# John C Williams: Prepare for the unexpected

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Klaas Knot Farewell Symposium, organised by De Nederlandsche Bank (DNB), Amsterdam, Netherlands, 3 October 2025.

* * *

*As prepared for delivery*

Thank you for the kind introduction. It's a great honor to speak at this event recognizing our esteemed colleague and friend, Klaas Knot.

As is often the case among central bankers, Klaas and I first met on a rubber raft floating down the Snake River in Wyoming's Grand Teton National Park. It was August 2011. Klaas was a rookie monetary policymaker at the time, having been in his role as president of the Dutch National Bank for less than two months. I, on the other hand, was a relatively grizzled veteran with nearly six months under my belt as president of the San Francisco Fed.

While we were leisurely cruising downstream, enjoying the wonderful views of nature, our raft suddenly came upon a black bear and two cubs who were-equally leisurely-crossing the river right ahead of us. Carefully, the raft pilot steered us near enough to the bears for close-up photos, but not so near as to get between the mama bear and her cubs-the one thing even a city slicker like me knows never to do. We didn't appreciate it at the time, but this adventure was an omen for the many challenges we would face navigating the unexpected in the years to come.

Since that momentous raft trip, I have had the great privilege of working closely with Klaas as he wore his various hats: as president of the Dutch National Bank, as a member of the board at the Bank for International Settlements (BIS), and in the leadership roles he held at the Financial Stability Board (FSB).

In all the years I have known Klaas, I have been impressed by the consistently high standards to which he holds himself and others. A high standard of grounding decisions in principles and strategy. A high standard of disciplined and impartial thought and analysis, one in which the evidence leads to the conclusion rather than the other way around. And a high standard of clear and concise communication-often with quintessentially Dutch directness. I experienced all of these high standards firsthand at many BIS meetings, when Klaas respectfully but pointedly probed my analysis or conclusions.

Today, I will do my best to meet Klaas's high standards as I describe key principles that have been critically important for successful monetary policy in the past and are essential for navigating the uncertain waters ahead. To cut to the chase, when it comes to monetary policy, central banks must prepare for the unexpected.

Before I go further, I need to provide the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee (FOMC) or others in the Federal Reserve System.

## Expect the Unexpected

A key lesson of the past 20 years is to expect the unexpected. Over that period, we've faced the global financial crisis, the euro crisis, the long period of zero or even negative interest rates, COVID-19, Russia's war on Ukraine, and most recently, seismic shifts in the global trade and geopolitical environment.

Unpredictable change and uncertainty will certainly continue to be with us for the foreseeable future. Consider, for example, the effects of ongoing global demographic shifts, artificial intelligence, and potentially transformative innovations in our financial systems.

If history teaches us to expect the unexpected, then what does that mean for monetary policy? First and foremost, it underscores the need for principles and strategy that provide the foundation for decision-making across a wide range of circumstances. This does not mean a playbook for every conceivable situation-that is doomed to fail. Instead, it is a consistent overarching strategy that shapes and informs decision-making. Second, it means having the ability and readiness to act as needed for any situation that arises. Third, it implies being clear-eyed and disciplined in adapting to and communicating the changing economic landscape and resulting policy trade-offs and decisions. It's important to be nimble in execution even as one is steady in strategy.

I am happy to say that all three of these features are foundational to the recent reviews of monetary policy frameworks conducted by the European Central Bank and the Federal Reserve, as well as policy frameworks used by many other central banks.[1]

So far, I have stayed at a very high level. I will now get into some specifics of how these observations translate into real-world practice. I will organize this discussion across three broad categories, corresponding to three key principles of successful monetary policy: accountability, transparency, and well-anchored inflation expectations.[2]

## Owning the Responsibility

I will start with accountability: Central banks must own the responsibility to deliver price stability *and* have the independence of action and the ability to achieve it.

