

Iceland and New Zealand : Comparative Perceptions of Corruption in a Global Economic Downturn

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Abstract

Iceland's long, unblemished record as one of the world's least corrupt countries changed dramatically in the first decade of the Twenty-First Century, as evident in Transparency International's (TI) Corruption Perceptions Index (CPI), regarded as the most authoritative source on the relative levels of corruption in countries. Iceland dropped dramatically between 2005 and 2006, when Iceland was listed singly as the least corrupt country in the world on the CPI, and 2010 and 2011, when it was listed as 11th and 13th, respectively. Why did this happen? New Zealand, on the other hand, has maintained its status as one of the five least corrupt countries in the world in the CPI since the early 1990s (over the years, Denmark and New Zealand have been the most consistently least corrupt countries), when the measure was first employed. Over the last several years, and despite New Zealand's failure to ratify the UN's Convention against Corruption, it has consistently ranked at the very top of the CPI, sitting alone as least corrupt country in the 2011 CPI. This is especially significant in view of the bi-cultural and multi-cultural nature of New Zealand society, influences that are thought to increase the perceptions of corruption within a country, and that are not present in Iceland. We explore in comparative perspective the factors that may have contributed to Iceland's dramatic drop in the CPI, with special reference to the presence or absence of protective measures and media responses, with a view to identifying possible lessons for New Zealand from Iceland's experience.

"I don't believe New Zealand's unique. I think by and large New Zealand is a very honest country. But I think we have corrupt practices, albeit on probably a lesser scale to some other countries."

Adam Feeley, Director of the Serious Fraud Office, New Zealand (Vaughan 2012)

Introduction

This paper is an examination of corruption, perceptions of corruption, and the rapid drop between 2006 and 2011 in the world corruption rankings of Iceland, a country that by most accounts has very little corruption. Why did Iceland, which had ranked very

close to the top of Transparency International's (TI) Corruption Perceptions Index (CPI) as one of the least corrupt countries in the world, drop so precipitously after 2006? Could New Zealand, which has ranked the highest in the CPI (along with Denmark) since the CPI's inception in 1995, experience a similar drop? What would be lost if it did? The last question is relatively easy to answer: given the great value of "least corrupt country" to New Zealand's "clean, green" image, such a drop would be both hurtful and costly, as the case of Iceland has exemplified. The relation of perceptions of low levels of corruption to "clean, green images" of the respective countries, Iceland and New Zealand, is (or "was", in the case of Iceland) thought to encourage investment and support the growth of the economy. Corruption, on the other hand, is thought to drive down economies in developed countries, albeit with some disagreement (Rock and Bonnett, 2004: 110), undermining domestic and foreign investment, and limiting international collaborative development. The *perception* of corruption, one of the foci of our study, remains the best, and perhaps *only*, reliable measure of corruption (Lambsdorff 1999).

This is a comparative study, and both Iceland and New Zealand have worn, and in the case of New Zealand and four other countries, still wear, similar innocence 'halos'. As will be mentioned below, the two countries have striking points of comparison, including their relatively small size, island characteristics, and the historic international mobility of their professionals and skilled artisans, the innovative and risk-taking tendencies of their entrepreneurs and governments, their attractive if fluctuating currencies for international investors,¹ their natural beauty and dependence upon tourism, as Chatier especially notes in regard to Iceland (2010: 11), the export of natural resources and farmed products, and so on. Both countries are typically regarded abroad, rightly or wrongly, as nearly idyllic societies.² Like Iceland prior to 2008, it is probably true that most New Zealanders regarded, and continue to regard, the threat of increasing corruption as virtually non-existent, and the implementation of basic anti-corruption procedures, precautions against a rise in corrupt practices, or the perception of corrupt practices, as essentially irrelevant. Nevertheless, if perceptions of corruption in New Zealand were to increase, as they did so dramatically in Iceland after 2008, and if New Zealand were to lose its stellar ranking in the CPI—the world's leading measurement of corruption—we can assume at the very least that investments would diminish, the New Zealand dollar would lose much of its value, real estate speculation (which was a driving force in Iceland prior to 2008, and remains a driving economic force in New Zealand today) would collapse, and cultural proclivities to accept, and even engage in, corrupt practices would also rise, as they may have risen in Iceland since 2006. Adam Feeley, former Director of New Zealand's Serious Fraud Office (SFO) from 2009 to 2013, made this point repeatedly in his oft-repeated calls for a clearer definition of corruption in a New Zealand context, and the adoption of precautions to prevent its increase.

Perceptions of corruption, particularly on the part of business people (because they are thought to be most likely to encounter demands for bribes, influence peddling, and

so on), remains the central means of measuring *corruption*, as noted above (Lambsdorff 1999), because it is so difficult to define in a specific cultural setting, and even more difficult to measure, given its illegal and covert nature. *Transparency International*, the NGO most identified with the global measurement of, and struggle against corruption, employs the CPI as the 'best' measurement of available.³ The CPI is based on a dozen major cross-national economics surveys, most of which query business people for their views on their own country's economy. Each has several questions on corruption, and the compilation of responses to these questions in a complex algorithm (that also includes the views of panels of academics) determines an international ranking of countries, from least corrupt to most corrupt. It is important to note from the outset that the CPI was intentionally designed so that there would be great stability and consistency, year-to-year, in the rankings: it remains very unusual for a country to move up or down the rankings significantly in a one or even two-year period. Iceland after 2008, however, has become a major exception in this regard.

The collapse of Iceland's new found (and fabulous) banking wealth after 2008 was staggering. The media typically reported the primary cause of the Icelandic financial crisis as government deregulation of the banking sector, and allocation of the ownership of previously state-owned banks to private families. A *New York Times* account of the aftermath of the crisis put this view succinctly:

When Kaupthing [one of the three private banks that failed] collapsed in 2008, it owed creditors, including local authorities, more than \$50 billion....The fraud office started to work with the Icelandic Special Prosecutor's Office in December 2009 to establish whether Kaupthing had lied to win clients for a specific deposit account. It is also investigating how some creditors, shareholders and executives benefited financially weeks or days before the bank's collapse. The problems started when Iceland relaxed its financial regulations, allowing banks to grow beyond their means. Taking on more debt, Kaupthing increased its profit fiftyfold over five years. When Kaupthing, along with Glitnir Bank and Landsbanki Islands, eventually imploded, they collectively owed the equivalent of about 12 times Iceland's gross domestic product. In the aftermath, the International Monetary Fund had to bail out Iceland (Werdigier 2011).

Nevertheless, Iceland now stands as a unique case in Europe. Greece, Spain and Portugal, to mention only the most egregious and recent cases, have engaged in extreme austerity measures to combat their apparent bankruptcies following the 2008 recession, and the EU struggles to "bail" them out. However, Iceland, perhaps because of its very small size and the early support of the IMF, has not engaged in similarly draconian policies. A significant level of social well-being was initially maintained, although massive layoffs and the disappearance of assets have seen Iceland suffer a dramatic drop in its development indicators—principally reflected in the UN's Human Development Index—and ultimately a dramatic (if temporary) drop in well-being.

If we consider the six top-ranked countries in the CPI over the period 1995-2011 (or, in the case of Iceland, 1998—when it first appeared in the CPI—to 2011), that is, all of the countries that have ranked in first place in the CPI at least once in its history, we can add their ranking scores (some of which represented 'ties'), and can divide these sums by the number of years of ranking in each case to yield an average ranking score, as noted in **Table 1**. Of those six countries that have ranked first in the CPI at least once, New Zealand and Denmark have the lowest (and identical) overall scores in this regard, and thus represent the two countries that have been perceived as the least corrupt countries in the world over the 17-year history of the CPI. New Zealand, currently ranked first alone in the CPI as least corrupt country, is an especially interesting case in this regard. As a small, bi-cultural and multicultural country, unlike Denmark, its 'rival' among those countries that are perceived as least corrupt, we would expect from international experience that different ethnic groups would tend to have stronger or lesser perceptions of corruption. This has apparently either not been the case in New Zealand, or has not significantly influenced the CPI. Furthermore, given the recent and rapid escalation of the use of the term 'corruption' in the New Zealand news media, and despite the collapse of many of its non-bank financial institutions after 2008, which exercised quasi-banking functions in many cases, any expected drop in New Zealand's CPI ranking has not transpired. What, then, caused the profound and rapid drop in CPI rankings of Iceland after 2008, and what can New Zealand learn from this?

Table 1: CPI Rankings of Top-Ranked Countries,* 1995-2011

	Denmark	New Zealand	Finland	Sweden	Singapore	Iceland
1995	2	1	4	6	3	-
1996	2	1	4	3	7	-
1997	1	4	2	3	9	-
1998	1	4	2	3	7	5
1999	1	3	2	3	7	5
2000	2	3	1	3	6	6
2001	2	3	1	6	4	4
2002	2	2	1	5	5	4
2003	3	3	1	6	5	2
2004	3	2	1	6	5	3
2005	4	2	2	6	5	1
2006	4	1	1	6	5	1
2007	1	1	1	4	4	6
2008	1	1	5	1	4	7
2009	2	1	6	3	3	8
2010	1	1	4	4	1	11
2011	2	1	2	4	5	13
Σ	34	34	40	72	85	76
Σ / N	2	2	2.35	4.24	5	5.43

Sources: CPI Rankings, 1995-2011, TI Website: <http://cpi.transparency.org/cpi2011/results/>

* These are all of the countries that have ranked first in the CPI at least once.

Iceland had developed a 'model' reputation as a developed, and very wealthy, country by 2005. With one of the highest standards of living in the world, a unique and romantic island existence, a small culturally cohesive population, and a powerful and recently privatised banking system, it was world-renowned for its investment banking, its clean, green image (except, perhaps, for its adherence to whaling), its exceptionally high ranking in Transparency International's Corruption Perception Index (CPI), its high ranking in the UNDP's Human Development Index (HDI), and the great cultural and economic progress that it had achieved from the Iceland described in Nobel Prize winning author Haldór Laxness's most famous account of poverty, brutality and struggle in Nineteenth and early Twentieth Century Iceland, *Independent People* (1999; 1934).

