

The Arbitrary Nature of Inflation Targeting: A Central Bank Contrivance and the Case for Sound Money

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Editorial Note: This policy paper expands the *Inflation Targeting is Arbitrary* section from the article *Why the Definition of Inflation Was Intentionally Distorted* (8 September 2024). Drawing on that analysis, this examination deepens the critique of central bank inflation-targeting policies and presents the Africonomics framework for understanding why such practices are inherently arbitrary, economically fraudulent, and systemically destabilizing. The paper advances beyond the original article's scope to offer a more comprehensive analysis and practical alternatives grounded in sound money.

The Arbitrary Nature of Inflation Targeting: A Central Bank Contrivance and the Case for Sound Money

Manuel Tacanho*

EXECUTIVE SUMMARY

Inflation targeting, widely adopted by central banks in the late 20th century, is one of the most celebrated tools of contemporary monetary policy under the current global monetary order, the fiat dollar standard. This paper demonstrates that the commonly accepted 2 percent inflation target—a centerpiece of this strategy—is entirely arbitrary, lacking sound theoretical justification or empirical necessity.

This policy paper critically examines inflation targeting and related centralized monetary rules, such as monetarism’s K-percent rule and the Taylor rule, to expose their fraudulent, destabilizing, and structurally unjust nature. These rule-based approaches are shown to be mere technocratic contrivances, designed to obscure the inherent instability, currency debasement, and economic dispossession that occur in fiat monetary systems.

Grounded in the philosophical, economic, and civilizational framework of Africonomics, this paper argues for the rejection of inflation targeting and centralized monetary management in favor of a market-based, commodity-linked currency system based on economic truth, justice, and respect for property rights. Only through the abandonment of these artificial inflation anchors can Africa—and the world—foster ethical finance, monetary justice, economic stability, and long-term prosperity.

KEYWORDS: inflation, inflation targeting, monetary expansion, Africonomics, sound money, economics, monetary systems, fiat money, monetary policy, justice, civilization.

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1. Introduction

The legitimacy of modern monetary policy rests heavily on the perceived technical sophistication and empirical credibility of central bank practices. Among these, *inflation targeting* stands out as a flagship tool, celebrated by mainstream economists and policymakers as the mainstay for achieving economic stability. Adopted globally in the 1990s—beginning with New Zealand and later championed by major central banks, such as the U.S. Federal Reserve—this policy aims to anchor inflation expectations around a preselected numerical figure, most commonly 2 percent.

Yet behind this seemingly scientific approach lies a profound arbitrariness. Inflation targeting, along with other rule-based monetary policy tools such as the K-percent rule and the Taylor rule, is not grounded in immutable economic truths or principled theory. Instead, it is a form of monetary technocracy where artificial, state-imposed parameters are elevated over market signals, economic reality, and individual sovereignty. These tools not only distort the monetary order but also conceal the structural injustices of fiat currency systems—namely, currency debasement, wealth redistribution, and economic dispossession.

This paper contends that inflation targeting, particularly the widely adopted 2 percent rate, is inherently arbitrary, economically fraudulent, and systemically destabilizing. It lacks both theoretical and empirical justification and serves as a veneer of order in a monetary regime characterized by coercion, distortion, and chronic instability. By critiquing inflation targeting and its sister policies within the broader principled framework of Africonomics, this paper makes the case for rejecting centralized monetary control and manipulation in favor of a sound, market-based, commodity-linked monetary system.

Africonomics asserts that the path to African economic sovereignty and prosperity lies not in adapting Western technocratic models but in liberating African nations from statist monetary regimes that perpetuate dependency, instability, and injustice. The abandonment of inflation targeting is not a mere technical adjustment; it is a moral imperative and a strategic step toward building a free, prosperous, and structurally just Africa—built on economic truth, sound money, and respect for natural individual rights.

2. Inflation Targeting: Definition and Origins

Inflation targeting is a rule-based approach to monetary policy in which central banks set and aim to maintain a specific inflation rate, often measured by the Consumer Price Index (CPI) or Personal Consumption Expenditures (PCE). The goal is to stabilize the general price level by anchoring inflation expectations around a predetermined target, typically 2 percent, which central banks claim fosters economic stability, investment confidence, and long-term growth.

This policy framework originated in the late 1980s and was first formally adopted by the Reserve Bank of New Zealand in 1990. Since then, it has been embraced by central banks in the United Kingdom, Canada, Sweden, Australia, and the European Central Bank, among others. The Federal Reserve, the world's most significant central bank, though initially hesitant, formally adopted a 2 percent target in 2012. In practice, inflation targeting has become the global orthodoxy in monetary policy, serving as the de facto guiding principle for fiat-based central banking regimes.

