

force. Nonetheless, the Labor Department's report reflected what voters pulled the lever against on Nov. 4. Another 40,000 factory jobs were lost, bringing the total number of manufacturing jobs eliminated this year to 200,000. The Labor Department reported that 300,000 more Americans lost their jobs in September. In addition, 135,000 jobs in the oil and gas sector have vanished, about 25% of the industry's entire work force.

EIR warned in our first-quarter 1986 Quarterly Economic Report that a crash of inflated real-estate values would begin this year, especially if "tax reform" eliminating prior tax-benefits for real-estate investment were enacted. The 25% vacancy rate nationwide for prime commercial office space has already produced a 30% decline in commercial construction over the past year, with a virtual shutdown in the stricken oil-producing states. Analysts anticipated a 25% or more decline in office-building prices nationally.

Usually, commentaries on the real-estate industry attempt to forecast demand for commercial office space by projecting office, retail trade, restaurant, and hotel employment. In fact, real-estate speculation creates such jobs in the short-term, not vice versa. Bankers and developers agree to build a shopping mall or an office complex, and, in the process, recruit the tenants of the proposed project. That is to say that much, perhaps most, of the service-sector employment increases of the past three years reflect speculation in rising real-estate values, more than any other economic development.

The decline in service jobs during August and September coincided with the break in the real estate market (and Congressional passage of "tax reform"), and may well have been caused by it. The big declines in non-goods-producing employment occurred in hotels, architecture and engineering, recreation, health, and small business, i.e., precisely the sectors which benefited most from the real-estate boom. These sectors hired 100,000 new workers on average between January and July; that fell to 50,000 in September.

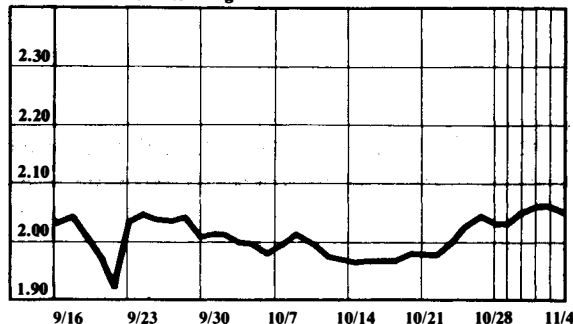
In all the discussions of the "shift to services," no one appears to have asked the question: Where do service employees obtain houses, cars, food, and clothing? The answer, in order of volume, is from Japan, the developing nations, and Western Europe. Since conditions no longer exist in which the United States can finance a \$200 billion per annum trade deficit, the conditions for continued expansion of services, or even maintenance of the present bloated level, no longer exist.

That suggests that there is still a very long way to fall. During 1982, i.e., during the last major ratchet downward in industrial output, service employment was stagnant. By the end of 1984, the real-estate boom briefly pushed the monthly hiring rate in services to 300,000. The elimination of the foreign-trade subsidy, and the collapse of basic industries, will wipe this out during the ensuing months, creating true mass unemployment—as opposed to the mass *mis-employment* of the last two years.

Currency Rates

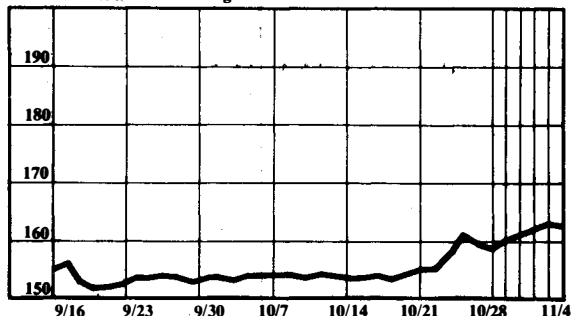
The dollar in deutschemarks

New York late afternoon fixing



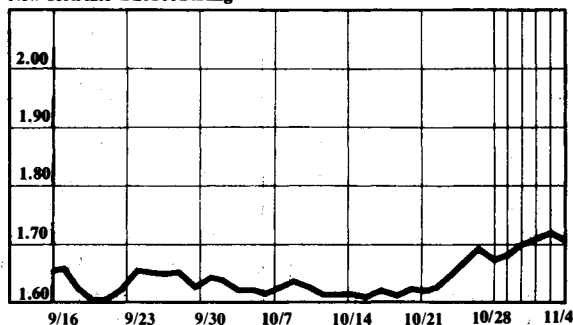
The dollar in yen

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The dollar in Swiss francs

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The British pound in dollars

New York late afternoon fixing