In the distant past, many central bankers believed that monetary policy could only play a minor role in reducing inflation, while others thought that inflation was completely outside of their control.[3] The end result was persistently high inflation and economic stagnation. History has taught us that central banks can be more successful at delivering sustainably low inflation when they are accountable for their decisions and can act independently.[4,5] Today, central bankers around the world recognize that attaining and maintaining price stability is their job to do.

But it is not enough to be accountable and independent: central banks must have the appropriate tools to carry out their mandates. Outside of the hallways of central banks, monetary policy is commonly understood through the overly narrow lens of setting the current short-term interest rate. All the attention is on what the ECB, the Fed, or another central bank will "do" at its next policy meeting.

Of course, this focus is not entirely surprising since central banks generally use the short-term interest rate as the primary policy instrument. And the academic literature, including the Taylor Rule and all of its variants, has reinforced this notion that equates monetary policy to setting of the short-term rate. Indeed, there even has been a label attached to it: "conventional monetary policy." By implication, other monetary policy actions that have been used-such as forward guidance and balance sheet policies-are deemed "unconventional," and therefore somewhat suspect.

However, this narrow understanding of monetary policy is alien to the history of monetary economics and central bank practice. A reading of Milton Friedman and Anna Schwartz's pathbreaking history of the Federal Reserve during the Great Depression dispels the notion that monetary policy is limited to setting the short-term rate and instead emphasizes broader measures of liquidity and longer-term interest rates.[6] The same is true for Alan Meltzer's detailed history of the Federal Reserve.[7]

In this regard, I am reminded of Ben Bernanke's speech from 2002, titled "On Milton Friedman's Ninetieth Birthday." In it, Ben provided a clear and succinct overview of the Friedman and Schwartz critique of Federal Reserve policy during the Great Depression.[8] Of particular note is the example of the spring of 1932, when the Fed briefly engaged in open market purchases to support broad liquidity, which was beginning to have an effect on the economy. But this policy was soon abandoned, as the Fed reverted to the view that the low level of nominal interest rates indicated an expansionary monetary policy. Ben famously finished the speech by acknowledging these mistakes. And he promised not to repeat them-a vow he would soon uphold through leading the Fed's actions during the global financial crisis.

Around the same time, and well before "unconventional" policies had that name, monetary economists from different schools of thought-including Ben McCallum, Athanasios Orphanides and Volker Wieland, Gauti Eggertsson and Mike Woodford, Ben Bernanke and Vicent Reinhart, Alan Auerbach and Maury Obstfeld, and my own work with Dave Reifschneider[9]-described how monetary policy could be effective even in situations where nominal short-term rates were very low. These are not "emergency," "crisis," or "break-the-glass" policies, but those that are well within the long tradition of monetary theory and practice. Of course, how and when to use policies depends on the circumstances and the risks policymakers are facing. But this is a matter of tactics and implementation, not of principle or strategy.

## Commitment to Transparency

The second principle is transparency-including the clear communication of a central bank's framework, an explicit numerical longer-run inflation target, and the reasoning behind policy decisions.

For central banks, transparency enhances accountability and keeps them clearly focused on achieving their goals. For households and businesses, an explicit and credible inflation target helps take some of the uncertainty off the table so they can focus on planning for their future. By improving the public's understanding of a central bank's goals and actions, the central bank can enhance the effectiveness of monetary policy at stabilizing inflation and the economy.[10,11,12]

Based on a foundation of clear goals and strategy, central banks are better able to communicate their thinking behind policy decisions and how they relate to policy goals. This is often done through economic forecasts, reports, and speeches. Transparency around the factors that influence policy decisions can, in turn, improve the public's understanding of the policy reaction function, thereby enhancing the effectiveness of policy.[13] Indeed, many central banks have increasingly provided detailed macroeconomic analyses of factors relevant for monetary policy, including staff or policymaker estimates of the output gap and the natural rate of interest.[14]

There is no single best way to achieve transparency-this is not one size fits all. Instead, the approach must conform to the institutional structures and practical realities of each jurisdiction. The Monetary Policy Reports of the Riksbank and Norges Bank, to name two examples, provide very clear summaries of the views of their policy committees, including their assessments of the distribution of the path of future interest rates.[15] In contrast, central banks with large committees or a mix of internal and external members have not done so. Such differences across central banks may be more a feature than a bug: One of the benefits of greater transparency and the variety of different practices is that we can all learn from each other's experiences as we strive to further improve communications consistent with our institutional structures and needs.

