy performance of the government and at the same time more critical and less satisfied with how democracy works. But, if they perceive the performance as bad it can as well result in even more dissatisfaction with how democracy works than if they believe that the performance is good. If this is the case, the effect of the common factor (that citizens are in general more critical of how democracy works), is mediated through the perception of the government's policy performance. This provides ground for arguing that there is causality between subjective policy performance and satisfaction with how democracy works.

While the general contribution of the paper is to establish that subjective policy performance explains growing dissatisfaction with how democracy works, when the performance is perceived as low following an urgent crisis, two other points can be raised here. First, the paper contributes to research and academic discussion on satisfaction with how democracy works and policy performance in Iceland. Until now little has been published on this topic that goes beyond being merely descriptive of how satisfaction with democracy has changed (see for example Önnudóttir & Harðarson 2009). Second, our results emphasise the importance of taking the political events into account when testing different explanations for a rise or decline in the public satisfaction with how democracy works. In comparative studies on satisfaction with the democratic process, the focus is usually not on political events.

## 2. Satisfaction with democracy

While there seems to be a long-term growing dissatisfaction among citizens in Western countries with how democracy works, the support for democracy as the best form of

government remains high (see for example Inglehart 1997; Dalton 1999; Klingeman 1999; Norris 1999a; Inglehart & Welzel 2005; Dalton 2008). Different explanations for increasing dissatisfaction with how democracy works have been suggested, and its consequences are debated. In this paper, we focus on what factors explain growing dissatisfaction, not on the consequences of it. One practical view on the consequences should nevertheless be mentioned here; if it is true that prolonged discontent with government performance leads to a weakening belief in democracy as the best form of governance (Huang, Chang & Chu 2008), the importance of establishing the source of discontent is obvious.

### **Cognitive mobilisation and value-change**

A common explanation for growing dissatisfaction with how democracy works and other findings on decline for political support is that it is due to cultural factors and a change on the citizen-level, most often referred to as a value-change and cognitive mobilisation.

Klingeman's (1999) view is that growing dissatisfaction with the democratic process does not necessarily indicate that democracy is in danger, but rather that there is a growing number of well-informed citizens who believe in democracy but are not satisfied with how it is implemented. This is in line with Dalton's (2008) view that declining trust and support for democratic institutions and actors is due to cognitive mobilisation of the public. With increasing education of citizens they are now more critical of the performance of the political system, while they still support the general idea of democracy. Inglehart (1997), and later Inglehart & Welzel (2005), argue that post-materialist theory explains satisfaction with democracy. Those who emphasise life values such as individual freedom and freedom of speech (i.e. post-materialists) are more dissatisfied with how democracy works compared to those who emphasise materialistic values such as security, economic stability, and stability in governance (i.e. materialists). A value-change from materialist to post-materialist values in Inglehart and Welzel's use, and the cognitive mobilisation of the public as used by Dalton, are systematic changes linked into to citizens basic life values; changes that take place over a long time period and even only with an intergenerational change.

This focus on the citizens' and their value changes as the main explanations for growing dissatisfaction is useful when the decrease in satisfaction with the democratic process is gradual and over a long-time period. This approach cannot explain a sudden increase in dissatisfaction within a narrow time-frame, as value-change and cognitive mobilisation are supposed to change slowly. Another limitation is that the main focus is on citizens and how they have changed, while the political system is only a secondary explanation as a factor. Reasons for the political system being a secondary factor could be that policy changes often happen in small steps, they change gradually, and citizens are not always aware, or care for, those changes.

We acknowledge the importance of explaining long-term and gradual changes in satisfaction with how democracy works with value-change and cognitive mobilisation of the public. In our paper we move the focus to explaining an increase in dissatisfaction over a relative short-term time span. In order to do so, we examine other factors than value change and cognitive mobilisation as determinants of satisfaction with how

democracy works. Our main interest is to examine how changes in the subjective perception of the government's policy performance, in a context of a major financial and political crisis, explain rising dissatisfaction with how democracy works. Alternative explanations will be taken account of; citizens' perception of representation and if they voted for a party represented in the government or not. In the following sections we first discuss the different levels of political support, and then each factor in turn that we include in our model examining satisfaction with how democracy works in Iceland.

### **Levels of political support**

In Norris's (1999b) widely used expansion of the Eastonian (Easton 1965) classification, she claims that political support is ranging from diffuse support for the political regime to specific support for political actors, with three levels in between; regime principles, regime performance and regime institutions. Support for the political regime concerns attachment to the nation beyond the present institutions of government. Support for the regime principle refers to values of the political system or the idea of democracy. Regime performance is about support for the democratic function in practice, or the technical implementation of democracy. The level of regime institutions refers to support for the institutions implementing democracy, such as the government, the parliament, the executive, and the legal system. The level of political actors refers to support for the politicians themselves and political leaders.