At face value, inflation targeting appears to be a coherent and disciplined approach to monetary policy. By committing to a fixed numerical target, central banks claim to reduce uncertainty in financial markets, anchor long-term expectations, and avoid the dangers of runaway inflation or deflation. In reality, however, this framework is rooted in highly questionable assumptions, chief among them the belief that central planners can fine-tune complex and dynamic economies through price level manipulation without causing unintended distortions.

More critically, inflation targeting relies on a redefinition of inflation itself. While traditionally understood as the expansion of the money and credit supply, the mainstream definition reduces inflation to a general rise in prices, conveniently eliminating the connection between monetary inflation (artificial credit and currency creation) and its consequences. This shift allows central banks to portray inflation as a symptom to be managed rather than a policy they actively produce.

In *The Redefinition of Inflation: Economic, Ethical, and Civilizational Consequences of a Semantic Fraud*, social philosopher and economist Manuel Tacanho elucidates that distortion of the definition of inflation from its original form—the artificial expansion of the supply of money and credit—to the prevailing definition—a general rise in prices—has been instrumental in facilitating the transition from sound currency systems to the current era of centralized fiat monetary management.

Tacanho (2025) points out:

The redefinition of inflation provided ideological cover for the emergence of a new fiat monetary order based on unlimited credit creation, continuous monetary expansion, and centralized state control of money. The redefinition of inflation was the precondition for the institutionalization of the current fiat order. Without concealing the true meaning of inflation, the monetary policies that now dominate the global economic system would have been indefensible to the public and economically unviable.

Far from being a neutral or scientific tool, inflation targeting is a political and ideological instrument. It is an essential part of the contemporary statist framework of fiat monetary management. It helps legitimize central bank policies and facilitate government deficit spending, artificial monetary expansion, and state control over the economy while masking the fundamental ethical and economic implications of such coercive control and arbitrary manipulation.

3. The Arbitrary 2 Percent Target: No Theoretical or Empirical Foundation

Despite its global adoption and the confidence with which it is defended, the 2 percent inflation target lacks any clear theoretical justification or empirical necessity. It is, at its essence, an arbitrary figure—a product of central bank contrivance, convention, and policy imitation rather than sound economic reasoning.

The foundational premise behind inflation targeting is that a moderate and predictable rate of price inflation helps stabilize the economy by anchoring public expectations. Yet, no evidence—neither from economic theory nor from empirical research—has been presented to explain why 2 percent should be considered the optimal target. Why not 1 percent? Why not 3.5 percent? Why not zero? Proponents of inflation targeting have consistently failed to provide a principled and coherent rationale for the selection of 2 percent as a monetary ideal.

In reality, the 2 percent figure emerged as a politically expedient compromise—high enough to allow central banks to inflate the money supply and accommodate government spending and debt monetization, yet low enough to reassure the public that price stability remains a priority. It is a technocratic contrivance. A manufactured number that creates the perception of discipline and predictability in an unjust, unstable system fundamentally based on discretion, manipulation, and inflation.

Moreover, this arbitrariness reveals the incoherence of mainstream monetary policy. If inflation is, by its admission, detrimental to economic well-being, then why is any rate of

inflation, no matter how small, actively pursued and institutionalized? The unwillingness of central banks to target zero inflation—or even deflation where appropriate—indicates that inflation is not tolerated but engineered in service of artificial credit creation, currency printing, and the hidden taxation of the population for the benefit of the state and associated elites.

It is crucial to note that while inflation targeting is arbitrary, it is not thoughtless. The 2 percent figure has been strategically chosen to facilitate expectations management in a fiat monetary regime characterized by planned inflation and continuous economic instability. The goal is not to eliminate inflation but to make it seem stable, manageable, and benign. This perceived stability becomes a tool of psychological conditioning, dulling public resistance to what is a form of economic coercion, repression, and dispossession.

This contrived approach to managing inflation expectations lacks a sound economic foundation. It is a form of institutional gaslighting, one that masks the real consequences of monetary inflation: structural injustice, wealth redistribution, currency debasement, economic dispossession, asset bubbles, boom-bust cycles, chronic economic instability, social decay, and civilizational decline.

