

Response to the Referee#1 Evaluation Report on

"CREATIVE ACCOUNTING PRACTICES AND MEASUREMENT METHODS: EVIDENCE FROM TURKEY"

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We would like to sincerely thank Referee#1 for the comments in outlining the strengths of our paper. The reviewer suggested that the paper could be enhanced by focusing on two points: First, the pernicious effects on macroeconomic performance of clientelistic politics involving political actors and economic agents, and second the improvement of public finances management following the crisis of 2001. We are grateful to the Referee#1 for suggesting this comment as it enhances and strengthens our paper. We improve the paper by introducing compact analyses around these two points.

1. A major problem in middle income countries such as Turkey is illicit relations among public authority, state enterprises (under the complete hierarchical control of government) and business people where political authority is used to favor certain businesses over other. Often asymmetric access to political influence may grant specific businesses special treatments especially in non-competitive areas, or political influence may be used to limit competition and new entry in the first place (Atiyas 2013; Güran 2011).

The macroeconomic consequences of clientelistic politics have been widely observed in Turkey, deteriorating competitiveness of the economy and constraining innovative activities as well. The average duration of an infrastructure project reached 15 years at 90's. In 2000, the number of projects failed has been 5231. As a recent example, we can mention awful mine disaster on 13 May 2014 resulted with death of 307 miners. The explosion at the Soma mine caused Turkey's worst mining disaster. The mine, formerly a state-owned company (Turkish Coal Industries), had been privatized in 2005. Turkey needs to establish independent regulatory agencies outside the traditional bureaucracy, which can help constrain the discretionary powers of governments.

2. As the Referee#1 correctly points it out the crisis was a milestone in terms of what followed--the fiscal deficit and debt stock of public sector all declined substantially following 2001 and top-down macro-fiscal control was vastly improved.

Traditionally, Turkish governments have kept their accounts on a cash basis, focusing on their liquidity constraints. The Turkish government financial statistics (GFS reporting systems) and budget financing data were on a strict cash basis (IMF 2002:49). The overall structure of national accounts mainly followed the 1968 System of National Accounts (1968 SNA). GFS were produced on an approximate GFSM 1986 basis, and the nonbudget sector data fall well short of GFSM 1986 requirements for classification detail (IMF 2002:12). Turkish GFS focused mainly on cash transactions and on selected stocks but did not integrate them.

However, following the crisis 2001, Turkish public finance sector started to implement GFSM 2001¹ and revised the public sector structure and classifications according to ESA 95 (see items 11-12, Turkish National Program, www.abgs.gov.tr). These innovations improve training and skills of Turkish officials. Such technical developments have important effects on increasing both fiscal transparency, control and efficiency on budget process of public sector, followed by successful stabilization of the public debt stock. In a recent study Ozkaya (2013) examine the stabilization of Turkish and EU countries' public debt stock over GDP data from 2002Q1 to 2013Q1 by focusing on two approaches: Standard analysis and non-standard analysis of debt stock sustainability. The first one is based on stochastic linear time series analysis techniques and the second one relies on phase-space reconstruction methods (non-linear dynamical analysis). Different from most EU countries, Turkish public debt stock is determined to exhibit sustainable path from the view of two approaches. Moreover, it seems that debt management and public finance policy of Turkish government, indeed target a maximum decrease (deterministic) rather than following stochastic sustainability in debt stock over GDP (see Medium Term Macroeconomic Program 2012-2014).

For future studies, trade-off between rapid privatization of state-owned enterprises and lagging establishment of independent regulation agencies may be analysed from the perspective of clientelistic politics.

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¹ For the discussion of the differences between two GFS frameworks, please refer to Bjorgvinsson (2004:2-4)

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