Norris's classification is a useful framework for analysing political support as it clarifies what level of support is under consideration. It has to be kept in mind though, that the five levels might not be perfectly distinct. It cannot be assumed, that support for one level is independent of a support for another level. In the model presented in this paper, satisfaction with how democracy works is on the level of regime performance, and the main explanatory factor of our interest, policy performance of the government, is on the level of regime institutions. If policy performance of the government affects satisfaction with democracy, the perception of what happens at the level of regime institutions affects satisfaction at the level of regime performance.

### **Policy performance of the government**

According to Norris (2011), the rational choice theory of system support, works well in explaining citizens' satisfaction with democracy. Her approach is a counterbalance to research on the demand-side, or cultural approach, such as that growing dissatisfaction is due to a cultural change or a value change among the public (see for example Inglehart 1997; Inglehart & Welzel 2005; Dalton 2008). She does not suggest that the explanations on the demand side are incorrect, but that in order to better understand what drives satisfaction with how democracy works, other factors on the individual level, institutional level, and the performance of the political system have to be taken into account.

The rational citizen's satisfaction with how democracy works is based on his self-interest of how well it works for himself, according to Norris. Citizens' satisfaction with the democratic process reflects his or her cumulative experience of achievement of the former governments, whether that is a normative judgment about the decision-

making process or the policy output of the government. Earlier research results have suggested that in newer democracies policy performance is more important for satisfaction with how democracy works, than is the case in long-term democracies. This does not exclude the possibility, that policy performance also matters for democratic satisfaction in long-term democracies – rather it suggests that the performance is assessed on different criteria in older democracies compared to newer ones. In newer democracies, the emphasis has been on if basic democratic rights are guaranteed – in established democracies the emphasis is suggested to be more on the quality of performance, and the ability of governments to deliver policy proposals.

In line with this, Norris (2011) examines the link between the policy performance of the government and satisfaction with how democracy works, using data from the World Value Survey that includes both new and long-term democracies. Indicators that capture the general policy performance of the government, such as the quality of democracy (Freedom House), and good governance (World Bank indicators by Kaufman, Kray and Mastruzzi 2008; see an updated version 2010), do explain satisfaction with the democratic process, both within old and new democracies. Furthermore, general indicators of policy performance have a stronger effect on satisfaction with how democracy works compared to narrower indexes on economic, social, and environmental policy.<sup>1</sup> In Norris's results, there is a considerable variance between countries, both within new and old democracies. This shows the importance of taking account of the political context and events within each country when examining what factors determine satisfaction with how democracy works.

An alternative approach, suggested by Norris, for understanding the influence of policy performance on citizens' satisfaction with democracy, is to use before-and-after case studies on the consequences of economic shocks, naming the bank crisis in Iceland 2008 as a possible case. She points out, that even if it can be established in before-and-after case studies, that low policy performance explains dissatisfaction with democracy, it cannot thereby be assumed that good performance results in more satisfaction with how democracy works. With this warning in mind that policy performance might possibly relate to increasing dissatisfaction, but not necessarily to increase in satisfaction, we use the financial and political crisis in Iceland 2008-09 as a case to examine the effect of policy performance on satisfaction with democracy.

### **Citizens' political views on representation**

Aarts & Thomassen (2008) argue that the quality of democracy is becoming more important for satisfaction with how well it works, for instance how well the representative system works and how accountable it is. They explain satisfaction with how democracy works as a function of citizens' political views on representation and accountability, after taking account of the electoral system (divided into a majoritarian and proportional system). Their main results are that satisfaction with how democracy works depends primarily on citizens' perception of the representation function and to a lesser extent on how accountable they believe the political system to be. The more representative citizens perceive the system to be, the happier they are with how democracy works. At the same time, the more accountable they perceive the system, the more satisfied they



are, but the effect is weaker than for the perception of representation.

Aarts & Thomassen (2008) find the measure for accountability in their data to be somewhat problematic. They point out, that the question they used as a measure for citizens' perception of accountability could be biased in the sense, that instead of capturing the clarity of government responsibility and the possibility of voters to sanction parties, it might be that people replied to the question with the policy range of parties in mind.<sup>2</sup> With this in mind, we do not include the question on accountability in our analysis.

Drawing from their work, we test to what extent satisfaction with how democracy works can be explained by citizens' perception of representation; supposing that those who believe that representative democracy is functioning well should be more satisfied with the democratic process. If we place the perception of representation on Norris's (1999) continuum of the levels of political support, it is at the level of regime performance.

### **Winners or losers of the election**

While citizens' perception of how representative the system is can be regarded as capturing how well the democratic system works in general, it has been suggested that citizens' satisfaction depends on selfish factors concerning how well it works for themselves, regardless of how it well works for others. Anderson & Guillory (1997) find, that those who voted for a party represented in government are in general more satisfied with how democracy works compared to those who voted for an opposition party. This has been labelled as the "winners and losers" factor, or the "home-team" hypothesis (Holmberg 1999). Anderson & Guillory find that this effect is mediated by the political system, divided into consensual and majoritarian systems. In the latter case, the effect of "winners or losers" of the election is stronger than in consensual systems. This they explain by pointing out that in consensual systems, the minority still has voice in the decision-making process, even if they lost the election.

