



The SOCIONOMIST

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A monthly publication designed to help readers understand and prepare for major changes in social mood.

THE COMING COLLAPSE OF A MODERN PROHIBITION

by Euan Wilson

History shows that mood governs society's tolerance for recreational drugs. A rising social mood produces prohibition of substances such as alcohol and marijuana; a falling mood produces tolerance and relaxed regulation. In the case of alcohol, the path from prohibition to decriminalization became littered with corruption and violence as the government waged a failed war on traffickers. Eventually, as mood continued to sour, the government finally capitulated to public cries for decriminalization as a means to end the corruption and bloodshed.

We predict a similar fate for the prohibition of marijuana, if not the entire War on Drugs. The March 1995 *Elliott Wave Theorist* first forecasted the Drug War's repeal at the end of the bear market, and in 2003, EWT stated that during the decline, "The drug war will turn more violent. Eventually, possession and sale of recreational drugs will be decriminalized."

THE CASE OF MARIJUANA

Social mood influences people's actions and their social judgments. In times of positive mood, people have the resources to enforce their social desires. They can afford to express the black and white moral issues preferred during bull markets, and drug abuse is a favorite target.

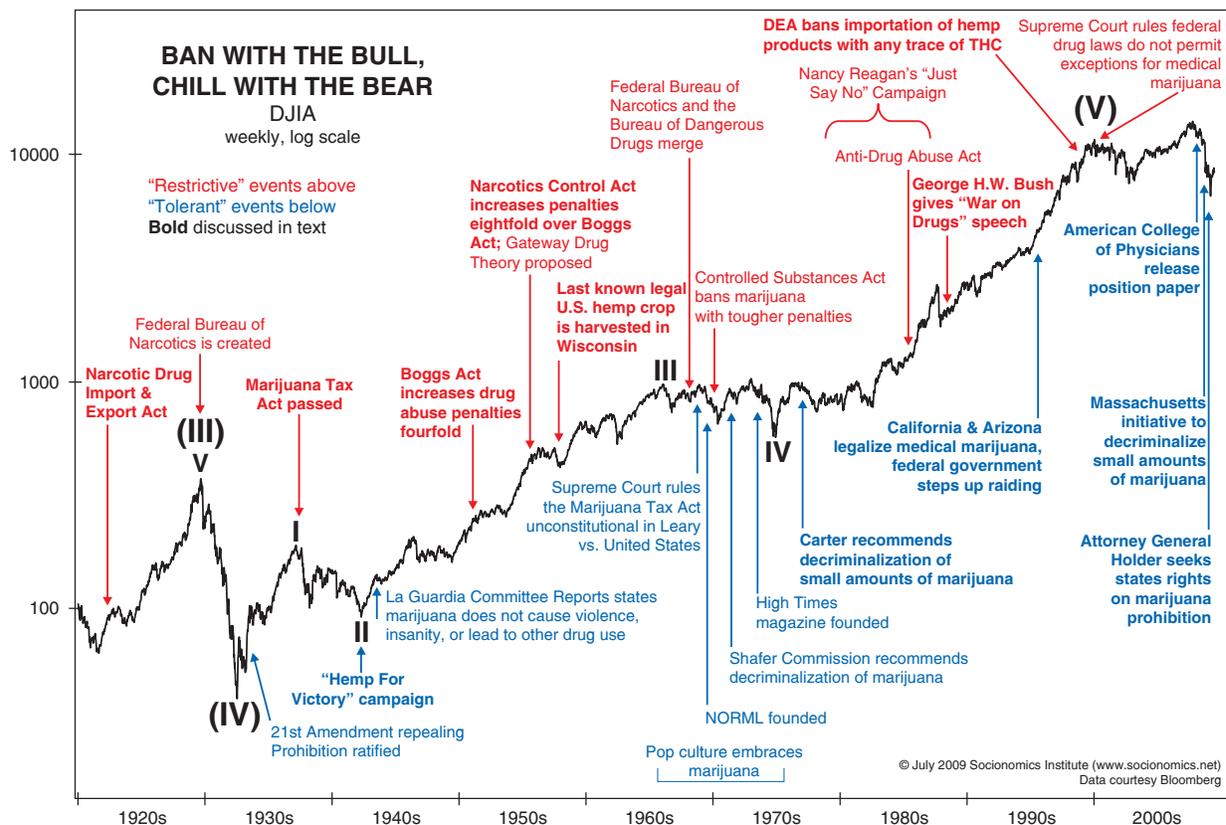


Figure 1

During times of negative mood, on the other hand, society's priorities change. People have other, bigger worries and begin to view recreational drugs as less dangerous, if not innocuous in offering stress relief, pain reduction and the ability to cope with the pressures of negative social mood.