Evidence confirms that there is, and has been, very little corruption in Iceland, according to a formal definition of the term, at least over the last half century. There is significant evidence, however, of what one observer has referred to as "northern clientelism" (Kristinsson 2001), and what another has referred to as "social and economic incest" (Chartier 2010: 99 ff.).⁴ It was, by most accounts, not corruption, but rather the adoption of a *laissez faire* privatisation of the banking system, the allocation of which was based upon traditional patron-client relations, that led to the grotesque financial bubble that burst dramatically by 2008. The Icelandic króna had become a popular speculation currency, but by 2010, after the virtual collapse of all of its banks, a catastrophic implosion of its inflated real estate market, a collapse of the krona, and a national bankruptcy of unprecedented scale, Icelanders began to describe the calamity as a product of corruption *and* clientelism. Clientelism and corruption are two distinct and very different phenomena, of course, and this heightened the surprise when Iceland's CPI rating dropped from first place (perceived as least corrupt country in the world) to thirteenth in a five-year period, a most unusual development given the CPI algorithm.

The case of Iceland points to the dangers of systemic weaknesses, or "blind spots", regarding potentially corrupt practices. The collapse of a number on financial institutions in New Zealand after 2008 also led increasingly to charges (particularly in the national and international news media) of rampant "corruption", as had the collapse of the Icelandic banking system after 2008 (e.g., Erlingsdottir 2010a-e; 2009a-e; Solnit 2009; Sigmundsdottir 2010; 2009). Some observers wonder if the media, with thousands of reports in the US, UK and Europe, had not actually created the crisis themselves (see: Chartier 2010: 33).

Iceland's post-2008 "Pots and Pans Revolution", which brought down the government and led to the dismissal of the chief director of the central bank, the creation of a new political party (*the Citizens' Movement*) based on popular demand for compensation after the financial crash, early elections, and the creation of a coalition government of the Social Democratic Alliance and the Left Green Movement, spelled

radical political change in Iceland. It also led to a change in perceptions, and especially the popular perceptions of corruption. While New Zealand began prosecuting the directors of the failed finance companies for fraud, Iceland prosecuted the directors of their major banks. The gravity of the Icelandic *agonistes* led to the drafting of a new constitution, based on the Danish one, and the significant reorganization and a considerable tightening of its anti-corruption legislation. Icelanders, including business people, now perceived their country as "corrupt". In the midst of this massive lowering of public trust in politicians and political and financial institutions in Iceland, bankers and executives left the country *en masse*. In 2011, seven major real estate brokers (with close connections to Icelandic banks) were arrested by the British Serious Fraud Office in London (Werdigier 2011), and later that year, and throughout 2012, a series of high profile arrests for fraud in connection with the banking collapse occurred in the UK, and in Iceland. In June, 2012, for example, nine people were arrested in London and Reykjavik for their possible responsibility for Iceland's financial collapse in 2008.

New Zealand and Iceland are vastly different societies and cultures, and so one must be careful in making comparisons. Nevertheless, a range of comparable characteristics, particularly in the "clean, green" and morally uncorrupted images that the two countries have enjoyed, especially during the second half of the Twentieth Century, their "island cultures", their small, unitary state structures, and their recent extraordinarily high standing in the CPI, suggest that it is not invalid to see them as kindred polities, in some important respects.

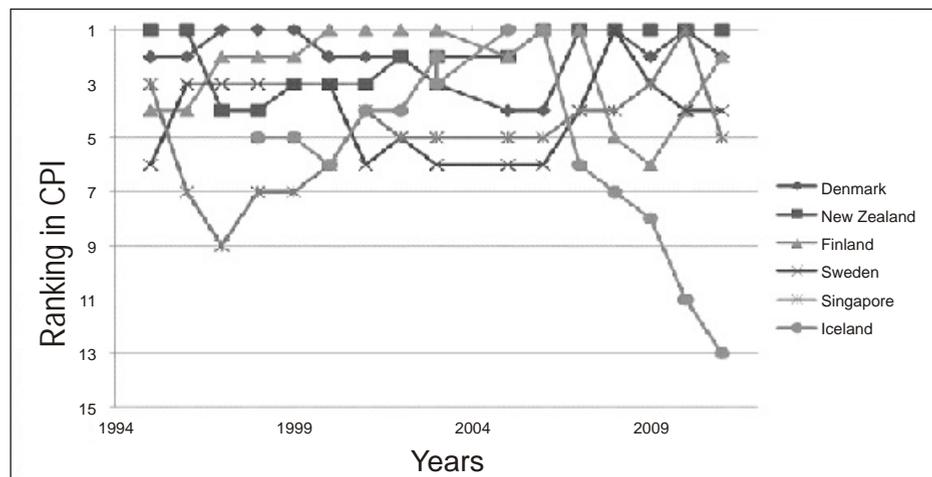
Six Top-Ranked Countries and Their Relative Indicators

In the case of all the top-ranked countries in the CPI, there is a degree of comparability and the expectation of some annual variability, as Figure 1 indicates. However, the Icelandic CPI change after 2006 is simply unprecedented. Singapore dropped from 3rd place in 1995 to 9th place in 1997 (Iceland was not listed on the CPI until 1998, and does not figure the first three years of the CPI), although it quickly assumed its place among those countries perceived as least corrupt after that one "outlier" year. Iceland has dropped consistently since 2006 despite the largely successful resolution of its banking, real estate and government funding crisis, and a return to relative normality. While Sweden and Finland also suffered drops in their CPI rankings after 2008, Iceland dropped, from 1st place to 6th, 7th, 11th and now 13th. This is very much at odds with the CPI's algorithm, which almost precludes rapid change of this magnitude.

In examining the six top-ranked CPI countries on other measures, and from other perspectives, we find interesting contrasts and comparisons in varied indices, as, for example, in the UNDP Human Development Index (HDI) scores,⁵ and in the UN Industrial Development Organization's (UNIDO) Competitive Industrial Performance (CIP) rankings. The respective HDI rankings, for example, show similar levels of ween

stability, and evince at least some relation to perceived levels of corruption, with the exception of Singapore, which has been ranked somewhere between 22nd and 35th in the HDI during the entire period. However, Iceland ranked in the top ten in the HDI until 2010, when it suddenly dropped from 3rd place (2009) to 17th place, before recovering slightly to 14th place in 2011, the most recent ranking.

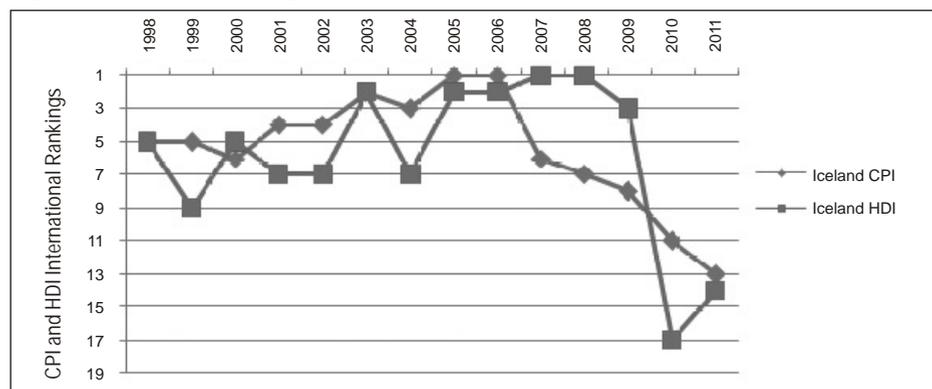
Figure 1: CPI Rankings, Top-Ranked Countries,* 1995-2011



Sources: CPI Rankings, 1995-2011, TI Website: <http://cpi.transparency.org/cpi2011/results/>
 * These are the only countries that have ever ranked in first place in the CPI

Perhaps coincidentally, New Zealand had ranked in the second ten places (except for 1997 and 1998, when it ranked 9th), and suddenly jumped in the rankings in 2010, from 20th place (2009) to 3rd place, "slipping" to 5th in 2011. Most striking, however, is the very close relationship between the HDI and the CPI in the case of Iceland, as noted in Figure 2, given that by most accounts Icelandic victims of the economic collapse were insulated against the worst consequences of the crisis.

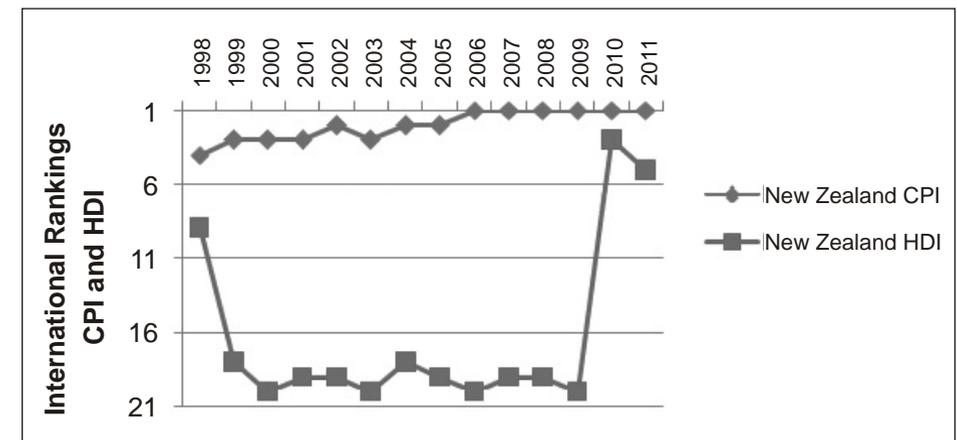
Figure 2: Iceland's Rankings in the CPI and the HDI, 1998-2011



Sources: CPI Annual Reports, HDI Annual Reports

It is understandable that the drops in human development indicators would correlate closely with drops in the CPI. Does this mean, however, that *perceptions of corruption* are little more than responses to difficult economic times? If so, why has this instability at the top of the CPI table not affected more countries? We can hypothesise that the profundity of Iceland's rise to global economic strength (however artificial), and its sudden collapse, explain the establishment of this apparent correlation. However, would not New Zealand's indicators have shown at least some sensitivity to this kind of relationship, if this were the case? New Zealand's bivariate relationship, in fact, shows no discernible relation, as Figure 3 demonstrates. Does this mean that a significant weakening of the financial sector in New Zealand, as happened after 2008,⁶ had little effect on perceptions of corruption? Moreover, the rapid increase in New Zealand's HDI ranking between 2009 and 2010 is difficult to explain in historical context.