Other studies that followed have confirmed the "winners and losers" hypothesis that those who voted for a party represented in the government are in general more satisfied with how democracy works (see for example Klingeman 1999; Lijphart 1999; Norris 1999a; Anderson & Tverdova 2001; Denters, Gabriel & Torcal 2007). This indicates that satisfaction with democracy reflects that people are happy as long as the system works for them, regardless of if it works for other citizens. On the five levels of support for the political system, the "winners and losers" factor is on the level of support for regime institutions.

## **4. The financial and political crisis in Iceland 2008-09**

The global credit crunch in 2008 had serious consequences for the Icelandic economy, and for the government that was in power when the crisis hit. The country's three major banks all collapsed and were taken into public ownership. It is hard to ignore the relative size of the banking sector as a cause for why the recession hit the Icelandic economy so severely. For example, in 2007 the balance sheet of the three largest banks was nine-times as large as Iceland's annual GDP. The Icesave accounts offered by one of the Icelandic banks, Landsbankinn, are another example. They were insured and regulated

by the Icelandic state, but operating abroad in the UK and the Netherlands. In UK alone it is estimated that the Icesave deposit scheme had about 300,000 customers – a similar size to the Icelandic population (Danielsson & Zoega 2009). In early October 2008, the British authorities used an anti-terrorist law to take control of and freeze the assets of Landsbankinn in the UK (Bloomberg 2008). The consequences of that act for the Icelandic economy are still under debate (see for example IFS greining 2011).

An example of direct consequences of the recession is the currency restriction that was imposed by the Icelandic government in October 2009 (Central Bank of Iceland 2009), and is still in force. Unemployment rose from 1.2% in August 2008 to 9.1% in April 2009 (exceeding 7% until June 2011) (Directorate of Labour 2011). Inflation had already started to rise before the crisis hit with full force in October 2008. In January of the same year, inflation was 5.8% and peaked at 18.6% in January 2009, but has since gradually been declining, with some up-and-down fluctuations (Central Bank of Iceland n.d.). One of the clearest examples of how severely the recession hit Iceland is reflected in the need for assistance from the International Monetary Fund (IMF). In November, the IMF agreed on lending the Icelandic state 2.1 billion US\$ in eight instalments, the first one made available in late 2008, and the following subject to quarterly reviews (Andersen 2008).

Early October 2008 protesters started to gather every Saturday in front of the parliament building (Wikipedia 2011), and at the end of the same month, the first in a series of open meetings organized by citizens were held under the heading “Citizens’ meeting” (Borgarafundur 2008). The main demands of the protesters were that the government should resign, that an early general election should be held, and that the board of governors of the Central Bank of Iceland and the board of directors and the CEO of the Icelandic Financial Supervisory Authority should resign (MBL 2010). The initial response of the government was that it would not give in to the demands of the protesters (see for example “Vantraust á báða bóga” 2008).

The protest escalated into riots as protesters clashed with police, who used pepper spray, tear gas and batons to disperse the protesters (see for example BBC 2008; MBL 2009). In mid-January 2009, the protests peaked as people started gathering every day in front of the parliament building, using pots, pans and other things that could be used to make as much noise as possible. This has since been known as the “pots and pans” revolution.<sup>3</sup> For the first time in its history Iceland was experiencing protest of this scale and endurance. At the end of January 2009, the government resigned, less than two years after taking office (Sunday Times 2009). In the following two months the board of governors of the Central Bank and the board of directors and the CEO of the Financial Supervisory Authority also resigned (see for example Vísir 2009a; Vísir 2009b; RÚV 2009; Viðskiptablaðið 2009).

Those events did question the state of democracy in Iceland, and various solutions were discussed on how to make democracy more effective, such as putting less emphasis on parties and more on individual candidates, use of referendums, and changes in the electoral system such as having only one constituency for the whole country (Wade 2009). The crisis has been discussed extensively in public debate (see for example

Special Investigation Commission 2010), and in July 2011 a nationally elected Constitutional Council handed over a draft to Althingi, the national parliament, for a new constitution (Constitutional Council 2011).

This short overview of the financial and political crisis that followed, clearly demonstrates that the global credit crunch both hit the country pretty hard, and triggered political events, where not only the economic performance of the government was questioned, but also the performance of democracy in the country. This is therefore an ideal case for examining the link between the perception of the performance of the government, and satisfaction with the democratic process, comparing before and after the crisis.

## 5. Research design, data and method

The theoretical framework is based on the simple model that policy performance of the government is the main source of dissatisfaction with the functioning of democracy, when a severe crisis hits the financial and political system. This is regardless of whether the government is actually to blame for the crisis, echoing Kayeser's (2005, 21-22) statement: "Empirically, there are numerous examples of voters holding politicians accountable for the acts of God that they can at best mitigate but cannot prevent." The Icelandic case reflects the internationalisation of modern politics (Esaiasson & Holmberg 1996). Modern parliaments are designed for the nation-state and with increasing interdependency of states, MPs have to react to events that are beyond their control; such as a global financial crisis, a natural disaster or events on a smaller scale.