Over the past 100 years, governmental activities have manifested these changing attitudes. During periods of rising mood, policymakers stepped up regulation of cannabis. During periods of falling mood, they eased those same stances.

As shown in Figure 1, each legislative attempt to restrict marijuana use followed at least three, and in most cases four or five, bull-market years. In 1937, Congress passed the Marijuana Tax Act. The law banned casual consumption of the drug and limited its use to specific medical and industrial purposes. Franklin Roosevelt signed the law at the top of a roaring bull market, the Dow Jones Industrial Average having quintupled from its 1932 low. The real crackdown, however, came over a decade later during the massive wave III bull move. The Boggs Act, which increased drug use penalties fourfold, and the Narcotics Control Act, which increased penalties another eightfold, both came during the most powerful portion of wave ③ of III of the bull market. Then in 1958, after four more years of rising mood, Wisconsin farmers harvested the last legal crop of U.S.-grown hemp. In 1989, President George H. W. Bush's famous "War on Drugs" speech came on the heels of seven years of net progress in the stock market. In 1999, a year before the top of the Grand Supercycle bull market, the DEA banned the importation of hemp products that contained even a trace of Tetrahydrocannabinol (THC), marijuana's psychoactive ingredient.

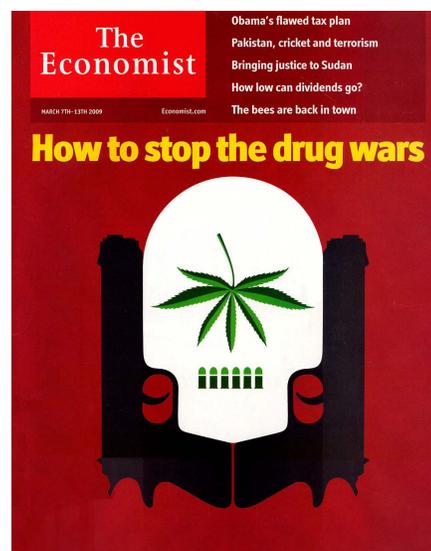
NEGATIVE SOCIAL MOOD FOSTERS TOLERANCE FOR MARIJUANA USE

During bear markets, pot users have enjoyed liberal social tolerance. Figure 1 illustrates that the government tends to allow—and in some cases encourage—the growing of marijuana during bear markets. In 1942, the year Cycle wave II bottomed, Congress launched its "Hemp for Victory" campaign to encourage farmers to grow the crop for industrial purposes related to the war effort. According to the Wall Street Journal, farmers planted over 50,000 acres of hemp in 1942 and 240,000 acres in 1943. In 1977, a bear market year, President Carter recommended that Congress legalize possession of small quantities of marijuana. An exception occurred in 1996, when, four years before the top of a historic bull market, California and Arizona voted to allow the use of marijuana for medical purposes. But the federal government maintained consistency with the spirit of the

times and stepped up its raids on marijuana facilities in the states where it was legalized and wrenched convictions from juries who were denied the information that the drug dispensaries were legal in those states, according to the New York Times. But in 2008, as social mood and the stock market plunged at its then-fastest rate since the 1930s, Massachusetts voters took a bigger step in passing an initiative that decriminalized the possession of small amounts of marijuana. Michigan's voters also passed a loosening law, this one permitting the use of medical marijuana. On June 29, Oregon's House of Representatives passed a bill in favor of licensing hemp farming. Barring a veto, Oregon will be the sixth state this year to pass pro-hemp legislation. So far, in keeping with the bear market trend, the feds have chosen not to interfere in these recent initiatives.