Figure 3: New Zealand's Rankings in the CPI and the HDI, 1998-2011



Sources: CPI Annual Reports, HDI Annual Reports

The United Nation's Industrial Development Organization (UNIDO) periodically produces the Competitive Industrial Performance Index (CIP). As it recently explained:

The Competitive Industrial Performance index, first developed by UNIDO ten years ago, assesses industrial performance using indicators of an economy's ability to produce and export manufactured goods. The CIP index can be used to rank and benchmark countries' industrial performance, making it particularly relevant for policymakers (UNIDO 2012).

Since the algorithm of the CPI is based upon data collected mostly from business people, it should not be surprising that there is also some relation between the CPI and the CIP, particularly as regards Iceland and New Zealand, although both rank extraordinarily low on this scale as compared to the other CPI top-ranked countries.

Table 2: Comparing Scores in the HDI, CPI and CIP

	UNDP <i>Human Development Index</i> (2011) International Ranking	Transparency International's <i>Corruption Perception Index</i> (CPI) (2000) International Ranking	Transparency International's <i>Corruption Perception Index</i> (CPI) (2005) International Ranking	Transparency International's <i>Corruption Perception Index</i> (CPI) (2011) International Ranking	UN Industrial Development Organization (UNIDO) World Competitive Industrial Performance Ranking (CIP) (2005) and (2009)
Iceland	14 th	6 th equal	1 st	13 th	43 rd and 38 th
New Zealand	5 th	3 rd equal	2 nd equal	1 st	48 th and 61 st
Denmark	16 th	2 nd	4 th	2 nd equal	23 rd and 26 th
Finland	22 nd	1 st	2 nd equal	2 nd equal	11 th and 9 th
Sweden	10 th	3 rd equal	6 th	4 th	10 th and 12 th
Singapore	26 th	6 th equal	5 th	5 th	3 rd and 1 st

Sources: UNDP (<http://hdr.undp.org/en/statistics/hdi/>); and Transparency International (cpi.transparency.org/cpi2011/results), ([Archive.transparency.org/policy_research/surveys_indices/cpi/previous_cpi/1998](http://archive.transparency.org/policy_research/surveys_indices/cpi/previous_cpi/1998)) and UNIDO Report (http://www.unido.org/fileadmin/user_media/Publications/IDR/2011/IDR_OVERVIEW_EBOOK.pdf)

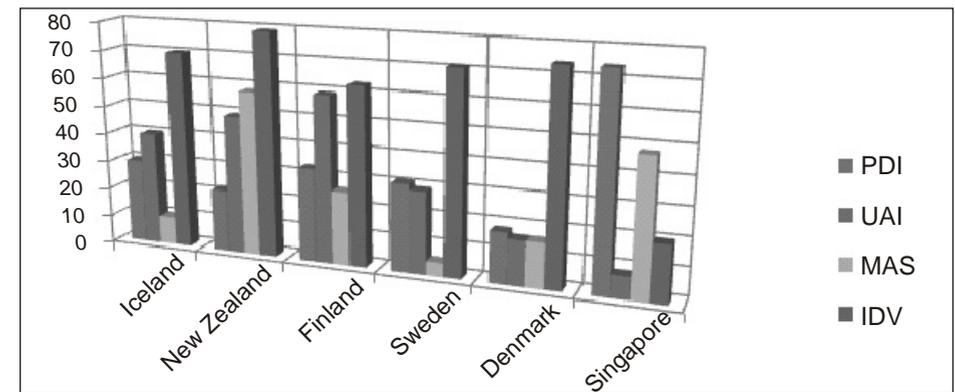
Geert Hofstede, in his long-standing cross-national cultural, organizational and psychological studies, has produced a series of indicators and indices to measure cultural attributes of comparative societies. Vaiman, Davidsson and Sigurjonsson (2010), in their attempt to revise the concept of corruption to fit the case of Iceland, cite Hofstede's indicators. As they explain:

Iceland's PDI [Power Distance Index] is rather low, which means that people do not expect or accept power in the society to be distributed unequally, and that people are expected to make their own decisions and to take responsibility for their actions. A UAI [Uncertainty Avoidance Index] of 40 is also on the lower side, which makes Icelanders willing to take risks in their decisions and actions. This also shows that Icelanders are quite open and tolerant towards other cultures—a fact that is very prominent in the daily lives of most Icelanders. In regards to MAS [the Masculinity Index], a score of 10 is also rather low. This translates into a greater equality between genders, both in terms of one's position in society and in terms of respect. Other indicators of a "feminine" culture are a strong emphasis on social values (Iceland has a very generous welfare system), freedom and group decision making. With the IDV index [Individualism Index] of around 70, Icelanders are quite individualistic—this means that there is a strong distinction between personal and work environments, as well as a higher importance of immediate family and closest friends over the rest of one's relations. All in all, these

characteristics are quite similar to Hofstede's description of what is referred to as the Scandinavian culture (2010: 367).

It should not be surprising, by these criteria, that New Zealand and Singapore seem to stand apart from Iceland's (and Denmark's and Sweden's) cultural patterns, as illustrated in Figure 4. Finland, as a Nordic, but not a Scandinavian, country varies to some extent. New Zealand has a considerably higher Uncertainty Avoidance score than Iceland. Might this explain in part its greater insulation from the crash of 2008, and the lack of response shown in the CPI? In fact, culturally it looks more like Finland in some respects, and more like Singapore in others.

Figure 4: Comparing Top-Ranked CPI Countries by Hofstede's Indices



Note: Power Distance Index (PDI), the Uncertainty Avoidance Index (UAI), the Masculinity Index (MAS), and the Individualism Index (IDV)

Sources: <http://www.clearlycultural.com/geert-hofstede-cultural-dimensions/power-distance-index/>; and Vaiman et al., 2010

A rapid glance at the Hofstede's numbers (Table 3) confirms this. Outrage at unequal distribution of resources in the aftermath of a financial collapse might well have intensified the perception of corruption in Iceland, while the collapse of an institution such as South Canterbury Finance in New Zealand, while prosecuted (initially, at least), also elicited sympathy from a broad spectrum of society, many of whom cited the good works that the Hubbards (its founders and directors) had performed over the years.

Table 3: Comparing Top-Ranked CPI Countries by Hofstede's Indices

	PDI	UAI	MAS	IDV
Iceland	30	40	10	70
New Zealand	22	49	58	79
Finland	33	59	26	63
Sweden	31	29	5	71
Denmark	18	16	16	74
Singapore	74	8	48	20

Sources: <http://www.clearlycultural.com/geert-hofstede-cultural-dimensions/power-distance-index/>; Vaiman et al., 2010; Hofstede (2001).

Banking Collapse and Media Allegations of Corruption in Iceland

The collapse of Iceland's banking system was theoretically a private matter, and thus not related directly to formal conceptualizations of corruption. Nevertheless, as the CPI has graphically demonstrated by 2011, the perception of corruption at the root of the banking scandal was widespread, with one study (Vaiman et al.) seeking to redefine 'corruption' so that it would include the events in Iceland. The view that a "northern clientelism" (Kristinsson 2001) was ultimately responsible for 'corrupt' favouritism shown by the government to privileged families in the allocation of the newly privatised banks in the 1990s found special attention in the post 2008 press, and is vaguely reminiscent of charges of corruption that were levelled at the New Zealand government in the sale of state assets. A profound lack of regulation of the banks following privatisation meant that bank stock prices were allowed to be inflated by speculation in which banks came to accept their own shares as collateral for loans that were often used to buy those same shares (Træteberg 2011: 306). Bankers who were thus inflating their own stock through these methods were part of the financial elite, and sat on the boards of other businesses. Vaiman et al. (2010), in their attempt to revise the concept of corruption to explain the Icelandic crisis, turned to political favouritism and clientelism as elements, noting that "the close links between individuals and other characteristics of the society...contributed tremendously to creating an environment of political favouritism and weak business culture that was conducive to corruption"(368). Perhaps merely recognising that the banking system, privatised or not, represented a vital part of the Icelandic state structure, and that the bankers should therefore have been recognised and regulated as 'public officials,' would have addressed much of the problem.⁷ As Iris Erlingsdottir, an Icelandic journalist, wrote in the Huffington Post in 2010:

In the past twenty years, we have watched the government hand over our natural resources (notably the fishing quotas) and government banks to the favored families and friends. We have watched the government dictate to the nation that we would use our vast geothermal and hydro-electrical resources to power aluminum smelters, without ever giving an accounting (it is widely believed that we are selling the electricity to Alcoa, Alcan and the rest at a loss). The geothermal resources in the area surrounding Reykjavik were recently sold to a mysterious Canadian corporation (suspected of having Icelandic owners) for a ridiculously low price. This year's parliament had to once again deal with a bill that would hand over publicly-held water rights to wealthy individual landowners.... The businessmen and bankers who led us to ruin continue to sit on the boards of our largest institutions. The politicians and bureaucrats who oversaw the corruption and incompetence that bankrupted us still hold positions of authority and influence. The media that served primarily to cheer on the plutocrats remain firmly in place (2010b).

The nature of the alleged 'northern clientelism' (Kristinsson 2001) which Erlingsdottir and others have equated with corruption was linked to the sale of state assets to favoured insiders at low prices, and the creation of paper value from the sale of access. The latter case is perhaps best exemplified by the sale of fishing quotas by the government to private parties in the 1990s. The quotas were treated as alienable property. As Thoroddsen (2011) put it

This arrangement in effect turned the fish in the sea into private property: into assets that could be mortgaged and the money used for further investments...the fishing quotas created a capital base in Iceland where there was none before and added plenty of fuel to the nascent Icelandic stock market (Kindle range 217-21).⁸

A similar creation of investment capital took place through privatisation of the national pension funds, most of which became capital for the three major banks, and most of which were lost in the crash of 2008. The banks were privatised as well, and as their speculative value rose, investors borrowed money to invest in them...from...the banks. Soon, they were described as "Viking outvaders", buying up valuable properties in Scandinavia and, especially, in the UK. But like Ponzi schemes, their power depended upon growth, and the 2008 recession brought them, and their country, into bankruptcy.