The perceived performance of the government is tested against two alternative explanations; that the source of dissatisfaction is a function of citizens' belief of representation (Aarts & Thomassen 2008), and the "winners and losers" hypothesis (see for example Anderson & Guillory 1997; Lijphart 1999) The two alternative explanatory factors are probably more stable than the subjective policy performance of the government. It is unlikely, that a change in policy performance within a narrow time range, leads to a change in citizens' belief of representation. We can however not exclude some spill-over effect regarding the views on representation, and reported vote in the survey. In our data, the narrowest time-range is two years (one year before and after the crisis). That gives us more confidence in being able to demonstrate the effect of the perception of policy performance on satisfaction with how democracy works.

Summing this up to three hypotheses, our main hypothesis is:

H1: Subjective perception of policy performance of the government explains satisfaction with how democracy works. A sudden change for the worse in the perceived performance of the government is followed by increasing dissatisfaction with how democracy works.

Alternative hypothesis we test are:

H2: People who voted for a party represented in the government are more satisfied with how democracy works, compared to those who voted for an



opposition party (“winners and losers”).

H3: People’s belief about representation explains satisfaction with how democracy works. Those who believe, that it matters who is in power, are more satisfied with how democracy works.

The data used in this study is from the Icelandic National Election Study (ICENES), which dates back to 1983 (ICENES n.d.). Since 1999 a question on satisfaction with how democracy works has been included in ICENES and the time frame is from 1999 up until 2009 (1999, 2003, 2007 and 2009).<sup>4</sup>

First, we explore how satisfaction with how democracy works, people’s belief in democracy as the best form of governance, perception of the performance of the government, and beliefs about how the importance of representation has developed from 1999 to 2009. The question whether democracy is the best form of governance, was only included in 2003 and 2009, the other three are included in all four studies.

Second, we use multiple regression analysis to examine if perception of government performance relates to how happy respondents are with the implementation of democracy, after taking account of whether they voted for a party represented in government, and how well the system of representation works. At the end we present a regression analysis only for 2009, with four models in order to estimate to what extent each factor tested, contributes to satisfaction with the democratic process. As the dependent variable, satisfaction with how democracy works, is an ordinal variable, we did run both an ordinal regression and a linear one. For all years the results were the same regarding significance and direction, and for simplicity the linear regression is presented as results.

The question used as a dependent variable, on happiness with how democracy works, was phrased: “*On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in Iceland?*” Response categories were four; very satisfied, fairly satisfied, not very satisfied and not satisfied at all.

All four election years, a question about the performance of the former government was included, but with minor changes in wording. In 2009, there were two questions about the performance of the government, one on the government coalition of the Independence Party and the Social Democratic Alliance, and one on the minority government of the Social Democratic Alliance and Left Green Movement that took over in February 2009. In the analysis presented here, we only include the subjective perception of the performance of the majority coalition that resigned, as the minority government was only temporary until fresh election would take place in April. In 2003, 2007 and 2009 the question was phrased: “*How well or badly do you think the government {of parties} has done in general in the last four years? Has the government done very well, rather well, rather badly or very badly?*”<sup>6</sup> In 1999, respondents were asked to rank the government on a 0-10 scale, where 0 meant “*very bad performance*” and 10 “*very good performance*”.

In order to test the possibility, that people were happier with democracy because the party they voted for was represented in the government (“the winners and losers” hypothesis), we include a variable that indicates if the respondent voted for a party in the new government coalition. We also include a variable indicating whether the

respondents voted for a party represented in the government before the election, given there had been a change in government. This was done in order to control for the possibility, that respondents rated the performance of the former government as good, simply because the party they voted for was part of the coalition they were asked to rate. This we can control for in 2007 and 2009, when there was a change in government, but not in 1999 and 2003, when the same parties were represented in government both before and after the election. All the ICENES studies were conducted within three months after the elections taking place, and a new coalition had already been formed when most of the interviews were carried out. Those who did not vote for a governing party are in all instances used as a reference group.

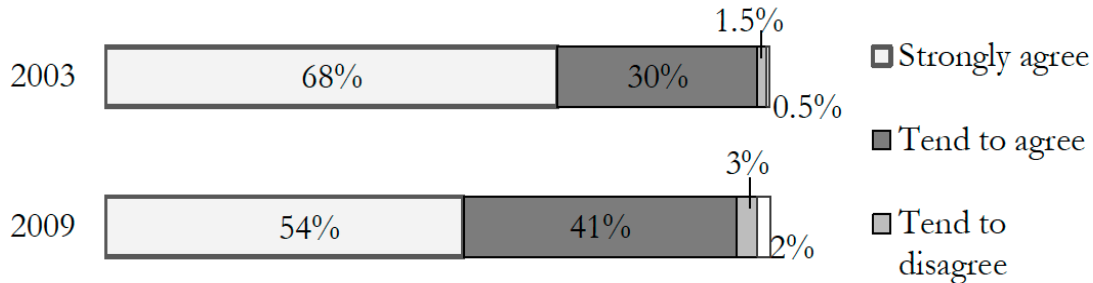
Since 1999, a question about representation has been included in ICENES. Respondents were asked, if it makes a difference who is in power. This is the same question Aarts and Thomassen (2008) use in their study on satisfaction with democracy discussed above. The response is on a five point scale, ranging from that it “makes no difference” at all to “that it makes a big difference”.

