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Dollars for Duds in Latin America

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Nicaraguan dictator Daniel Ortega is jailing, killing and disappearing his political opponents. He has taken control of the Supreme Court and the electoral council and has gagged the press by making it a crime to report "false news." As he "runs" for a fourth term in November, his most serious rivals are under arrest.

Mr. Ortega's Nicaragua is a police state. For advocates of peace and freedom, this makes him persona non grata. At the International Monetary Fund, he's a valued member.

So too are the governments of socialist, deadbeat Argentina and of El Salvador, which every day slips further into arbitrary, authoritarian rule.

These are some of the bad actors in the Western Hemisphere who received more "special drawing rights" from the IMF on Aug. 23 as part of a new $650 billion general allocation. They don't play by the rules of the international community, but suddenly hundreds of millions of dollars at rock-bottom rates are falling into their coffers.

SDRs are created out of thin air but can be converted, on demand, into hard currency. If a member wants dollars, the U.S. is obliged to provide them by borrowing in the capital markets.

Treasury Secretary Janet Yellen, who led the charge for this new round of SDRs, claims the transaction is cost-free assistance to the needy. But if that is true, why limit the issuance?

In fact, the conversion of SDRs to dollars is a subsidized, perpetual loan. For poor countries the subsidy is above 90% of the loan value.

Each of the 190 members has received a new allotment of SDRs, according to its quota in the fund, no matter the nation's commitment to minority rights, institutions or the rule of law. This implies another cost, borne by the poor, whom Ms. Yellen and her friends at the IMF say they are trying to help. The oppressors will get a windfall, no questions asked.

Cuba isn't a member of the IMF, and Venezuela can't access its SDRs because the government is not recognized by a simple majority of voting shares held by members. But Nicaragua has been credited with 249 million SDRs, equivalent to nearly $354 million at the current exchange rate of one SDR to $1.42. El Salvador's take is 275 million SDRs valued at $390 million. Argentina received nearly 3.1 billion SDRs, worth about $4.4 billion.

The payola to the corrupt Mr. Ortega, who owns and runs the country as Anastasio Somoza did in the 1970s, is a scandal. It's a slap in the face to a nation that needs international support as it bravely confronts a regime that guns down dissidents in the streets.

The case for the SDRs as a means to help the poor is equally weak in Argentina. The country owes the IMF some $46 billion with low prospects to repay. The two sides have been negotiating what would be effectively a debt rescheduling for months, but have made no progress.

The problem is the socialist government's economic model of populist spending, high taxes, capital controls and inflation running above 50% annually. Argentina can no longer access capital markets and investment has plummeted. As measured by the JPMorgan Emerging Markets Bond Index, country risk is a sky-high 1,500-plus basis points.

To stay current with the fund, Argentina must make two payments of principal and interest, totaling about $4.5 billion, before the end of the year. That's where Ms. Yellen's contribution to the poor is going. It will allow the government to get through midterm elections in November without a crisis and without making the reforms necessary to recover growth. "A clear example of a counter productive effect of an unconditional SDR allocation," Argentine economist Pablo Guidotti tweeted in July.

Without an agreement and without access to the capital markets by next year, Argentina's only option will be to fall into arrears as it must make payments to the IMF of $19 billion in both 2022 and 2023.

El Salvador's President Nayib Bukele intimidates entrepreneurs and judges who don't share his politics. When his country's Congress wouldn't rubber-stamp his agenda last year, he brought armed soldiers into the chamber and sat in the speaker's chair.

Starting Sep. 7 El Salvador will adopt bitcoin as a legal currency. But this is not currency competition. As monetary scholar George Selgin explained in June on the Cato Institute's Alt-M website, the new law "compels" merchants to accept it as payment.

IMF managing director Kristalina Georgieva has criticized the law, noting that bitcoin is a "volatile asset" that will make planning at all economic levels difficult. In June ratings agency Fitch said the new law increases "risks, including the potential of violating international anti-money laundering and terrorist financing standards." Last week, Mr. Bukele's handpicked Supreme Court rejected a U.S. request for the extradition of a gang member. There's a reason the Salvadoran economy is sputtering, and it isn't entirely the fault of Covid-19.

There was a time when large multilateral handouts were conditioned on attempts at good governance. Those days are gone.