

Discussion of  
“Timeless Perspective Policymaking:  
When is Discretion Superior?”  
by Richard Dennis

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- How to evaluate alternative policies?
  - Academic design vs. practical implementation
- The time inconsistency of the timeless perspective
- A cheap suggestion

# Evaluating Alternative Policies: Academic Design

- 1 Maximize conditional loss
    - Maximization done by policymaker, even in the model
    - Policymaker will know the state when adopting policy
  - 2 Evaluate policy with unconditional loss
    - Evaluation done by researcher
    - If researcher does not know the state (likely...), unconditional distribution is best guess
- TP and Ramsey yield same loss
    - Same unconditional moments under the two policies

# Evaluating Alternative Policies: Practical Implementation

- 1 Maximize conditional loss
- 2 Evaluate policy with conditional loss
  - Implementation done by policymaker/policy advisor
  - Policymaker knows the physical state: why ignore it?

# Evaluating Alternative Policies: Practical Implementation

And the multipliers? Policymaker knows them too!

- Ramsey: zero
- TP: substitute them out using FOCs wrt to jump variables, as if TP had been in place forever
  - FOCs provide a mapping from endogenous variables (including lags) to multipliers
  - Can evaluate policy conditional on (extended) physical state only
  - In practice: set instrument according to targeting rule that implements TP equilibrium
  - Existing *implicit* commitments disregarded: a bad precedent?

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  - Existing *implicit* commitments disregarded: a bad precedent?
- An alternative: honor existing implicit commitments/expectations
  - Consistent with the logic of the timeless perspective: no surprises
  - Still non stationary: initial conditions not from optimal stationary distribution

# Evaluating Alternative Policies: Richard's Suggestion

- 1 Maximize conditional loss
- 2 Evaluate policy
  - ✓ conditional on the physical state, but
  - ? integrating out the multipliers
- Motivation: level the playing field across policies with different states

## SOME COMMENTS

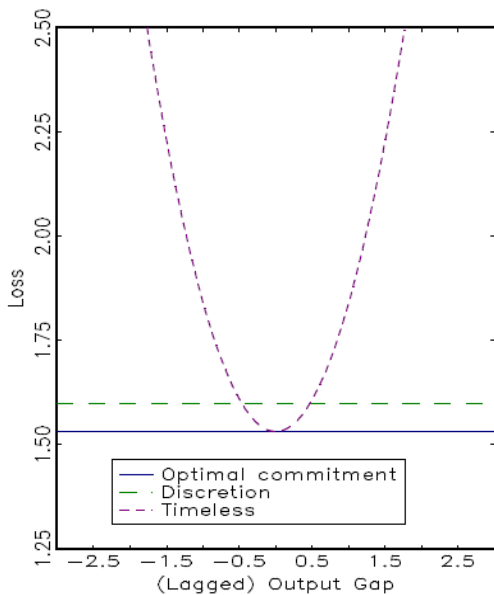
- What perspective: design or implementation?
- Multipliers can be expressed as function of the “right” state (Giannoni and Woodford)
  - Don't think integration is needed, only proper definition of state
- Either way, would still like to see dependence on physical state, not just parameters
  - Problem: state is a (large) vector
  - This analysis most meaningful “here and now”, i.e. from an implementation perspective

# The Time Inconsistency of the Timeless Perspective

- A known fact: TP is time inconsistent, although stationary
  - Ramsey is time inconsistent and non stationary ( $t_0$  problem)
  - Discretion is time consistent and stationary

⇒ Stationarity necessary but not sufficient for time consistency
- Always knew this in theory, but never appreciated it in practice
  - Time inconsistency of Ramsey usually attributed to  $t_0$  problem
- Vivid illustration in the first part of the paper

## A: Conditional Loss



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- Lessons for policy
  - Don't adopt timeless perspective in a crisis!
  - More in general, evaluate TP given actual conditions
  - TP requires very committed policymakers
  - But reverting to Ramsey probably not the answer
    - Continuation policy dominated by discretion in some states

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## MY CONCLUSION

- Is commitment really worth all the trouble?
- Should start studying endogenous escapes: quasi timeless perspective

# Cheap Suggestion

- With simple model, use microfounded loss
  - Changes in “structural” parameters affect loss function
- With ad hoc loss, use medium scale estimated model (Smets and Wouters?)
  - Draw from the posterior to construct probability of discretion  $\succ$  TP