In February, U.S. Attorney General Eric Holder announced his view that states should make their own rules on medical marijuana use and that federal raids on pot dispensaries should cease. Then in June, Congressman Barney Frank introduced two pieces of marijuana-related legislation: the first allowing states to pass medical cannabis laws without interference from the federal government; the second eliminating federal penalties for possessing 100 grams of pot or less (but adding a fine of \$100 for public consumption). According to CBS, Frank filed a similar bill last year that failed. We expect the current legislation to fail too, as it is too early in the bear market for Congress to take such contrary measures. But bills similar to Frank's will gain traction when mood resumes its drop. Cash-strapped states will surely argue that they desperately need tax revenues from pot and that they can also save money by releasing non-violent drug offenders from prison.

Non-legislative groups are already proposing tolerance. In 2008, the prestigious American College of



Physicians, the largest medical specialty organization and second largest physician group in the U.S., released a position paper urging the government to remove marijuana from its Schedule 1 classification. The drug has held the S1 designation for 38 years. It is a classification reserved for drugs, including heroin, that the government considers to have no medical uses and to possess a “very high potential for abuse.” The recent cry for reclassification from such a recognized body is a prime example of how changes in social mood modify attitudes toward the drug.

Finally, a number of critics of the War on Drugs have emerged in the media. CNN’s Jack Cafferty posted an article in late March of this year titled, “War on Drugs is Insane.” The same month, The Economist declared, “Prohibition has failed; legalization is the least bad solution.” And in June, CNN aired an Anderson Cooper

special report titled, “America’s High: The Case for and Against Pot.” As mood becomes even more negative, specials such as CNN’s will drop the “and Against” from their titles.

Media reports like these will gain sympathetic readers and viewers across America, but none of their arguments will be as compelling as the point that decriminalization will end the bloodshed.

**THE BLUNT REALITY:
PROHIBITION AND THE DRUG WAR**

As the saying goes, “History doesn’t repeat itself, but it does rhyme.” The Wave Principle explains why. Each of the eight Elliott waves within a typical impulse and correction pattern has its own personality, as Frost and Prechter initially described in [Chapter 2 of Elliott Wave](#)