At the end we include control variables on respondents' socio-economic status; education, occupation, household income and marital status. Earlier research has suggested that the first three factors affect satisfaction with how democracy works (see for example Norris 2011), even if the meaning of this is debated. A common explanation for the effect of education on satisfaction with the democratic process, is that knowledge forms the basis of judgment of the performance of the government – those with higher education have, in general, better grounds for estimating the performance of the government. Education is divided into no/primary education (used as a reference group), secondary education including vocational education, and university education. Class has been demonstrated to be related to support for the political system and party choice (see for example Dalton 2008; Inglehart 1997). We include occupation and household income as indicators for class, in order to control for the possibility that manual workers and respondents from low-income households, express greater dissatisfaction with how democracy works, because of their financial and occupational status; not because of their evaluation of the policy performance of the government. Occupation is in three categories; unskilled manual workers as a reference group, skilled manual workers/farmers, and non-manual workers. Household income is on an interval scale, and added to the model as such. As there is not a distinction between those living with a spouse (both earning a salary), and those in a household with only one person earning a salary, we include marital status as a control variable.

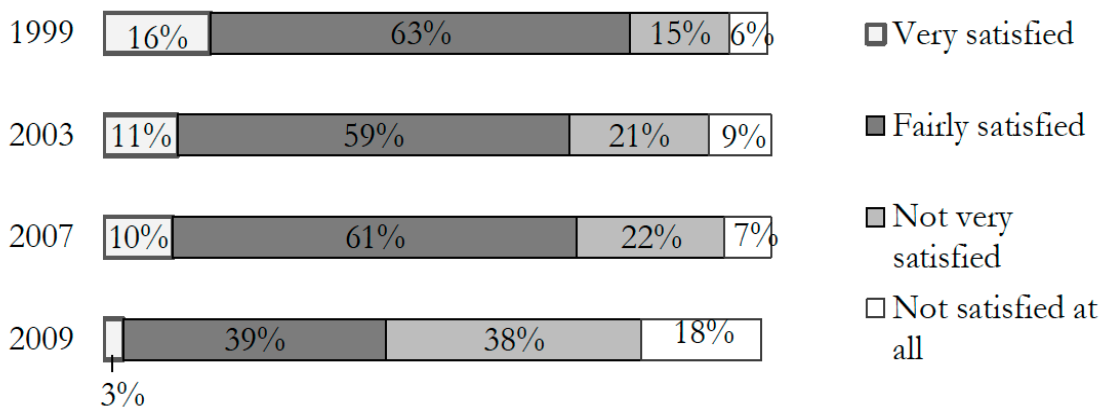
## **6. Results; satisfaction with how democracy works and policy performance**

As can be seen in figures 1 and 2, Icelandic citizens strongly support that democracy is the best form of governance (figure 1), even if their satisfaction with how it works has declined since 1999 (figure 2). At the same time, or at least from 2003, a growing number of citizens rate the performance of the former government as low (figure 3).

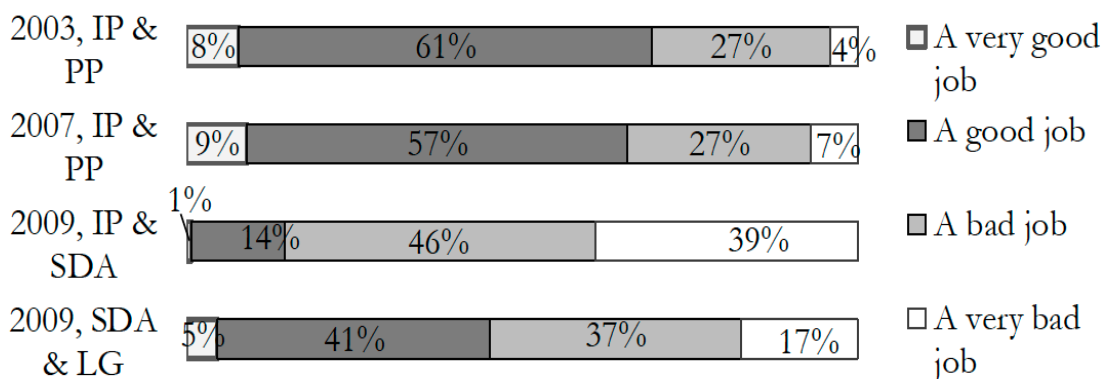
**Figure 1. Democracy is not without flaws, but it is still the best form of governance available. 2003 and 2009.**



