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

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Outline

- How to evaluate alternative policies?
  - Academic design vs. practical implementation
- The time inconsistency of the timeless perspective
- A cheap suggestion
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
1. Maximize conditional loss
2. Evaluate policy with conditional loss
   - Implementation done by policymaker/policy advisor
   - Policymaker knows the physical state: why ignore it?
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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- 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
   1. conditional on the physical state, but
   2. 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
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

![Graph showing conditional loss](image)

- **Optimal commitment**
- **Discretion**
- **Timeless**

Lag (Lagged) Output Gap vs. Loss
The Time Inconsistency of the Timeless Perspective

- Given a deep enough recession (or boom...), the cost of maintaining the outstanding commitments—to follow through on past conditional forecasts—is so high that deviation to *discretion forever* would be beneficial.

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

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

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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 $\triangleright$ TP