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Fed's Kohn: It's Slack, Even If You Can't Measure It

Federal Reserve Vice Chairman **Donald Kohn** knows there's plenty of slack, or unused capacity, in the economy. At a meeting of the [Shadow Open Market Committee](#) held today at the **Cato Institute**, **Bank of America** chief economist **Mickey Levy** wanted to know from Kohn: How do you measure it?

Kohn compared that to the challenge of defining inflation expectations, which he earlier called an "unobservable variable" even though Fed officials rely on them in determining whether the central bank needs to tighten policy.

The same goes for the potential rate of gross domestic product growth in the economy. "You never can really observe what potential GDP is, you have to infer it from other things," Kohn said, citing the trend of GDP growth, pressures on employment and wages and the unemployment rate.

The Fed does produce a measure of capacity utilization, which earlier this year hit its lowest level since records started in 1948. Add that to a near-10% unemployment rate, decelerating wage growth, rising productivity and the current inflation rate being very low, Kohn said, and we don't have conditions anything like the 1970s when inflation took off.

"I think you can be pretty comfortable there's a lot of slack," he said.

[\(Click hear to read more](#) about what Kohn and other Fed officials had to say Wednesday.)

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