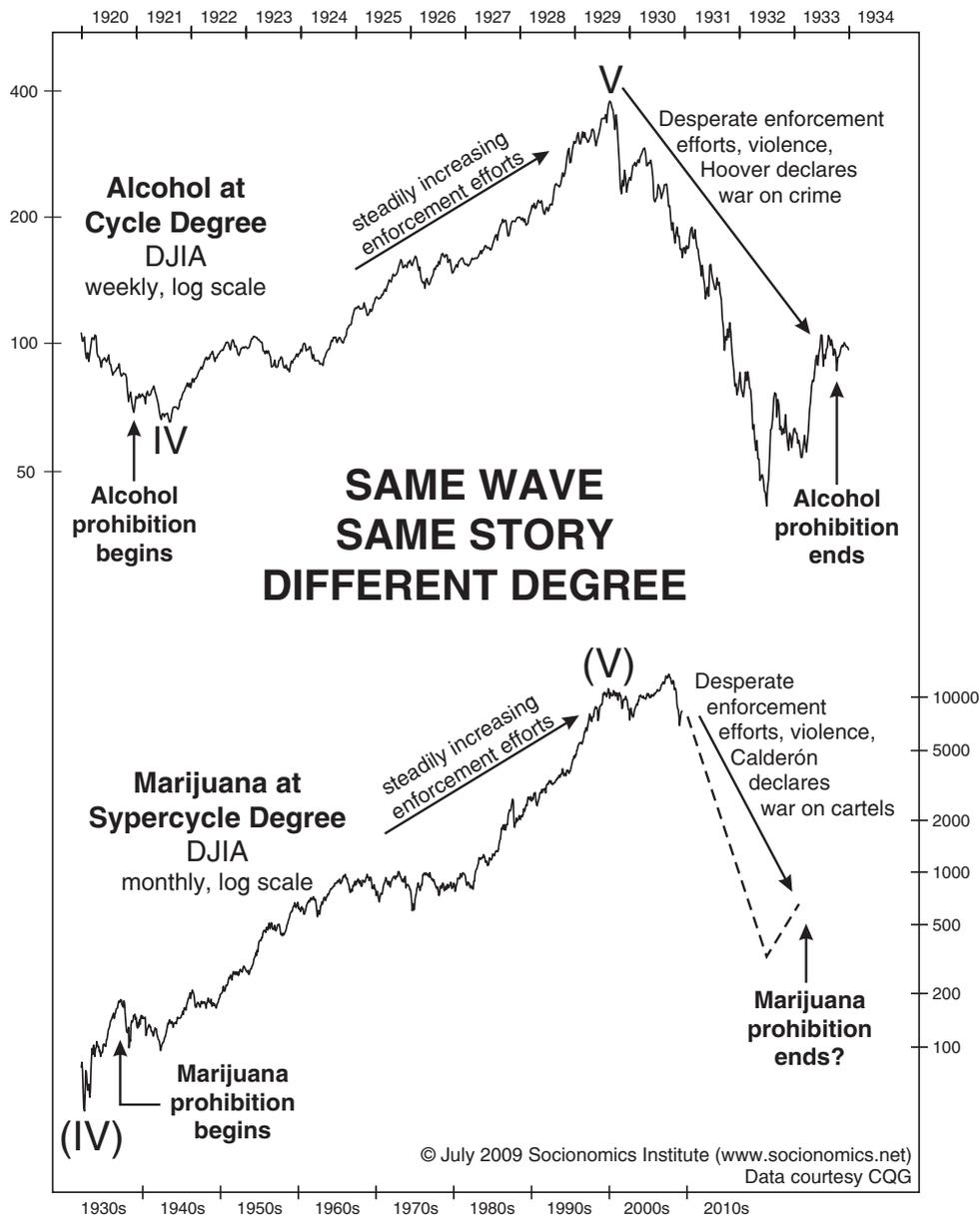


Figure 2

Principle. Figure 2 provides an example of how these personalities express themselves similarly at all degrees of scale, with the magnitude of the expression often reflecting the magnitude of the trend.

Today's wave position is similar to that of the early 1930s, during Congress' experiment with the prohibition of alcohol, an attempt that we believe is a useful analog for the current criminalization of marijuana.

Prohibition began in 1920 and was maintained throughout the period that the stock market was rising. Then came the famous 1929-1932 collapse and the resulting economic depression, which bottomed in 1933. Three years of collapsing social mood prompted the repeal of Prohibition one year after the 1932 Cycle-degree low. Nine years after the top of 2000, the Drug War persists. This speaks to the larger (Grand Supercycle) degree of the decline and its longer duration. Governments typically respond to social-mood trends very late. So our ideal socio-economic scenario is for the Drug War's ultimate end to occur just after the Supercycle-degree low, as approximated in Figure 2.

When we zoom in on Cycle waves V, from 1921-1929 and 1974-2000, we see many similarities. See Figure 3.

The Players and The Game

Today, in the deserts and border towns of Mexico, the west-based Sinaloa cartel and east-based Gulf cartel are fighting modern versions of the 1920s North Side-South Side Chicago gang wars. The Sinaloa cartel's leader, Joaquin "El Chapo" Guzman, is practically the reincarnation of his Chicago mob boss predecessor, Al Capone. Guzman exhibits many of Capone's brazen, violent and charismatic traits. Both men are famed for their "hands on" management style and lionized for their sense of communal responsibility. Capone is rumored to have insisted on top-dollar medical treatment for a mother and son injured in the crossfire of a gangland firefight. Guzman purchases meals for fellow diners when he eats