**Figure 2. On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in Iceland? 1999, 2003, 2007 and 2009.**



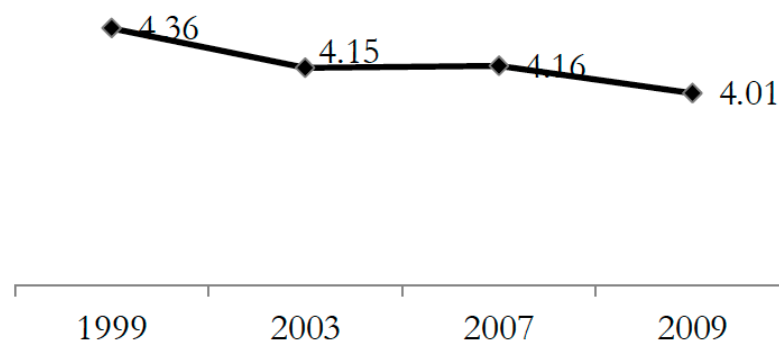
**Figure 3. How good or bad a job in general do you think the government of the (parties), has done while it was in power? 2003, 2007 and 2009.<sup>5</sup>**



In 2003 and 2007, over 65% rated the performance of the government as very good or good (figure 3), and around 70% said that they were very satisfied or fairly satisfied

with how democracy works (figure 2). In 2009, after the financial crisis, both dropped below 50%. Less than half of the respondents rated the governments' job as good or very good (46%) when asked about the minority coalition of the Social Democratic Alliance and the Left Green Movement, and only 15% when asked about the coalition of the Independence Party and the Social Democratic Alliance. Same year satisfaction with how democracy works dropped to 42% (very and fairly satisfied). Looking at the mean values for respondents' attitudes about representation (figure 4), the trend is a slightly weakened belief in that it makes a difference who is in power.

**Figure 4. Does it make a difference who is in power. Means - scale from 1 (makes no difference) to 5 (makes a difference).**



We have now established, that satisfaction with how democracy works dropped in Iceland after the financial and political crisis in 2008-09, and at the same time there was an increase in the number of respondents rating the performance of the former government as bad. The main question of this paper is if there is a connection between the perception of policy performance and satisfaction with how democracy works. Did satisfaction drop because people felt that the government had been doing a bad job, regardless of whether the government was to blame for the crisis? Looking at results from a regression analysis in table 1, the subjective belief of the performance of the government shows a clear connection in all four years under study. Those that rated the former governments' performance as high (did a good job) were more satisfied with how democracy works, compared to those rating the government's performance as low (did a bad job). The main hypothesis put forward in this paper, that the perceived policy performance of the government explains how satisfied people are with democracy, is therefore supported.

The results are mixed for the "winners and losers" hypothesis, that those who voted for a party represented in the government are happier with democracy. In 2007 and 2003, before the crisis, it seems to matter for satisfaction with how democracy works, if respondents voted for a party represented in the government or not. Furthermore, in 2007, both those who voted for a party represented in the new and the former coalition, express higher satisfaction with democracy. In 2009, after the crisis, it does not seem to matter for satisfaction with how democracy works, if respondents voted for a party represented in the government, nor does it in 1999, approximately ten years before the crisis.

**Table 1. Satisfaction with how democracy works, 1999, 2003, 2007 and 2009. (1=very dissatisfied, 4=very satisfied).**

R <sup>2</sup>	.13	.23	.20	.17
	2009	2007	2003	1999
	B	B	B	B
	(standard error)	(standard error)	(standard error)	(standard error)
The performance of the government (1=very bad, 4=very good)	.30*** (.049)	.29*** (.035)	.33*** (.047)	
Rating of the governments' performance; from 0 to 10 (0=very bad, 10=very good)				.12*** (.015)
Voted for a party that was represented in the government before the election? <sup>1</sup> (Reference group=did not vote for a former coalition party)	.11 (.071)	.19*** (.052)		
Voted for a party that was represented in the government after the election? <sup>2</sup> (Reference group=did not vote for a party in the new coalition)	.12 (.070)	.23*** (.047)		
Voted for a party represented in the government (same coalition before and after the election) <sup>3</sup> (Reference group=did not vote for a coalition party)			.32*** (.062)	.08 (.055)
Does it make a difference who is in power? (1=makes no difference, 5=makes a difference)	.11** (.031)	.05* (.021)	.05* (.023)	.08* (.024)
<i>Education; primary or no education - reference group</i>				
Education, secondary	-.04 (.095)	-.002 (.059)	-.05 (.065)	.13* (.055)
Education, university degree	.01 (.100)	-.001 (.060)	-.02 (.074)	.05 (.069)
<i>Occupation; non-skilled manual workers - reference group</i>				
Occupation, skilled manual workers / farmers	.09 (.138)	-.07 (.084)	.05 (.098)	.07 (.083)
Occupation, non-manual workers	.21* (.103)	-.02 (.065)	.09 (.074)	-.08 (.061)
Household income (ISK)	6.38E-8+ (3.45E-8)	3.81E-8 (3.62E-8)	2.14E-7 (1.46E-7)	3.65E-7* (1.62E-7)
Marital status; married or in cohabitation (reference group=single, divorced or widowed)	.02 (.082)	.002 (.049)	-.19* (.068)	-.05 (.056)

Dependent variable: On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in Iceland?

Note: Entries are beta coefficients and standard deviations. Significance level: + $p < 0.1$ ; \* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$ .  
Program: SPSS 19.