Perhaps the strangest case of creating paper value out of government largesse was the putative patenting of the entire Icelandic gene pool by DeCode Genetics, a state supported research enterprise that sought to make use of the relative isolation of Icelanders over a thousand years, coupled with their Nordic penchant for record keeping. The founder, Kari Stefansson, was a personal friend and former schoolmate of the Prime Minister, David Oddsson (Thoroddsen 2011: Kindle loc 259). By staking their new venture on government support of their 'ownership' of all Icelanders' genetic records, they attracted massive foreign investment, so much so that before the stock was listed on NASDAQ it had a massive capital value in the late 1990s of 1.3 billion euros, and was selling on Iceland's 'grey market' for US\$65.00 per share (Thoroddsen 2011: Kindle loc 251-255). Despite the passage of a law by Iceland's parliament in December 1998 that allowed DeCode to take ownership of all Icelanders' medical records and genetic codes, problems arose in US courts over confidentiality, and by the time it was listed on NASDAQ, DeCode's value had dropped to US\$18.00/share, and its research was dependent upon investment from the overheated Icelandic market. It was delisted on NASDAQ in 2008, and filed for bankruptcy shortly thereafter, and although it continues to function under new ownership, and has been responsible for several important health discoveries, its massive value (in US dollars) has long since evaporated.

Was this corruption? It was certainly favouritism, and perhaps even clientelism.

Although the Icelandic news media and popular culture used the term 'corruption' often, there has been relatively little evidence to support the claims that Iceland was corrupt. Even Thoroddsen's book, *On Thin Ice; A Modern Viking Saga about Corruption, Deception and the Collapse of a Nation*, mentions corruption only three times, and at no time offers evidence of a clearly corrupt act. Nonetheless, Thoroddsen is echoing much of the Icelandic media and popular accounts of the crisis. Did Iceland's drop in the CPI rankings result from an increase in corruption? Is it rather the case that a sudden drop in the HDI rankings can lead to a complementary drop in the CPI? Or is it the case that the sale of state assets in Iceland, coupled with criminal mismanagement of the newly privatised holdings, necessarily leads to perceptions of corruption?

Allegations of Rising Corruption in New Zealand, and Government Responses

Most discussions of the calamity that Iceland suffered after 2006 begin with an account of the financial "bubble" that accompanied the privatisation of the nation's banks, the rapid expansion of debt-financed assets, the momentous inflation of the Icelandic króna, the inflation of real estate and growth in real estate speculation—in short, the expansion of market values without the creation or manufacturing of anything. How was this allowed to occur? At least part of the problem seems to have stemmed from some of the cultural factors that Hofstede measures, including the UIA and IDV scores, both comparable to New Zealand's scores on these measures. While evidence and allegations of corruption have increased in recent years, there has certainly been no comparable drop in the HDI.

Contemporary concerns regarding corruption in New Zealand emerged clearly with the sale of state assets by the fourth Labour government after 1988. By 1990 even previously moderate Labour supporters like political pundit Bruce Jesson expressed profound disappointment and concern regarding the nature of the decisions that were quickly becoming law.

It would be exaggerating to say the government was corrupt in a literal sense. I don't think we ever reached the stage of bribes and backhanders. However, in a more fundamental sense this was a thoroughly corrupt government in that hardly anyone in it had any compunction about trading principles for short-term advantage.... The Fourth Labour Government corrupted everything that touched it. From cabinet, the circles of corruption spread outward, to caucus, to the party, to the public service, to the unions. All of them benefitted in one way or another from the existence of the Labour Government, and as its unpopularity deepened they did everything in their power to salvage it (Jesson 2005: 233).

In a subsequent 1991 essay, Jesson clarified, in terms reminiscent of the experience of Iceland, that

The main damage occurred when the share market went beserk between 1985 and 1987. New rich businessmen used investment companies to borrow billions of dollars offshore to take over other New Zealand companies. They had no assets other than the companies and the properties they were acquiring, yet their debts were phenomenal. When the share market collapsed, as it had to, the investment companies collapsed too. Their debts had to be repaid. And the companies they had acquired had to be sold, usually offshore (Jesson 2005: 236).

Twenty years later, there have been numerous concerns expressed in the New Zealand news media regarding high profile individuals such as Kim Dotcom and May Wang, and political figures such as John Banks and Taito Phillip Field, the first sitting member of Parliament to be convicted and gaoled for corruption in New Zealand, although a broad range of finance company failures, with hundreds of millions of dollars lost to mid-range investors, have represented the closest thing in New Zealand to the Icelandic crisis, although in per capita losses, it is not close. Major concerns were nonetheless expressed early on regarding the lending institutions' collapse, often in Ponzi-like scenarios. A dedicated prosecutor, Adam Feeley, was appointed as Director of the SFO to address the situation. As in Iceland, the argument could be made that major financial institutions, like banks, are actually quasi-state institutions, and therefore the question of fraud shades readily into concerns regarding corruption. It is certainly the case that such concerns quickly manifested themselves in official channels through initiatives taken by the SFO, the Reserve Bank of New Zealand (RBNZ), the Ministry of Justice and the Financial Markets Authority (FMA).

The 2012 Annual Report of the SFO reports that in the previous twelve-month period, investigations of New Zealand's many failed finance institutions were associated with losses of \$2.2b. This included the largest fraud case in New Zealand's history (South Canterbury Finance) with 21 charges laid against five individuals in relation to \$1.8b of funds. The SFO also secured finance company related convictions in respect of five companies and laid charges with regard to two other finance companies. The SFO charged persons with bribery, conspiracy, accepting secret commissions, attempting to pervert the course of justice, theft in a special relationship, dishonesty using documents, obtaining by deception, false statements and false accounting. These were all regarded as fraud cases within the private sector, although Adam Feeley nevertheless continued to call for a clearer legal definition of fraud in New Zealand, apparently sensitive to the wider state-related implications of such massive quasi-bank failures.

Despite numerous convictions and prison sentences, the general consensus is that prosecution of this quasi-bank fraud has been only partly successful. Casual observation and some surveys (e.g. Deloitte, 2012) indicate many New Zealand companies involved with exports and dealings abroad, moreover, do not have anti-ing

corruption policies, do not familiarise their employees with relevant bribery and corruption laws, are lax about validating, monitoring and reporting the behaviour of their agents and partners, and do not have a clear and accessible system for reporting suspicious behaviour. This situation has motivated the Ministry of Justice to produce brochures to educate citizens in this domain (Ministry of Justice, 2012). In addition, to address particular concerns, the New Zealand Government has in recent times sought to improve the overall regulatory domain in the finance sector. One particular initiative was the formation of the FMA. In a 2010, a cabinet paper by the Minister of Commerce, Simon Power, argued for change given concerns about the existing regulatory regime, particularly the fragmented nature of regulation and the lack of proactive investigation and enforcement, and additional concerns about the inadequate regulatory regime of KiwiSaver, a massive pension savings plan that involves billions of dollars in private and government investment schemes (Power, 2010).

There is abundant evidence that a broad-scale reform of the banking sector has also been planned, with key elements already undertaken. Given concerns that became evident during the GFC and the NZ Finance company debacle, the RBNZ has taken on new regulatory responsibilities (Reserve Bank 2012). These include: regulation of non-bank deposit takers; prudential supervision of insurance; and anti-money laundering and countering financing of terrorism. In September 2008, the RBNZ Amendment Act was passed, laying the foundation for a series of prudential regulations that have been developed by the central bank: new Non-Bank Deposit Taking prudential requirements concerning governance; risk management; capital requirements; related party exposure limits and liquidity have been in place since December 2010, as well as requirements concerning credit ratings, which have been in place since March 2010. The Insurance (Prudential Supervision) Act 2010 promotes the maintenance of a sound and efficient insurance sector and public confidence in the insurance sector. The Act applies to all insurers carrying on business in New Zealand (as defined by the Act) and includes: a licensing system for insurers based on meeting the Act's prudential requirements; supervision by the Bank of compliance with the prudential requirements; and powers under the Act for the Bank in respect of insurers in financial distress or other difficulties.

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 is another anticorruption initiative undertaken by New Zealand in the aftermath of the 2008 recession and its consequences (Reserve Bank 2012). The new law comes fully into force on 30 June 2013. It imposes a number of obligations upon reporting entities, including: assessment of the money laundering and terrorism financing risk that a reporting entity may reasonably expect to face; establishing, implementing and maintaining an AML/CFT compliance programme that includes internal procedures, policies and controls that will detect, manage and mitigate this risk; carrying out *customer due diligence* (CDD) (which includes customer identification and verification); on-going CDD; undertaking suspicious transaction reporting; and, robust record keeping.

Given the significant trading relationship between Australia and New Zealand and the significant movement of people between the two nations, problems emerging in Australia point also to the risks faced in New Zealand, especially as regards the banking system. Most New Zealand banks are Australian-owned and regulated. In this regard, the West Australian Corruption and Crime Commission (ACCC) reported a substantial increase in the number of misconduct allegations and investigations, the need for legislative change and possible changes to rules regarding the use of covert powers by surveillance agencies (Corruption and Crime Commission, 2012).

The 2011-2012 ACCC Annual Report noted 3,047 complaints were assessed, relating to 5,012 allegations and 9 "own propositions" of misconduct. In addition to other actions, 15 persons, including four public officials were charged with 596 criminal offences. The Commission also reported on the management of misconduct by Western Australia Police, and three cases of alleged public sector misconduct. Similar level of activity were reported by the Independent Commission against Corruption in New South Wales which in its 2010/211 year reported it had conducted 130 compulsory examinations, made corrupt conduct findings against 26 people, recommended that the advice of the Director of Public Prosecutions (DPP) be sought with respect to the prosecution of 16 people and recommended to relevant public sector agencies that disciplinary action be taken against 11 people in addition to other activities (Independent Commission Against Corruption 2011). Media reports in Australia also included increasing anxiety about organised crime.