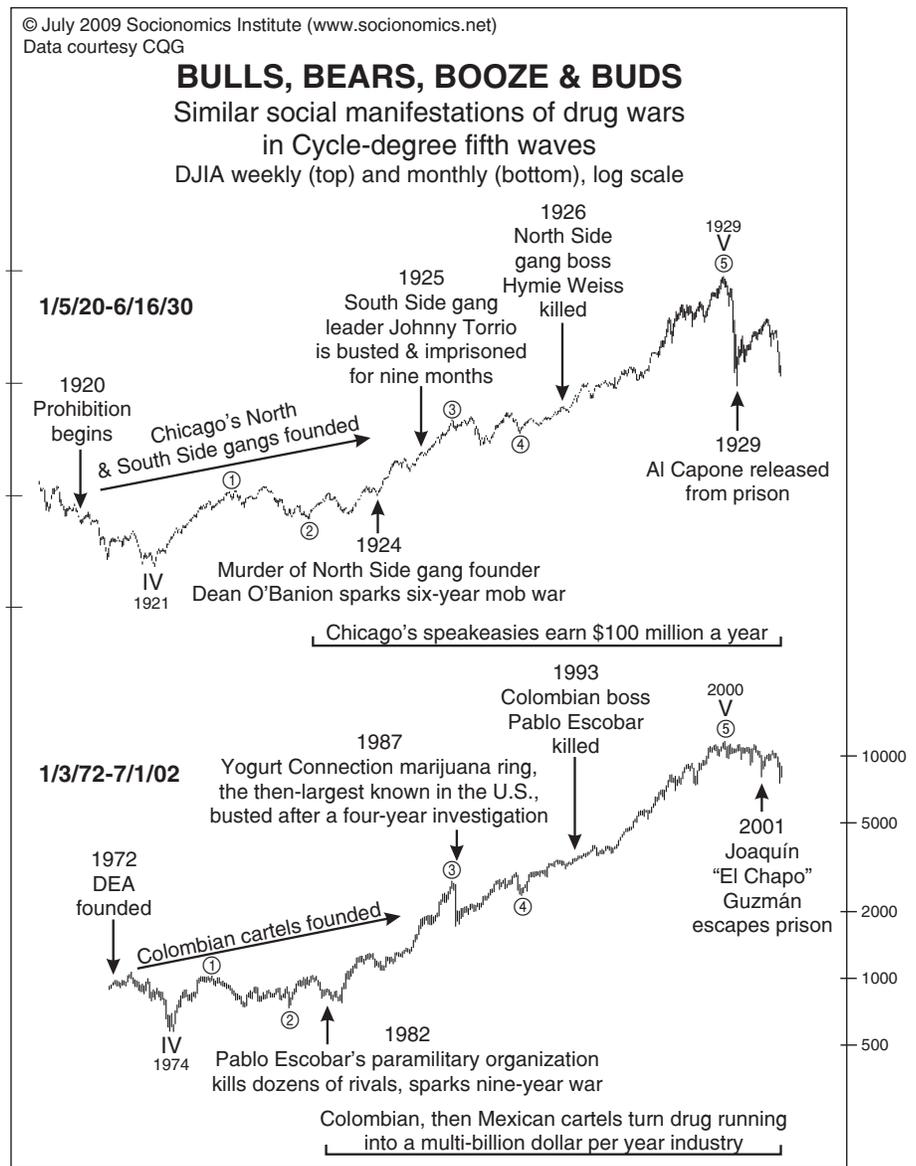


Figure 3

in restaurants. Both men became extraordinarily wealthy. At his peak, Capone earned \$100 million a year, controlled all 10,000 speakeasies in Chicago and ran bootlegging operations from Illinois to Florida. In March 2009, Forbes named Guzman the 701st wealthiest man in the world, with assets over \$1 billion, and described how he practically runs the Mexican states of Sinaloa and Chihuahua. Capone and Guzman also exhibit an alarming propensity for violence: hundreds of gangsters died nationwide during Capone's reign in Chicago; hundreds die every month in Guzman's conflicts—the difference is another reflection of this bear market's larger degree.

Much as in Chicago in the 1930s, most of today's clashes in Mexico are fights to control territory, product availability and distribution. Chicago's gangsters fought over docks to receive shipments from Canada and to keep their speakeasies as safe as possible. Mexico's cartels have

developed advanced tunnel systems, mobile landing strips and even have attempted smuggling via submarine. Vast distribution networks crisscross the U.S., from Atlanta to Los Angeles to Seattle to New York. According to a March 2009 USA Today report:

Rival drug cartels, the same violent groups warring in Mexico for control of routes to lucrative U.S. markets, have established Atlanta as the principal distribution center for the entire eastern U.S., according to the Justice Department's National Drug Intelligence Center. The same folks who are rolling heads in the streets of Ciudad Juárez... are operating in Atlanta. Here, they are just better behaved.

Drug runners' behavior will worsen as the bear market deepens. Drug-related hostility is already beginning to plague Phoenix, where kidnapping and murder are on the rise. So far, most of the attackers have targeted Mexican immigrants, but this, too, is likely to change.

Corruption

Organized crime uses many tools to stay active, and corruption is a favorite. Pablo Escobar famously described his options as "Silver or Lead." Al Capone bribed city

officials and threatened witnesses in order to evade trial for his violent crimes. It is alleged that Sinaloa cartel leader Joaquin Guzman corrupted the officials of his prison so completely that even the warden was aware of his plans to escape in 2001 and did nothing to interfere. Interpol arrested their own chief agent in Mexico in late 2008 on suspicions of ties to the drug cartels; the Mexican government arrested its anti-organized-crime chief, as well as Mexico City's police commissioner. In the waning days of Prohibition, corruption amongst the Chicago police force was so ubiquitous that the FBI formed The Untouchables to fight the gangsters and the corrupt cops. The Untouchables were an elite squad of eleven men who refused to be bought or intimidated. We doubt that the current war will bring a new version to life, but if it does, its life will be as brief as The Untouchables.

