Patrick J. Buchanan

Global Crack-Up

SO GRAVE WAS THE CRISIS in western China that President Hu Jintao canceled a meeting with President Obama, broke off from the G8 summit, and flew home.

By official count, 158 are dead, 1,080 injured, and 1,000 have been arrested in ethnic violence between Han Chinese and the Muslim, Turkic-speaking Uighurs of Xinjiang. That is the huge oil-rich province that borders Pakistan, Afghanistan, and several Central Asian countries that seceded from the Soviet Union.

Uighur sources put the death toll much higher. The Communist Party chief in Xinjiang has promised to execute those responsible for the killings.

In 1989, fear that what was happening in Eastern Europe might happen in Beijing produced Tiananmen Square. The flooding of Chinese troops into Xinjiang bespeaks a fear that what happened to the Soviet Union could happen to China. Unlike Mikhail Gorbachev, the Chinese, as they showed in Tibet, will wage civil war to crush secession.

Already, Beijing has struggled to ensure perpetual possession of Inner Mongolia, Xinjiang, and Tibet—half of the national territory—by moving in millions of Han Chinese, swamping the indigenous peoples, as they did in Manchuria.

The larger issue here is the enduring power of ethnonationalism—the drive of ethnic minorities, embryonic nations, to break free and create their own countries, where their faith, culture, and language are predominant.

Ethnonationalism caused the Balkan wars of 1912 and 1913, triggered World War I in Sarajevo, and tore apart the Austro-Hungarian and Ottoman Empires. Ethnonationalism birthed Ireland, Turkey, and Israel.

Ethnonationalism in the 1990s tore apart the Soviet Union and Yugoslavia, and broke up Czechoslovakia, creating two-dozen nations out of three. Last August, ethnonationalism, with an assist from the Russian Army, relieved Georgia of Abkhazia and South Ossetia.

Ethnonationalism split the Asian subcontinent up into Pakistan, India, and Bangladesh. Iran, Iraq, and Pakistan are all threatened.

In Iran, Persians are a bare majority against the combined numbers of Azeris, Kurds, Arabs, and Baluch. Each of those minorities shares a border with kinfolk —in Azerbaijan, Kurdistan, Iraq, and Pakistan.

If one were to wager on new nations, Kurdistan and Baluchistan would be among the favorites. And Pashtun in Pakistan outnumber Pashtun in Afghanistan, though in the latter they are the majority.

In Africa, the savage attacks on the Kikiyu by the Luo manifest a resurgent tribalism, as did the horrors of Rwanda, where Tutsi in the hundreds of thousands were massacred by Hutu.

President Clinton may have apologized to the Africans for not sending troops to stop the genocide in Rwanda, but if the America of Obama is into interventionism to protect human rights, Africa in the 21st century should provide us plenty of opportunity.

Evo Morales in Bolivia, Ollanta Humala in Peru, and Venezuela's Hugo Chavez are stoking the embers, goading the Indian populations, the indigenous peoples, to take back what the white man took 500 years ago. They have met with no small success.

The contrast between insouciant America and serious China today is instructive. China is protectionist; America free trade. China is nationalist; America globalist. China's economy is export-driven; America's base is consumption. China saves; America spends. China uses its foreign exchange to lock up overseas resources; America uses foreign aid for humanitarian assistance to failed states. Behaving like ruthlessly purposeful 19th-century Americans, China grows as America shrinks.

Where Beijing floods its borderlands with Han to reduce indigenous populations to minorities and stifles religious, ethnic, and linguistic diversity, America—declaring "Diversity is our strength!"—invites the world to come to America and swamp her own native-born.

Observing the lightning breakup of the Soviet Union, the Chinese take ethnonationalism seriously. America's elite regard it an irrelevancy, an obsession only of the politically retarded.

After all, they tell us, we were never blood-and-soil people, always a propositional nation, a nation of ideas. Our belief in democracy, diversity, and equality defines us and makes us different from all other nations.

Indeed, we now happily anticipate the year 2042, when Americans of European ancestry become a minority in a country whose Founding Fathers declared it set aside for "ourselves and our posterity."