The allegations of corruption in both Iceland and New Zealand have been closely linked to financial fraud. In Iceland, the connections between the deregulated Icelandic banks and shady British businessmen made for spicy reading. One of Kaupthing's largest operations outside Iceland was in Britain, where it helped facilitate corporate takeovers, among other deals. The bank financed Robert Tchenguiz's bid for the British supermarket chain Somerfield and the purchase of a stake in a retailer, J Sainsbury. He also sat on the board of Exista, an Icelandic holding company that was Kaupthing's biggest shareholder. In its 2006 annual report, Kaupthing showcased him in front of London's Royal Albert Hall in a two-page photograph, saying how he had picked the bank "time and again." The Tchenguiz brothers owe much of their wealth to the 2000 London property boom. Starting with buying and selling one-bedroom apartments in London, their property group soon invested in commercial real estate, benefiting from some well-timed investments, like Polish petrol stations and a Scottish whisky distillery. Once millionaires, the brothers were a fixture of the Monaco jet set and were often pictured in glossy society magazines. While Vincent Tchenguiz shunned the spotlight, Robert Tchenguiz made headlines in the British tabloids for dating models and holding a lavish 40th birthday party "with 500 guests, a Louis XIV theme and a performance by Cirque du Soleil acrobats" (Werdigier 2011). In New Zealand, as financial houses closed their doors, the SFO began charging multi-millionaires, mostly men who lived ostentatiously while their institutions in some cases owed hundreds of millions of

dollars to small investors, with criminal malfeasance. This was nothing new, however. At the height of the share market boom before the October 1987 crash, illegal and dodgy commercial practices were rife. According to Bruce Jesson (1999: 126), for example, "Not only did the ethical standards of business collapse during the share market boom, but so also did the notion that there should even be ethical standards..."⁹ It can also be argued that the radical state sector reforms in New Zealand during the 1980s and 90s, which abolished the unified career service, and introduced the contractualized "out-sourcing" of many public services, have attenuated standards of ethical probity in governmental organizations (Gregory, 1999; Moynihan, 2007).

Clearly, a governmental system has serious problems if hard core corruption is endemic. However, systems that are characterised by *defensible* or *discrete* activity operate in a more tenuously balanced grey area between standards of legality and legitimacy, balances that will generate different political-administrative problems. The "golden handshakes" paid to New Zealand state executives in the late 1990s can be seen as examples of "defensible" corruption—that is, corruption of the expectation that underperformance in office should be sanctioned rather than rewarded by a contractualist regime of fixed-term appointments. Similarly, there is the courting of politicians and officials by corporate and other lobbyists, and gift-giving, though in these cases some line has to be drawn, or to emerge, beyond which it is generally considered to be wrong (or illegal) to go. Some may also argue that the "fire sales" of some New Zealand state assets in the late 1980s and early 90s also constituted a form of *defensible* corruption or even "cronyism" among political, bureaucratic and private sector participants (Jesson 1999). In this regard, Monika Bauhr's (2011) distinction between 'need' and 'greed' corruption suggests how the latter, which involves collusion rather than extortion, can be much less obvious than the former (which is essentially 'petty' corruption by poorly paid lower level officials), even in countries with high levels of institutional trust and which are not normally seen to have significant corruption problems.

Because *defensible* activity occurs in situations when administrative law or procedure lags behind changing normative standards, defensibility itself becomes increasingly more difficult, leading to serious legitimacy problems. Older forms of political patronage in public service appointments have long since become unacceptable in the face of emerging rules designed to enhance public service impartiality and professionalism. Similarly, in many areas of government administration the coercive application of rules which are out of step with public sentiment will be seen as increasingly illegitimate. In the case of *discrete* activity, rule-bending or even outright disregard for the rules may be considered acceptable in the pursuit of legitimate outcomes until unacceptable consequences demand that systems be "tightened up" and the rules enforced more rigorously, usually in the name of greater "accountability."

Both *defensible* and *discrete* modes also give rise to different forms of ethically

and/or morally dubious activity. Whether or not any of these various activities are regarded as being "corrupt" depends on changing public sentiment. Clearly, like the concept of terrorism (one person's terrorist is another's freedom-fighter, as the cliché has it), the concept of corruption is politically and socially constructed. While British Prime Minister Margaret Thatcher saw the defence official, Clive Ponting, as a criminal law-breaker, the jury found that he acted in the public interest in leaking official documents to the Labour opposition, in regard to the British forces' sinking of an enemy warship during the Argentine conflict in 1982. In New Zealand, as in other western democracies, so-called "whistle-blowers" now have protection under recently enacted Public Disclosures legislation. Their unauthorized disclosures may or may not be illegal, depending on the type of information disclosed, but the legitimacy of their actions is a matter of political judgment. Today, political patronage in New Zealand, at least in the sense of a "spoils system," is largely confined to the appointments made by governments to the boards of crown entities, and even in this case such appointments must be publicly justifiable on the grounds of professional competence rather than political party membership or sympathies.

Corruption in New Zealand is especially a concern in the area of international business relations, as noted above. One example is foreign investment in New Zealand. For instance, the Natural Dairies bid for the Crafar Farms led to joint investigations with the Hong Kong Independent Commission against Corruption and resulted in charges being laid in Hong Kong (Serious Fraud Office 2012). New Zealand agencies have also participated in investigations in Bahrain, Switzerland, Panama, USA, UK and the Cook Islands. The recent Deloitte Bribery and Corruption Australia and New Zealand Survey, suggested exposure to bribery and corruption is on the rise and many organizations either do not recognise the risks, or are not addressing them. Their key findings were:

- "34% of organizations have operations in high risk offshore jurisdictions, but 48% of these have never conducted a corruption risk assessment, and 21% do not discuss corruption risk at management or board level
- Only 25% of organizations with offshore operations have a comprehensive understanding of relevant anti-bribery and corruption legislation, while 40% said they are not concerned with risks arising from non-compliance
- 14% of organizations that have never undertaken a risk assessment have experienced a foreign bribery and corruption incident in the last five years
- 80% of organizations with offshore operations either do not regard foreign bribery and corruption as a high level risk to their business in the next five years, or said the risk was not applicable to their organization."

Given the events of the past few years, together with the albeit extreme case of Iceland, corruption concerns should be taken seriously in New Zealand, despite its

topmost CPI ranking. While actions have been taken on a number of fronts, questions remain. The collapse of so many quasi-banks, accompanied by investment fraud, and an intense increase in global linkages, raises the question of whether or not New Zealand's recuperative actions have been too little, too late. Are the remedies substantive, or just band aids? Do government, businesses and others need to do more, or act differently, given the changing nature of business and the sophisticated actions of corrupt individuals and organizations? Is the continuing failure of New Zealand to ratify the UNCAC indicative of a deeper non-responsiveness, or even worse?

As Director of the SFO, Adam Feeley continually sought to implement a coherent and effective legal definition of corruption in New Zealand. His failure to accomplish this, which at best would have required the full cooperation of Parliament, likely owes more to the amorphous and multi-dimensional character of corruption than to any lack of trying.

A Brief Discussion of Corruption and Perceptions of Corruption

Corruption is necessarily a broad topic that does not lend itself well to comparative analysis. With the possible exception of "wrath", *corruption* seems to cover in one way or another all of the seven deadly sins. It is a word, in short, that lacks any positive connotations, is almost necessarily imprecise, and leaves the researcher with a sense that corruption is both inevitable and everywhere. Moreover, it is highly variable, best captured in the cultural nuances of a society, from norms in gift-giving, to traditional patron-client relations, to a society's caring concern for families, which can easily shade into nepotism. There are, of course, some straightforward definitions of corruption. Jacob van Klavern (1989: 25) noted that

In everyday life corruption means that a civil servant abuses his authority in order to obtain an extra income from the public. This conception, however, expresses a value judgment that is altogether temporal and did not always exist. If it were possible to determine the amount of the civil servant's salary by objective measures, that is, by determining the functional value of the civil servant's performance for the achievement of the social product in its broadest sense, then a value-free definition of corruption would be possible. Since such a functional definition of the distribution of income is neither possible for private business nor for [public] administration, this approach leads us nowhere.¹⁰

Huntington likewise stressed this aspect of the term: "corruption is behaviour of public officials which deviates from accepted norms in order to serve private ends" (1989: 377). It is not always easy to identify "civil servants" or "public officials" from private individuals, however. Indeed, the term raises the tendentious definition of "the state," as well as perceptions of the state. If we agree with a range of observers that

banks (private or public) and major financial institutions are *de facto* components of the state, it becomes far easier to understand the charges of corruption that were levelled in Iceland after the banking collapse. It is our contention that critical functions exercised by private banks and financial institutions are at least perceived by most citizens of developed countries as state functions, and that this represents one important element of the Icelandic reaction to the financial crisis of 2008-2010 as "corruption". This would place the banking collapse somewhere between quadrant 1 and quadrant 4 in Figure 5, the graphic explanation of Gregory's typology of the range of practices (Gregory *et al*, 2012), that is mid-range legality with low legitimacy. We are thus distinguishing between the various and most well-cited forms of "hard-core" (transactive) corruption and those other forms which, although not involving *illegal* behaviour, nevertheless challenge the concept of *legitimate* (as distinct from legal) conduct (Gregory, 2002). These dimensions of behaviour, and their obvious complexity, can be identified in the axes of a two-by-two matrix, as noted in **Figure 5**:

Figure 5: Legitimacy and Legality in Levels of Corruption

		Legitimacy	
		Low	High
Legality	High	<i>Defensible</i> 1	<i>Optimal</i> 2
	Low	4 <i>Hard Core Corruption</i>	3 <i>Discrete</i>

The first quadrant constitutes actions which, while quite legal, nevertheless are widely considered to be morally or ethically unacceptable, possible cases of "corruption" in common lexicon. These are here called *defensible*, since their legitimacy is in effect politically and socially defined. As has been seen since the international financial crisis of 2008, the substantial assets that were retained by senior bank officials and owners in Iceland and elsewhere were not politically acceptable, less legitimate, than might have been the case previously. Many Icelanders certainly saw the retention of such assets as a form of corruption.