Murders and Mayhem

Corruption is but one half of Escobar's "Silver or Lead" options for dealing with authorities; murder works too. The Center for International Policy reports that the two largest Mexican drug cartels boast a combined 100,000 foot soldiers. Deaths from the fighting on both sides of

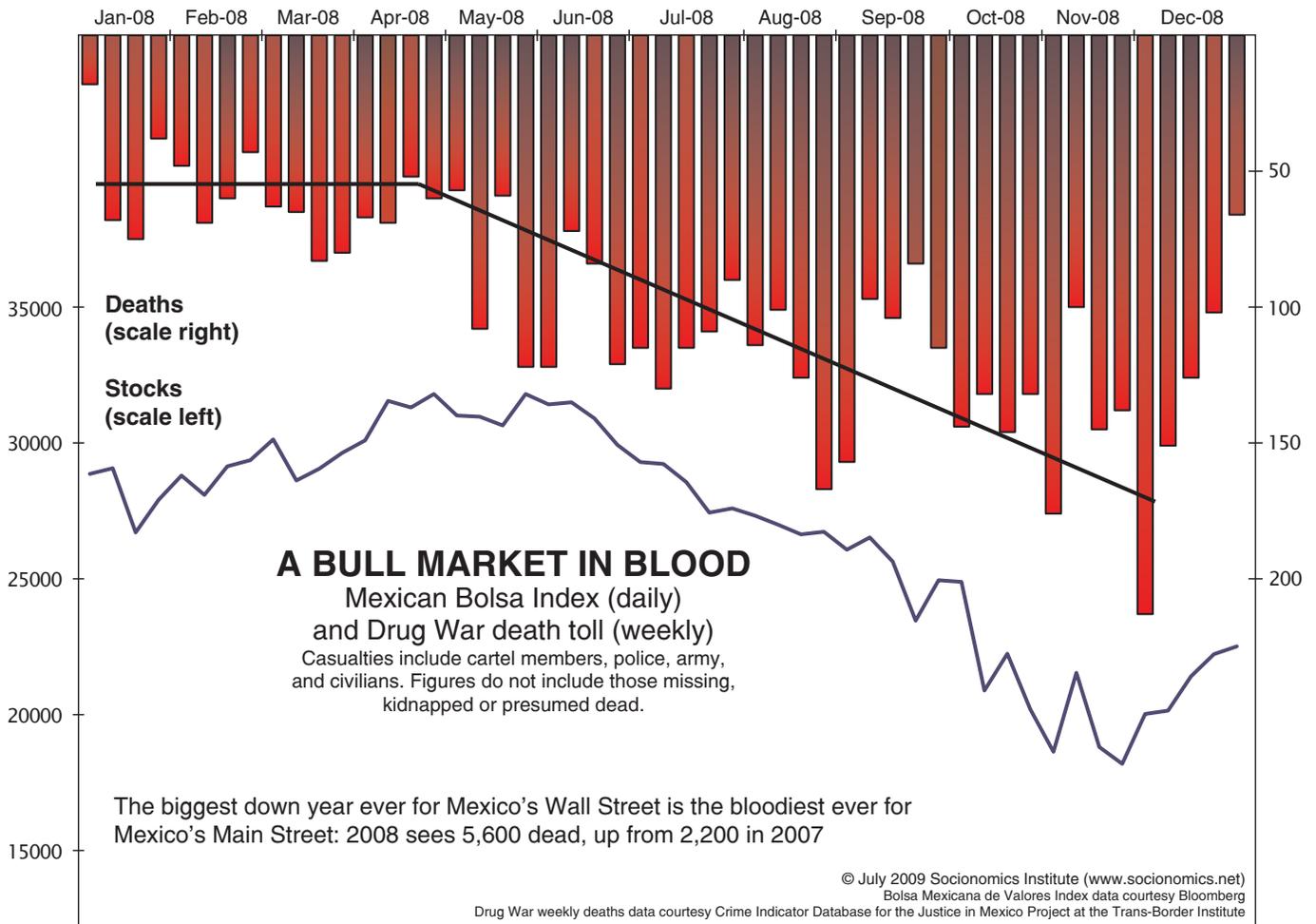


Figure 4

the border reached 6,800 last year. More than 1,000 are already dead from drug violence in the city of Juárez alone this year.