Without the assent of her people, America is being converted from a Christian country, nine in 10 of whose people traced their roots to Europe as late as the time of JFK, into a multiracial, multiethnic, multilingual, multicultural Tower of Babel not seen since the late Roman Empire.

The city farthest along the path is Los Angeles, famous worldwide for the number, variety, and size of its ethnic and racial street gangs.

Not to worry. It can't happen here. ■

Prophet & Loss

Ben Bernanke's bad predictions should preclude his reappointment.

By Wilson Burman

IF THERE WAS ANY DOUBT that the Greenspan era was over, Ben Bernanke's rough day on June 25 dispelled it. The Federal Reserve chairman endured hours of grilling by the House Oversight and Government Reform Committee, a stunning contrast to the deferential treatment long accorded to his predecessor. With Bernanke's four-year term winding down, the debate over whether President Obama will reappoint him is getting a lot louder.

The committee's sharp questions focused on the role the Federal Reserve played in Bank of America's takeover of Merrill Lynch last year. But Fed watchers have recently been focusing on important new evidence of Bernanke's actions in the early part of the decade. The Federal Open Market Committee (FOMC) meets eight times a year to plan various aspects of monetary policy, including interest rates. It releases verbatim transcripts after a five-year lag. Fed members often make speeches and give interviews, but the transcripts show exactly what goes on behind closed doors.

2003 was a pivotal early bubble year. The war drums had been beating for months, which suppressed economic activity in the early part of the year. But by the middle of 2003, Iraq was an apparent success. With "Mission Accomplished" as the national mantra and Saddam in the market for spider holes, American consumers let out a collective sigh of relief. Third quarter GDP growth was a stunning 7.5 percent. The fiscal and monetary jets were on full blast. George W. Bush's tax cuts passed that May, and in June the Fed cut the fed funds rate to 1 percent and kept it there for the next year. The great national binge was underway.

But the FOMC transcripts show that Bernanke, then a Fed governor, was feeling a bit grumpy. With the economy gathering speed and the fed funds rate already at a historic low, he searched for reasons to cut interest rates even further. The text of the meeting on Aug. 12, 2003 evidences his concern:

> Despite the good news, I think it's premature to conclude that we should not consider further rate cuts, if not at this meeting then at some time in the near future depending on how the data play out. My concern is focused on the behavior of inflation both in the short term and in the long term. Regarding the short term, though I can see that output gaps are extremely hard to measure, the most reasonable guess is that the current gap remains substantial. Moreover, because of rapid productivity growth, the gap may close very slowly in coming quarters even if output growth is quite strong. That's bad news for workers, and it poses some risks to consumer spending. More to the point, a persistent output gap implies that additional disinflation over the next year remains a distinct possibility. Even if we consider actual deflation to be too remote to worry about, further disinflation poses important risks.

Bernanke's caveat about output gaps was appropriate. The output gap is the difference between the actual output of an economy and the output it could achieve at full capacity. As economic statistics go, it is notoriously unreliable. Actual GDP is hard enough to measure and is habitually revised. One can imagine the pitfalls of a group of statisticians in Washington trying to estimate the collective potential of the entire U.S. economy. Beyond that, some larger dynamics affect the utility of the output gap as a statistic. If Detroit makes cars that consumers don't want, leaving large parts of the automobile industry and its associated national supply chain fallow, the output gap will reflect that. So too if a U.S. company outsources manufacturing to China or India. These are long-term, structural changes in the economy, influenced by forces such as globalization, demographics, and consumer preferences. They cannot be solved through monetary policy.

But Bernanke's solution is to monetize them. And using the output gap to predict inflation, as he did in that 2003 meeting, is particularly risky when it justifies easy monetary policy. Carnegie Mellon economics professor Allan Meltzer has noted that there are "lots of examples of countries with underutilized resources and high inflation. Brazil in the 1970s and 1980s." The problem is that employment and other output-gap components can remain intractably weak in the face of rising prices. For Bernanke, however, rising prices are subordinate to the output gap. This can