A further revelation from the crisis in Iceland was that *legitimacy* (getting something worthwhile done) tended to trump *legality* (bending or breaking the rules). Finally, *hard core corruption* is located in the fourth quadrant. Plainly, this covers activities such as fraud, theft, or bribe-taking, which are which are both illegal and socially and politically illegitimate. There was some bank fraud, no doubt, in Iceland,

just as New Zealand's SFO has uncovered a good deal of fraud in the post-2008 financial sector in New Zealand. However, as Adam Feeley has noted, it is difficult to define most cases of fraud as corruption. However, general perceptions in Iceland after 2008 were apparently not subject to this constraint.

In fact, most observers, particularly in the country's news media, tended to characterise the aftermath of the Icelandic banking collapse as the results of *rampant corruption*. In New Zealand, on the other hand, before the state sector reforms of the 1980s and 90s, some forms of extra-legal behaviour were almost institutionalized in some public sector departments, and involved a range of activities, including the "borrowing" (often a euphemism for downright theft) by government staff of time, equipment and materials for personal use. By 2008, when a number of New Zealand lending institutions went under, and the SFO began prosecuting their boards of directors for fraud, the myth of New Zealand's green, un-corrupt society was at least partly exposed, although nowhere near the degree to which this had happened in Iceland. Yet in 2011 New Zealand remained at the top of the CPI, the country perceived by its business people as the least corrupt nation in the world.

It is important to note that fundamental attitudes have been "globalised." The 2008 market forces, and the ethos of the private sector—the grist of globalization as it were—had deeply penetrated governments everywhere, including in Iceland and New Zealand. Governmental organizations had become "accountable" businesses, functioning on the ethos of the private sector.¹¹ The crime of *fraud*, which New Zealand's SFO had increasingly and effectively prosecuted in New Zealand, often looked to be very similar to corruption, on the one hand, and to standard business practices, on the other, as did the massive and unregulated banking expansion in Iceland. Public officials were involved in both cases, although typically as private citizens. However, the news reports emanating from both countries increasingly spoke of "corrupt" practices, and this language escalated to sweeping allegations of corruption. The media was likely reflecting popular discourse, although this, in turn, had the capacity to influence perceptions of corruption, and hence the CPI. In Iceland, the victim of a far more serious economic collapse, the CPI ranking dropped dramatically. In New Zealand, the CPI ranking continued, inexplicably, to rise.

James Scott (1972: 3) noted, in language that is much more relevant to the cases of New Zealand and Iceland, that at its most general level, corruption "involves a deviation from certain standard behaviour...Broadly speaking there are three criteria from which to choose: the public interest, public opinion, and legal norms." The government of China has recently made it illegal to offer bribes, not only to public officials but to anyone involved in any business relationship. This means the problem of corruption is now officially seen to relate not only to the public sector but to the commercial sector as well, whether or not corrupt activities in the latter involve public officials (Wedeman 2011). In China too, the concept of "collective corruption" has

received official recognition—that is, not just the actions of individuals or small groups but also networks of corrupt officials guarded by "protective umbrellas" in the form of officials and politicians, who use their power to "cover up corruption by their subordinates, block investigations, and frustrate attempts to prosecute subordinates who get caught, perhaps in return for a cut of the illicit gains but also for political reasons" (Wedeman 2011: 2). *Bribery, nepotism, influence peddling and official fraud* (usually overlapping) are the four major categories of corruption. The definition of bribery, then, like that of corruption, is necessarily complex. As Daniel Lowenstein (1989: 30-31, emphasis in the original) noted, in regard to the United States:

"...the crime [of bribery] as defined in the federal and most state statutes consists of the following five elements:

1. There must be a public official.
2. The defendant must have corrupt intent.
3. A benefit, anything of value, must accrue to the public official.
4. There must be a relationship between the thing of value and some official act.
5. The relationship must involve an intent to influence the public official (or to be influenced if the defendant is the official) in the carrying out of the official act."

Members of TI-NEW ZEALAND have begun to express their concern that New Zealand's consistently high ranking in the CPI might contribute to inertia and complacency regarding potentially corrupt practices for exactly this reason. On the other hand, New Zealand has benefitted from an absence of a culture of gratuities (tips). In the complex continuum between innocent gifts and corrupt bribes, tips are thought to sit somewhere about the mid-range. John T. Noonan, Jr., a long-term judge in the US Ninth Circuit Court of Appeals, noted in his book, *Bribes*, that gifts and tips (to government officials) "are equally hard to tell from bribes" (Noonan 1984: 688). In this context, he adds, a culture of tipping easily accommodates the development of a culture of bribing. An expectation of gift-giving, in fact, can be translated facily into a rationalisation for bribery. A popular example in the new Pacific nations involves politicians who defend their receipt of certain payments in exchange for their political support, which is seen as an acceptable form of traditional gift-giving. Taito Philip Field, the first New Zealand MP to be convicted and imprisoned for corruption, proclaimed at his trial in 2009 that New Zealanders simply did not understand the time-honoured Pacific tradition of gift-giving. The Supreme Court, which later unanimously rejected his appeal, said that any gift-giving to officials with the power to influence a relevant case represented corruption. Some apparent expressions of philanthropy, for instance, as in the use of private donations to influence local government investment in leisure facilities, can be fraught with such implications of these five elements only the first, that the person bribed must be a public official, is relatively straightforward. The cases of Iceland and New Zealand raise other possibilities, however, including *bank and*

financial fraud and *clientelism* as well. Banks, even privatised banks, probably represent critical components of the state, as noted above. Their rampant deviation from accepted banking norms, particularly when they are declining rapidly in assets, represents the perception, if not the legal reality, of official malfeasance in most cases. However, the conditions immediately preceding the collapse of the banking system in Iceland, which had recently become a major European banking centre, and which had created an unprecedented accumulation of capital in that country without the creation of industrial or agricultural value, did not trigger alarm bells.

Charges of *nepotism*, a possible element of the perceptions of corruption in Iceland, given the sense that traditional clientelism led to the handing over of the banks to major families, have declined rather dramatically since the early and mid-20th century, when Western governments increasingly embraced the merit principle to displace political patronage in civil service recruitment and promotion. Anti-nepotism laws, as such, have largely disappeared, replaced by constitutional commitments to the idea of "political neutrality" and professional, merit-based public service. It has also become the norm in most Western states that close family members can occupy official positions, often in the same government department, for example. It is also increasingly the case that *spousal accommodation* is practised (in public universities, for example) to attract top academic candidates. However, if a public official uses his or her influence to give advantage to a relative, this clearly constitutes a conflict of interest, and hence a contemporary example of nepotism. For example, the then head of New Zealand's immigration service, Mary Anne Thompson, was seen to have practised nepotism (as well as previously misrepresenting herself through some fraudulent CV details) in 2008, in attempting to gain residency to New Zealand for some of her Pacific Island extended family members.

Influence peddling, the most insidious of the categories (although it shades neatly into bribery) is the most difficult to detect. Did it explain perceptions of corruption in Iceland? It is generally identified by assumption: thus, if a public servant has inexplicably large assets, this may be proof positive of a *quid pro quo*, an exercise of influence in exchange for personal financial gain. A court of law must determine any such relationship, a difficult task at best.

In an era when the marketing of government goods and services has increasingly held sway, *official fraud* has become much more of a problem. As noted above, official fraud can be as limited as including false information in a CV in pursuit of public sector employment or promotion, or as extensive as misrepresenting the state of a government's finances in order to maintain or improve the value of government bonds. Again, the difficulty in determining a legal definition of official fraud should not be underestimated. Is bank fraud the primary link to perceptions of corruption in Iceland?

It seems far likelier that perceptions of Icelandic corruption, and ostensibly

corruption in New Zealand, will devolve upon some notion of *political corruption*. Joseph Nye (1967: 417) noted in his influential discussion of the relationship between corruption and national development that, "not only is the study of corruption prone to moralism, but it involves one of those aspects of government in which the interests of the politician and the political scientist are likely to conflict." In its most primary form, *political corruption* is "the misuse of public office for illegitimate personal gain." The conundrum presented to lawmakers who would pass legislation making "corrupt" acts "illegal" is plain: they simply will obtain no particular guidance from this definition, other than the mandate to make illegal those acts that "should be" illegal. In 1999, Susan Rose-Ackerman saw corruption as "a symptom that something has gone wrong in the management of the state" (9), following on from her classic 1978 economic definition of corruption as one of many "allocative mechanisms" for the distribution of scarce resources (Rose-Ackerman 1978:1), particularly in cases where the government has attempted to limit market incentives. For his part, Nye (1967: 419) argued that corruption poses serious problems: "Broadly defined as perversion or a change from good to bad, it covers a wide range of behaviour from venality to ideological erosion." His definition is therefore laden with examples:

Corruption is behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence. This includes such behavior as bribery (use of a reward to pervert the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private-regarding uses). This definition does not include much behavior that might nonetheless be regarded as offensive to moral standards. It also excludes any consideration of whether the behavior is in the public interest, since building the study of the effects of the behaviour into the definition makes analysis of the relationship between corruption and development difficult (Nye 1967: 419).

Having said all this, however, the complexity and multi-faceted nature of definitions of corruption stand in stark contrast to the visceral sense, that most people have, that corruption consists of government officials misusing (however that word is defined) their influence as office-holders for personal gain (in various forms). It is also far easier, as Nye's definition shows, to describe some of the key expressions of what is popularly regarded as corruption. According to Nye, *bribery* typically stands out as the most egregious, if often the most harmless, category. *Nepotism* is likewise regarded as a major component. *Misappropriation* of public resources is another fundamental notion. Nye does not mention *influence peddling*, although this is clearly implied in his conceptualisation of corruption. Other forms of *gross immorality* by public officials can combine with the above to constitute corruption as well, though such forms may more commonly be referred to, in their own right, as "sleaze." Peter deLeon (1993: 25,

emphasis in the original) summarises the definition of *political* corruption inclusively:

Reduced to its quintessential meaning, *political corruption is a cooperative form of unsanctioned, usually condemned policy influence for some type of significant personal gain, in which the currency could be economic, social, political, or ideological remuneration.*

With Nye's and deLeon's conceptualizations, we come full circle. Corruption, it seems, is corrupted influence. General perceptions of corruption, and the level of corruption, are probably its most accurate measures. However, while definitions vary and are often pointedly vague, there is little disagreement that the causes of corruption require careful study, because the costs for society of corruption are often extremely high.