<sup>1</sup>In 2009: Coalition of the Independence Party and the Social Democratic Alliance. In 2007: Coalition of the Independence Party and the Progressive Party.

<sup>2</sup>In 2009: Coalition of the Social Democratic Alliance and the Left Green Movement. Those parties also formed a minority coalition for three months before the election. In 2007: Coalition of the Independence Party and the Social Democratic

<sup>3</sup>2003 and 1999: Coalition of the Independence Party and the Progressive Party.



In 2009, there is a possibility of multicollinearity, resulting in non-significance of whether the respondent voted for a party in the new or former coalition, as one of the government parties, the Social Democratic Alliance, was a member of the coalition both before and after the election. We ran two additional regressions for 2009, excluding each variable; voted for a party in the former coalition, and voted for a party in the new coalition. In both instances, the variables for voting a party represented in the former or new coalition, the beta coefficients were significant with  $+p < 0.1$ . This means, that we cannot distinguish between the effects of voting for a party in the former coalition, or a party in the new coalition, on satisfaction with democracy in 2009, probably due to multicollinearity. Running the models separate did not change significance nor the direction of the effect for other variables in the analysis.

The representation hypothesis, that those who believe that it makes a difference who is in power are more satisfied with how democracy works, is supported in all years. This could be rephrased into saying that those who believe, that the representative system actually works in providing alternatives on the political arena, are happier with the democratic process.

Looking at explained variance, it ranges from .13 to .23 in the four models; highest in 2007 (.23), and lowest in 2009 (.13). The latter one can be considered as low explained variance, even if the model is significant. Here we point out, that the effect of subjective perception of policy performance on satisfaction with how democracy works, seems to be stable, as explained variance does not fluctuate to a great extent (stays between approximately .10 and .20) between the years under study. Second, our main interest is not explaining as much variance as possible - but demonstrating that a sudden and negative change in peoples' perception of governments' policy performance, is followed by a considerable increase in their dissatisfaction with how democracy works.

In 2009, both policy performance, and belief about representation, contributes in explaining satisfaction with how democracy works. In table 2, the results of our four regression models are shown, using only data from 2009. In the first model we only include the socio-economic status of the respondents, in the second we add if they voted for a party represented in the government, in the third model the question about representation is added, and in the fourth and final model, the rating of the performance of the government is added.

Comparing the change in  $R^2$ , it is clear that the rating of the government's performance is the main contributor to explained variance, as  $R^2$  goes from .06 in the third model to .13 in the fourth. Subjective perception of policy performance clearly helps to explain respondents' happiness with how democracy works in Iceland in 2009. Even

**Table 2. Satisfaction with how democracy works, 2009 – 4 models. (1=very dissatisfied, 4=very satisfied).**

	1 model	2 model	3 model	4 model
R <sup>2</sup> :	.02	.04	.06	.13
Sig. F change R <sup>2</sup>	-	*	**	***
	B (standard error)	B (standard error)	B (standard error)	B (standard error)
The performance of the government ( <i>1=very bad, 4=very good</i> )				.30*** (.049)
Does it make a difference who is in power? ( <i>1=makes no difference, 5=makes a difference</i> )			.11** (.032)	.11** (.031)
Voted for a party that was represented in the government before the election? <sup>1</sup> ( <i>Reference group=did not vote for a former coalition party</i> )		.22* (.072)	.22* (.071)	.11 (.071)
Voted for a party that was represented in the government after the election? <sup>2</sup> ( <i>Reference group=did not vote for a party in the new coalition</i> )		.02 (.072)	.03 (.072)	.12 (.070)
<i>Education; primary or no education - reference group</i>				
Education, secondary	-.06 (.099)	-.05 (.099)	-.05 (.098)	-.04 (.095)
Education, university degree	.01 (.105)	.02 (.104)	-.02 (.103)	.01 (.100)
<i>Occupation; non-skilled manual workers - reference group</i>				
Occupation, skilled manual workers / farmers	.13 (.144)	.08 (.144)	.11 (.142)	.09 (.138)
Occupation, non-manual workers	.25* (.107)	.23* (.107)	.24* (.106)	.21* (.103)
Household income (ISK)	5.53E-8 (3.63E-8)	5.43E-8 (3.61E-8)	5.56E-8 (3.65E-8)	6.38E-8+ (3.45E-8)
Marital status; married or in cohabitation ( <i>reference group=single, divorced or widowed</i> )	-.03 (.086)	-.04 (.085)	-.03 (.085)	.02 (.082)

Dependent variable: On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in Iceland?

Note: Entries are beta coefficients and standard deviations. Significance level: +p<0.1; \*p<0.05; \*\*p<0.01; \*\*\*p<0.001. Program: SPSS 19.

<sup>1</sup> Coalition of the Independence Party and the Social Democratic Alliance.

<sup>2</sup> Coalition of the Social Democratic Alliance and the Left Green Movement. Those parties also formed a minority coalition for three months before the election.

if the change in  $R^2$  cannot be interpreted as an absolute value, in the sense that the final model explains two times more than the third, because the variables are not on an interval scale, it does indicate that the variance in policy performance weighs heavily in the explained variance of the final model on satisfaction with how democratic works.