## Importance of Inflation Expectations

The third key principle of successful monetary policy is well-anchored inflation expectations. This principle has become a bedrock of modern central banking, as economic analysis and history have shown that anchoring inflation expectations is important in maintaining low and stable inflation.[16,17]

Well-anchored inflation expectations short-circuit so-called second-round effects in wage and price setting that exacerbate and prolong the impacts of the kinds of shocks we saw during the 1970s. They also create a more favorable short-run trade-off in achieving inflation and employment objectives.[18]

Central banks help anchor expectations by owning the responsibility to deliver price stability, publicly committing to an explicit inflation target, and taking the actions needed to ensure price stability. The connections between policy communications and actions, inflation outcomes, and expectations are at the core of robust policy strategies.[19]

Unlike the stylized textbook model of monetary policy, a robust policy approach recognizes that the economy is changing and uncertain. It also views the anchoring of expectations, or the lack thereof, as the outcome of monetary policy actions and communications, not an assumed fact.

## When the Facts Change

I have talked about the importance of three key principles: ownership of price stability and independence of action, transparency about goals and strategy, and a focus on anchored inflation expectations. But like that family of black bears on the Snake River, the unexpected is always waiting around the bend. These principles and lessons provide a strong foundation for monetary policy that prepares us for the unexpected challenges and uncertainties we face ahead.

Thank you.

---

[1] European Central Bank, Our 2025 monetary policy strategy assessment, June 30,2025, and Board of Governors of the Federal Reserve System, 2025 Statement on Longer-Run Goals and Monetary Policy Strategy, August 22, 2025.

[2] John C. Williams, Connecting Theory and Practice, remarks at Hoover Institution Monetary Policy Conference, Stanford, California, May 3, 2024.

[3] Christina D. Romer and David H. Romer, "Lessons from History for Successful Disinflation," University of California, Berkeley, May 12, 2024.

[4] Luis I. Jácome and Samuel Pienknagura, 2022. "Central Bank Independence and Inflation in Latin America-Through the Lens of History," *IMF Working Papers* 2022/186 (September).

[5] D. Filiz Unsal, Chris Papageorgiou, and Hendre Garbers, 2022. "Monetary Policy Frameworks: An Index and New Evidence," *IMF Working Papers* 2022/022 (January).

[6] Milton Friedman and Anna Jacobson Schwartz. 2008. *A Monetary History of the United States 1867-1960* (Princeton: Princeton University Press).

[7] Allan H. Meltzer, 2003. A *History of the Federal Reserve: Volume 1, 1913-1951*. Chicago: University of Chicago Press, 2003; and Allan H. Meltzer, 2010. *A History of the Federal Reserve: Volume 2, Book 1, 1951-1969*. Chicago: University of Chicago Press; and Allan H. Meltzer, 2010. *A History of the Federal Reserve: Volume 2, Book 2, 1970-1986*. Chicago: University of Chicago Press.

[8] Ben S. Bernanke, On Milton Friedman's Ninetieth Birthday, at the Conference to Honor Milton Friedman, University of Chicago, Chicago, Illinois, November 8, 2002.