Figure 4 shows the correlation between weekly Drug War deaths in 2008 and social mood as reflected by Mexico's Bolsa Index. As mood declined over the year, the number of drug-related murders increased. Reuters reports that January of this year was the bloodiest month since December 2006, the month in which Mexican president Felipe Calderón mirrored FBI Director J. Edgar Hoover's (failed) 1931 declaration of war on crime by declaring war on the cartels.

Since the market's low in March, the violence has ebbed somewhat, reflecting the optimism behind the rebound in the Bolsa. When the mood and market resume their fall, violence will re-escalate.

Near the end of Prohibition, the wave of violence in America jumped beyond the alcohol trade. Bands of gangsters and bank robbers spread across the country in the Public Enemy Era. Police were killed pursuing gangsters even as the gangsters killed each other. In the 1933 Kansas City Massacre, gangsters killed four FBI agents suspected of interfering with the mob's business. The same year, gangsters killed a jailor in a successful attempt to spring bank robber John Dillinger from the slammer. Bonnie and Clyde's gang killed nine police officers from 1932 to 1934.

Killing law enforcement officials is rampant among cartel members in Mexico. In December 2008, Sinaloa members kidnapped, tortured, and decapitated eight off-duty police officers, including a commander. Two months later, cartel members led a prison riot that left twenty people dead. And in April 2009, allies of the Gulf cartel killed eight police officers in an attack on a prison convoy carrying Gulf leaders. As cartels become increasingly emboldened by falling social mood, this behavior will intensify. In the coming years, we expect drug runners to target non-corrupt American police officers, commanders, judges, and public officials for kidnapping and outright murder. Guzman has sown the seeds of bloodier conflict in the U.S. already. The Los Angeles Times reports that he has ordered his drug runners to use deadly force to defend his shipments "north of the border...at all costs." This threatens brutality against both rival traffickers and law enforcement.

During the Public Enemy Era, the nation became fascinated with the exploits of John Dillinger, Pretty Boy Floyd, Bonnie and Clyde, Baby Face Nelson and

Ma Barker. Appropriately, the just-released film *Public Enemies* portrays Dillinger as an iconic antihero and revels in his outlaw status. This is further evidence of the current negative trend of social mood. We could very well see modern-day Dillingers and Clydes who embark on their own brand of personal enrichment and violence.

HOW IT ALL MIGHT END

The story of Prohibition after the 1929 stock market peak is a model for how the current crisis in Mexico and the U.S. is likely to play out. In the late 1920s and early 1930s, Chicago streets ran red with the blood of victims connected to the alcohol industry. In a quest for territorial control, gangs expanded bootlegging operations beyond Chicago, with Capone's reach eventually extending into Florida. As bootlegging routes grew, so did associated violence. A few defenders of Prohibition steadfastly supported The Untouchables, but in time, the majority of the public simply grew fed up with the criminal warring and the corruption, violence, and death associated with law enforcement efforts. In the end, public mood demanded change and Prohibition was repealed.

It appears inevitable, then, that drug-related carnage—and public disgust with it—will spread as well. As the violence increasingly affects the U.S., the American government will counter public anxiety with assurances that everything is under control and that the situation is contained to a few small areas. Southern regions of California, Arizona, New Mexico and Texas will likely see the same violence that is now plaguing Mexican states. Some will argue to step up the Drug War and start mass executions. But as mood falls and the death toll among Americans rises, the public will become open to what now may seem like radical ideas about how best to deal with marijuana use in society. The dialogue about marijuana decriminalization will cease to center on morality and instead will shift to stopping the kidnapping, murder, brutality and bloodshed. Finally, the people and their government will end the Drug War.

Prohibition also provides perspective on what society will look like after marijuana is decriminalized. Following the repeal of the 18th Amendment, organized crime and the violence that came with it almost completely disappeared as black market vendors lost the one tool that enabled them to maintain their monopoly and get unimaginably rich: illegality. 🇺🇸

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