Among the hundreds of empirical studies, only a few substantiate any close correlative relationships, or possible "causes" of corruption. The strongest of these, as noted by Johann Lambsdorff's (1999: 2-12) macro-analysis, are: government involvement in private markets, a large government budget relative to GDP, heavy government regulation of the private sector—or, ironically, too little government regulation of the private sector—low levels of civic cooperation and trust, low civil servant salaries relative to manufacturing salaries, low levels of economic competition, and contact with corrupt global markets (1999:12). Lambsdorff's analysis points to studies that have shown that an abundance of natural resources, and a cultural acceptance of social hierarchies are conditions that favour corruption. The rapid onset of the perception of fabulous wealth in tiny Iceland, an abundance of resources beyond all imagination, followed by sudden impoverishment, would clearly have triggered this sort of response.

Perhaps the greatest potential political cost of corruption is a decline in democratic *governability*, of particular concern in regions of high corruption, such as South America. John Bailey (2009: 60) defines democratic governability as encompassing "not only how power is achieved and the rules of the game (democracy as regime), but also the exercise of power by state agencies acting within a legal framework to address priority problems in a society (governability)." In this sense, corruption represents a kind of illegitimate privatisation, and therefore a weakening of government, just as informal economies marginalise governments. Iceland's dynamic democratic responses to its crisis, throwing out the government deemed responsible, electing a human and progressive government in its place, and writing a new national constitution, all with high levels of participation and consensus, seem to be direct responses to just the sort of political corruption that Nye and others have discussed.

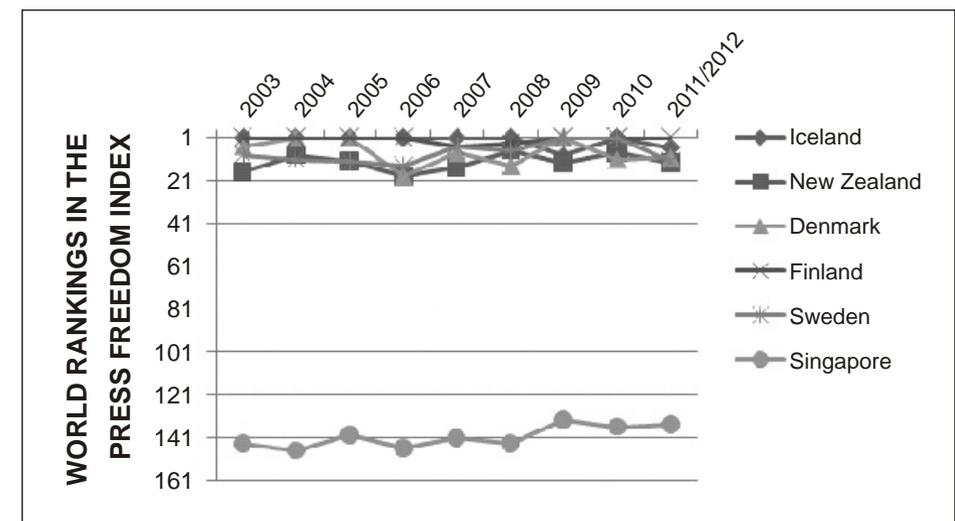
The economic and political significance of corruption at a global level is notoriously difficult to determine. However, the last Transparency International global

survey noted that almost six out of 10 respondents reported that corruption levels in their country had increased over the three years to 2010. Furthermore, eight out of ten respondents judged political parties to be corrupt, making this the most corrupt institutional sector. Not surprisingly, government action to fight corruption was often seen by respondents to be ineffective. Bribery was thought to be commonplace: one out of every four users of public services reported paying a bribe in the previous 12 months. This evidence suggests that costs are very significant in some jurisdictions.

Conclusions: Clientelism, Corruption and Perceptions of Corruption

Perceptions of corruption in a given society can bear some relation to legal frameworks as well as to the freedom accorded to the media. A key element of our conclusions involves legal frameworks, and their relationship to perceptions of corruption, as measured in the World Governance indicators. First, however, it may be useful to examine the freedom of the national media as a means of comparison. A free and active media, it would seem, can relate to a popular awareness of the possibility of corruption, at least in democratic countries. An examination of the World Press Rankings Index since 2003 (when all six of the top CPI countries were first included), demonstrates that, except for Singapore (which ranks below most of the countries of the world in this index), the top CPI countries tend to be countries with largely free presses:

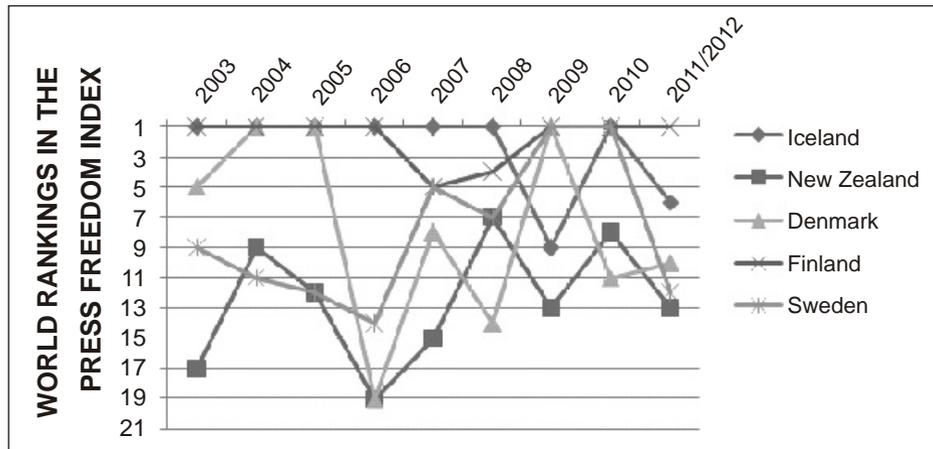
Figure 6: World Press Freedom Index for Top CPI Countries



Source: <http://en.rsf.org/press-freedom-index-2011-2012,1043.html>

A closer examination of the relative rankings, with Singapore excluded, demonstrates a good deal more variability year-to-year than in the CPI, HDI or other major indices:

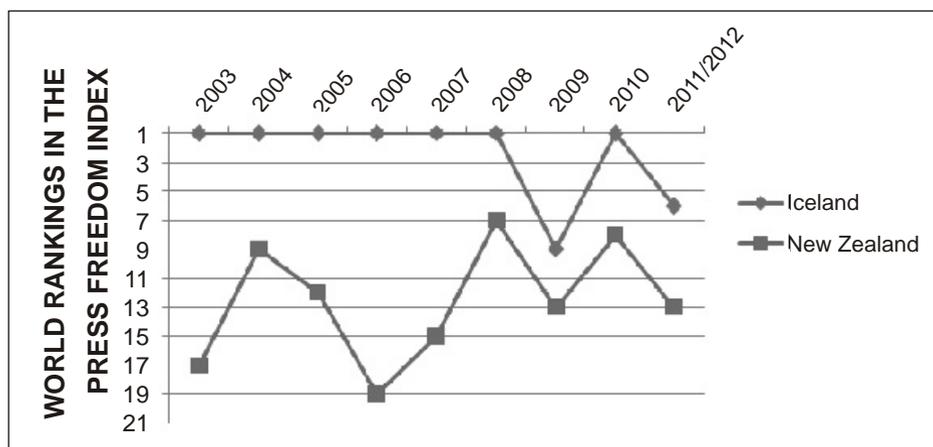
Figure 7: Press Freedom Rankings for Top CPI sans Singapore



Source: <http://en.rsrf.org/press-freedom-index-2011-2012,1043.html>

The principal observable characteristic of this index over time for our purposes is the similar patterns after 2008 evinced by Iceland, Sweden and New Zealand. If we examine Iceland and New Zealand's scores in the Press Freedom Index against each other, they evince very comparable patterns after 2008, despite Iceland's dramatic drop in the CPI, and New Zealand's continuing status in first place. It is difficult to explain the comparability, and New Zealand's lower ranking, in the context of comparative rankings in the CPI. We are left with the conclusion that media reports may have less to do with perceptions of corruption than we might suppose.

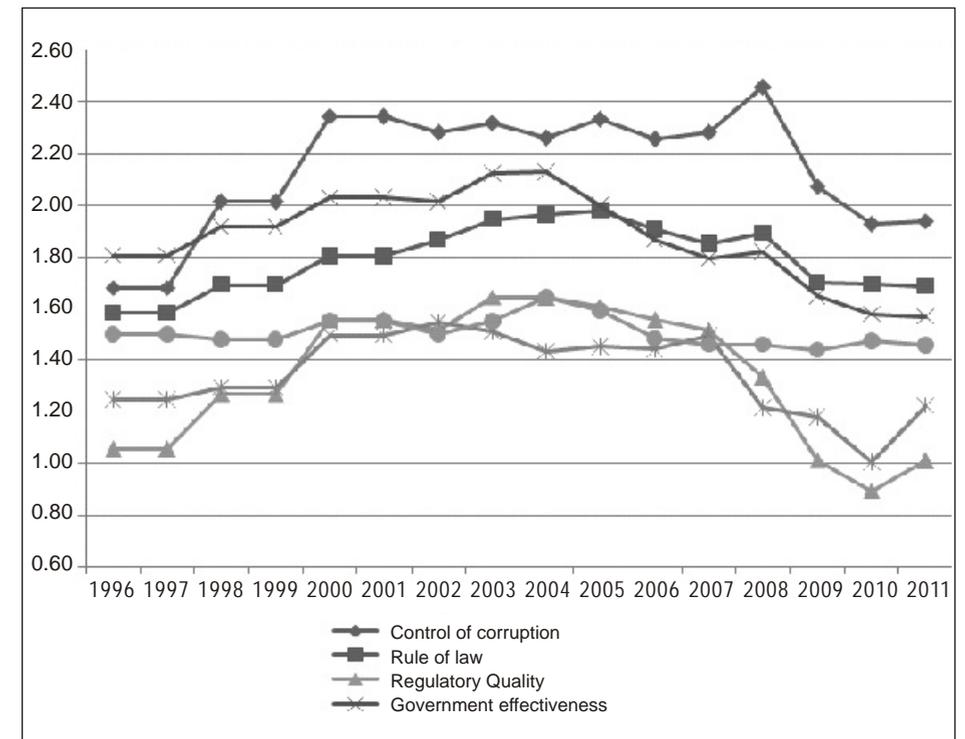
Figure 8: Iceland and New Zealand on the Press Freedom Index