[9] Bennett T. McCallum, 2000. "Theoretical Analysis Regarding a Zero Lower Bound on Nominal Interest Rates," Journal of Money, Credit and Banking 32(4): 870–904; Athanasios Orphanides and Volker Wieland, 2000. "Efficient Monetary Policy Design near Price Stability," *Journal of the Japanese and International Economies* 14(4): 327-65; Gauti B. Eggertsson and Michael Woodford, 2003. "The Zero Bound on Interest Rates and Optimal Monetary Policy," *Brookings Papers on Economic Activity* 2003(1): 139–211; Ben S. Bernanke and Vincent R. Reinhart, 2004. "Conducting Monetary Policy at Very Low Short-Term Interest Rates," *American Economic Review* 94 (2): 85–90; Alan J. Auerbach and Maurice Obstfeld. 2005. "The Case for Open-Market

Purchases in a Liquidity Trap," *American Economic Review* 95 (1): 110–37; David Reifschneider and John C. Williams, 2000. "Three Lessons for Monetary Policy in a Low-Inflation Era," *Journal of Money, Credit and Banking* 32(4): 936–66.

[10] Anthanasios Orphanides and John C. Williams, 2004. "Imperfect Knowledge, Inflation Expectations, and Monetary Policy," in *The Inflation-Targeting Debate,* Ben S. Bernanke and Michael Woodford (eds.). Chicago: University of Chicago Press for NBER, pp. 201-34. Glenn D. Rudebusch and John C. Williams, 2008. "Revealing the Secrets of the Temple: The Value of Publishing Central Bank Interest Rate Projections," in *Asset Prices and Monetary Policy*, John Y. Campbell (ed.), Chicago: University of Chicago Press for NBER, pp. 247-84.

[11] Michael Woodford, 2012. "Methods of Policy Accommodation at the Interest-Rate Lower Bound," in *The Changing Policy Landscape*, proceedings of the Federal Reserve Bank of Kansas City Jackson Hole Economic Policy Symposium, August 30–September 1, pp. 185–288.

[12] Eric T. Swanson and John C. Williams, 2014. "Measuring the Effect of the Zero Lower Bound On Medium- and Longer-Term Interest Rates," *American Economic Review* 104(10): 3154-85.

[13] Rudebusch and Williams 2008.

[14] John C. Williams, All the Stars We Cannot See, remarks at the Banco de México Centennial Conference, Mexico City, Mexico, August 25, 2025.

[15] Sveriges Riksbank, Monetary Policy Report, September 2025; Norges Bank, Monetary Policy Report 3/2025, September.

[16] John C. Williams, "Inflation Targeting and the Global Financial Crisis: Successes and Challenges," Essay presentation for the South African Reserve Bank, Conference on Fourteen Years of Inflation Targeting in South Africa and the Challenge of a Changing Mandate, Pretoria, South Africa, October 31, 2014.

[17] See Orphanides and Williams (2004); Athanasios Orphanides and John C. Williams, 2005. "Inflation Scares and Forecast-Based Monetary Policy," *Review of Economic Dynamics* 8(2): 498-527; and Athanasios Orphanides and John C. Williams, 2007. "Inflation Targeting under Imperfect Knowledge," *Economic Review 2007*, 1-23. There is a large theoretical and empirical literature on the formation of expectations. See, for example, George W. Evans and Seppo Honkapohja, 2001. *Learning and Expectations in Macroeconomics* (Princeton: Princeton University Press); Ulrike Malmendier and Stefan Nagel, 2016. "Learning from Inflation Experiences," *The Quarterly Journal of Economics* 131(1): 53-87; Olivier Coibion, Francesco D'Acunto, Yuriy Gorodnichenko, and Michael Weber, 2022. "The Subjective Inflation Expectations of Households and Firms: Measurement, Determinants, and Implications," *Journal of Economic Perspectives* 36(3): 157-84, and references therein.

[18] Athanasios Orphanides and John C. Williams, 2013. "Monetary Policy Mistakes and the Evolution of Inflation Expectations," in *The Great Inflation: The Rebirth of Modern Central Banking*, ed. by Michael D. Bordo and Athanasios Orphanides, Chicago: University of Chicago Press, 255-97.

[19] Orphanides and Williams 2004, 2005, 2007, and 2013.