## 7. Conclusion and discussion

In general, from 1999 to 2009, policy performance of the government helps to explain how happy people are with how democracy works. It also seems that citizens' belief about representation contributes to satisfaction with the democratic process; those who believe that representation makes a difference are happier with how democracy works. Looking at the narrow time-range from 2007 to 2009, one year before and after the crash, the main factor in our model, explaining increasing dissatisfaction with how democracy works, is the subjective perception of the government's policy performance.

Comparing the rating of the government's performance, and attitudes about representation before and after the 2008-09 crisis in Iceland, both have become more negative. Even if it is problematic to disentangle the effects of each factor on satisfaction with how democracy works, it seems plausible to conclude, that the subjective policy performance is one of the main contributors to the growing dissatisfaction. If that is true, the financial and political crisis can be seen as a causal effect, in the sense that it triggered a chain of events that led to the belief that the government was performing badly, regardless of if it was to blame for the economic recession to begin with. It is problematic to determine, what it exactly was in the policy performance of the government that people were unhappy with; if it was the government's response to the crisis, its failing in preventing it, hitting the economy as hard as it did, or its reluctance to resign in the fall of 2008. For the purpose of this paper, it is not necessary to determine what it exactly was, that people were unhappy with – what matters here, is that it seems obvious, that the perceived policy performance is one of the main sources for growing dissatisfaction. This does not necessarily indicate, that satisfaction will grow equally again, if subjective policy performance becomes better – as we cannot assume that performance contributes equally, both in a positive and a negative direction, on satisfaction with how democracy works.

The fact that before the crisis, in 2003 and 2007, it seems to matter for satisfaction with how democracy works, if people voted for a party that was represented in government, can indicate that when “things go well”, institutional factors as such help to explain satisfaction with how democracy works. But when things go bad, and the belief becomes widespread, that the government is performing badly, voters place more emphasis on the performance, and less on that their own party is represented in the government. This argument is still debatable, as we could not distinguish between the effect of voting for a party represented in the new and the former government coalition in 2009.

We argue that subjective perception of government performance in 2009 clearly reflects the economic recession in 2008. Because of the dire consequences of the financial crisis for the public, the protests and the political crisis that followed, and the public scrutiny of the performance of the government at the time, we should be safe to assume that people were in general aware of the performance of the government, and were evaluating it. We argue that under those circumstances, there is causality between subjective perception of government performance and satisfaction with the democratic process. A major shift towards perceiving the performance of the government as bad was followed by a major increase in dissatisfaction with how democracy works.

It might be argued, that the Icelandic case with its financial and political crisis, is an anomaly, and that the effect of subjective government performance on satisfaction with democracy, cannot be generalised to political systems experiencing more calm waters. That is not our main interest. Our main interest is establishing, as we have done, that a sudden change in a negative direction of subjective government performance explains an increase in dissatisfaction. That we can do, because we have both a wider time range from 1999 to 2009, and narrower time-range of two years, one year before and after the financial crash. Both looking at the longer time trend and the shorter one, the perception of policy performance explains satisfaction with how democracy works and in 2009 it seems to be the main explanatory factor.

Looking at the longer time trend, citizens' confidence in representation relates to satisfaction with democracy as well. The fact that both factors, subjective government performance, and confidence in representation, contribute to satisfaction with how democracy works, indicates that we have to look at a variety of explanations for satisfaction with how democracy works. Confidence in representation should be examined in connection with the institutional setting of the political system, and government performance in connection within the context of the problems that the political system is faced with. In this 'natural' experiment of how a crisis affects satisfaction with how democracy works, we have demonstrated the importance of perception of government performance, as well as the problems the political system is faced with. When the problems are as serious as they were in Iceland 2008-09, government performance becomes an important determinant for increasing dissatisfaction with how democracy works.

## Notes

- <sup>1</sup> The analysis Norris (2011) presents is cross-sectional using data on the citizens' level from the World Values Survey (WVS) in 2005-2007 and she points out herself that it is limited to a static examination.
- <sup>2</sup> Aarts & Thomassen (2008) used data from the CSES (Comparative Study of Electoral Systems) project and the question on accountability was phrased thus: „Some people say that no matter who people vote for, it won't make a difference what happens. Others say that who people vote for can make a difference. Using the scale from one to five, where one means that voting won't make a difference to what happens and five means that voting can make a difference, where would you place yourself?“
- <sup>3</sup> Has also been referred to as the “Kitchenware” or the “Household” revolution.

- <sup>4</sup> The sample size varied from 2,300 (1999 and 2003) to 2,600 (2007 and 2009). Response rate range is from 70.9% in 1999 down to 56.9% in 2009.
- <sup>5</sup> Parties' abbreviations: SDA=Social Democratic Alliance; LG=Left Green Movement; IP=Independence Party; PP=Progressive Party.
- <sup>6</sup> The parties were added in 2009 to distinguish between the two coalitions that were in power. In 2007 "Now thinking about the performance of the government in general" was added as an introduction.

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