Source: <http://en.rsrf.org/press-freedom-index-2011-2012,1043.html>

The *World Governance Indicators* project (Kaufmann, Kraay and Mastruzzi, 2010), based on a compilation from a range of data sources, much like the CPI,¹² point to a range of indicators that clarify both the close comparisons and striking differences between the top-ranked CPI countries, as Figures 6 and 7 suggest. The five indicators employed by Kauffman, Kraay and Mastruzzi (2010) roughly correlate in the case of

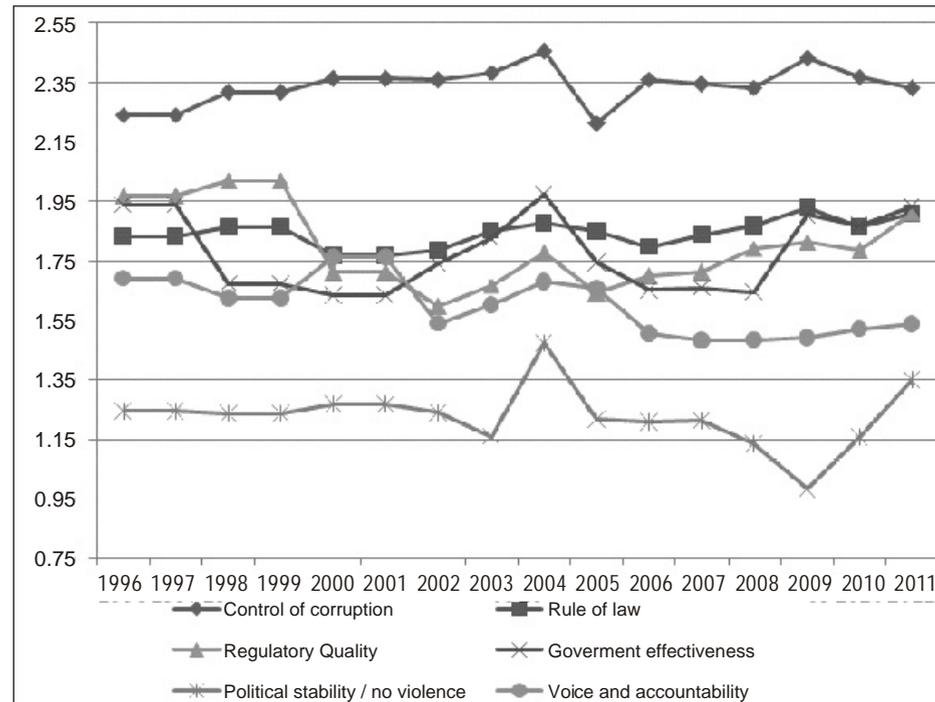
Figure 9: Iceland World Governance Indicators, 1995-2011



Source: Kaufmann, Kraay and Mastruzzi (2010).

Iceland. In particular, "political stability/no violence," "regulatory quality," and "control of corruption" all dip (and then recover, to some extent) simultaneously after 2007. It is a pattern that reinforces our understanding of the dramatic rise of perceptions of corruption in Iceland during that period, as indicated by the CPI. The indicators for New Zealand, however, as noted above, are confusing at best, and do not seem to reflect complementarity. In particular, a significant dip and then major rise in "political stability/no violence" after 2008 was accompanied by a significant rise in the "government effectiveness" score, and a slight rise and then gradual decline in "control of corruption." While this latter score fits the continuously high CPI score, the pattern is counter-intuitive as regards the first two scores.

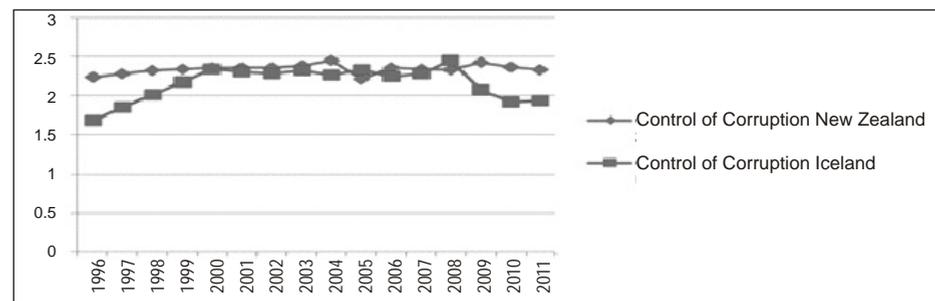
Figure 10: New Zealand's World Governance Indicators, 1995-2011



Source: Kaufmann, Kraay and Mastruzzi (2010).

It seems likely that Iceland's tradition of clientelism, or "northern clientelism" (Kristinsson 2001) ultimately complicated its ability to control corruption *after* the collapse of its banks, as Figure 8 clarifies. However, the drop in Iceland's HDI relates to the apparent rise in perceptions of corruption, particularly given that the financial institutions of Iceland were integral parts of the state, privatized or not. This would seem to explain the rise in perceptions of corruption in Iceland's largely un-corrupt society after 2008. New Zealand's scores in the World Governance Indicators suggest that there has been little variability over the last two decades, save for 'Political Stability/No Violence,' which seems to have changed a year prior to national elections, and may well represent the anticipation, rather than the reality, of change.

Figure 11: Control of Corruption in New Zealand and Iceland, 1996-2011



Source: Kaufmann, Kraay and Mastruzzi (2010).

Would this represent a similar problem for New Zealand? While the severity of the change in Iceland is unlikely to occur in New Zealand, it is reasonable to suppose that two elements in the rising perceptions of corruption in largely un-corrupt Iceland might eventually apply. First, as the general well-being of a population declines noticeably as the result of the failure of financial institutions, this seems, at least in the case of Iceland, to relate directly to an increase in perceptions of corruption (and a decline in the CPI). The collapse of a range of quasi-banks, loan and investment firms, in New Zealand between 2009 and 2012, and the prosecution of many of their directors (including financial and political elites) for fraud, on the face of it do not bode well for the future of New Zealand's top ranking in the CPI. Second, Iceland's relative inability to exercise effective controls over corruption during the financial crisis, perhaps in part because of a lack of preparedness—institutional and procedural measures already in place—contributed to the significant rise in perceptions of corruption in that country. Moreover, in countries with very low corruption rates, the recognition of corruption is difficult. As Trætteberg noted, "businesses and the society as a whole were largely unaware of the level of corruption in Iceland and therefore unable to address it properly" (2010: 371). It would seem that, like a Greek tragedy, Iceland's *agonistes* ultimately stemmed from its hubris and/or complacency, a near-fatal flaw in either case. "We are not a corrupt country," the reasoning apparently went, "and thus we do not need a modern and effective anti-corruption protocol." While these are disturbingly similar beliefs to those prevailing in New Zealand today, not every case of overweening complacency necessarily results in a tragedy. Reassurance comes with a capacity to successfully answer the question: why not?

Notes

1. Mishkin and Herbertsson (2011: 107) note that "Iceland is unique in that it is the smallest country in the world to have its own currency and flexible exchange rate."
2. Chartier notes that "for many foreigners, Iceland [prior to 2008] represented a model, an ideal, almost a utopia, that seemed unshakeable" (2010: 39).
3. Johann Lamsdóttir's (1999) key macroanalysis of corruption papers examines dozens of learned studies of the measurement of corruption and concludes that public perceptions (as defined by the CPI to emphasise business people) are the most accurate and consistent measurement.
4. Chartier, after examining hundreds of newspaper reports on Iceland's crisis, referred to the "incestuous climate in Iceland's spheres of power [that] weakened the country's economy by undermining the checks and balances..." (103).
5. The HDI brings together data on life expectancy, income and education levels in an algorithm that tends to maintain stable scores over time, but whose relative rankings evince greater year-to-year change than does the CPI.
6. A banking collapse was out of the question, given that most of New Zealand's banks are Australian, and are heavily regulated under Australian law. However, the collapse of the financial institutions, quasi-banks in many instances, ruined thousands of people, many of whom were business people, and should have registered in the CPI ranking if this relationship between the HDI and the CPI were causal.
7. As Timothy Mitchell noted in 1991, "The line between state and society is not the perimeter of an intrinsic entity, which can be thought of as a free-standing object or actor. It is a line drawn internally, within the network of institutional mechanisms through which a certain social and political order is maintained" (90).
8. "Many 'gift quota' recipients were quick to sell off their interest in the fishing industry to while away

- the dreary Icelandic winter in their vacation homes in Spain, while Icelandic fishermen struggled against the cold Atlantic winds far off at sea" (Thoroddsen 2011: Kindle loc 214-16).
9. A similar comment was made by New Zealand's Commissioner of Police, quoted in Gregory (1995).
 10. While Britain has simply limited its definition of corruption to bribery (Doig 1996: 36), the narrowness of this definition has led to complications from time to time.
 11. Gregory (1995: 59-60) has noted in the case of New Zealand in this regard that, "In state sector reforms there has emerged a huge contrast between the fulsome attention paid to accountability and the very sparse consideration of responsibility". He adds that, "Whereas accountability is expressed to another party or other parties, responsibility is accepted for the actions of oneself or others" (emphasis in the original).
 12. The World Governance Indicators follow 31 different data sources, including surveys, much like the CPI's 12 primary data sources for most countries.

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