4. The Monetarist K-Percent Rule: Institutionalizing Inflation

Before inflation targeting became the dominant monetary policy tool, monetarism—popularized by economist Milton Friedman—advanced a similarly rule-based approach to central banking. At the heart of the monetarist framework was the K-percent rule, which proposed that central banks should increase the money supply at a constant annual rate, typically between 3 to 5 percent, approximately in line with anticipated GDP growth.

Friedman's intention was to remove discretion from monetary policy and to mitigate the destabilizing effects of inflationary booms and contractionary busts. However, while the K-percent rule may have represented a more predictable alternative to discretionary monetary tinkering, it did not escape the underlying problem of arbitrariness. Much like the 2 percent inflation target, the K-percent rule is a number chosen without theoretical or empirical necessity, imposed by policy elites under the assumption that it would yield stability and growth.

More fundamentally, the K-percent rule institutionalizes monetary inflation. By advocating for the systematic and perpetual expansion of the money supply, it normalizes the erosion of

purchasing power and enables governments to finance deficits through monetary means—albeit more slowly and predictably than under discretionary regimes. In doing so, it legitimizes monetary inflation as economic orthodoxy rather than identifying it as an egregious distortion of market processes.

The monetarist steady rate of artificial monetary expansion also assumes that central planners can accurately estimate real GDP growth in real-time, an assumption belied by decades of data revisions, forecasting errors, and economic shocks. The K-percent rule thus rests on a false precision, embedding epistemological arrogance and policy arbitrariness into the monetary framework.

From the perspective of Africonomics, the K-percent rule—like inflation targeting—embodies the technocratic conceit of centralized control and monetary manipulation. It assumes that a policy committee can determine the optimal money supply for a vast, complex, and dynamic system of individuals' and institutions' choices, actions, and relations that make up the economy. Worse still, it overlooks the ethical implications of centralized monetary policy, namely that the artificial expansion of the money supply, regardless of its rate, constitutes systemic fraud, currency debasement, and structural injustice.

In *The Redefinition of Inflation* Tacanho (2025) further points out:

As Africonomics has demonstrated through three groundbreaking papers—Fractional Reserve Banking Is Fraudulent and Ruinous, The Fraudulent and Ruinous Nature of Fiat Monetary Systems, and The Fiat Dollar Standard: Its Uncivilized and Destructive Nature—monetary inflation (artificial credit and currency creation) is unethical, fraudulent, and uncivilized because it distorts, deceives, defrauds, destabilizes, and destroys.

Fiat monetary systems violate the universal moral principles of truth, justice, and nonaggression. The moral violations inherent in monetary inflation are fundamental and far-reaching, detrimentally impacting every aspect of human society. They manifest in concrete economic harm to millions of individuals who see their property rights infringed upon, their savings eroded, their wages diminished, and their economic well-being and dignity undermined.

The K-percent rule does not correct the problems of discretionary fiat monetary policy. It simply regulates the pace of monetary debasement and economic deterioration—a managed erosion rather than a chaotic one. In doing so, it preserves the same core injustice while dressing it in the garments of rule-based responsibility and discipline.

5. The Taylor Rule and the Myth of Mathematical Monetary Management

Another prominent rule-based approach to monetary policy is the Taylor Rule, introduced by economist John B. Taylor in 1993. Unlike the K-percent rule, which targets money supply expansion, the Taylor Rule provides a formula for setting short-term interest rates based on deviations from a central bank's inflation target and the economy's output gap.

The Taylor Rule, in its simple form, proposes that:

$$\text{Interest Rate} = \text{Neutral Rate} + 0.5(\text{Inflation Gap}) + 0.5(\text{Output Gap})$$

It is intended to serve as a predictable and transparent guide for central banks—particularly the U.S. Federal Reserve—offering a rules-based path for adjusting interest rates in response to changing macroeconomic conditions. This rule is often portrayed as a technocratic triumph, a way to engineer stability through mathematical precision.

However, the Taylor Rule suffers from the same fatal flaws as inflation targeting and the K-percent rule. First, it is rooted in arbitrary coefficients and assumptions—such as the neutral interest rate, potential output, and target inflation rate—none of which can be objectively determined in real-time. These variables are theoretical constructs, not observable economic facts, and they often vary significantly depending on the methodology and ideology used.

Second, the Taylor Rule rests on the delusion that a complex, dynamic, and decentralized economy of people, not robotic or mechanical beings, can be effectively steered by mathematical formulas imposed from above. This reflects what Friedrich Hayek called the fatal conceit—the belief that central planners can possess the knowledge necessary to coordinate economic outcomes more effectively than individuals operating within a free market order.

In practice, the Taylor Rule amounts to monetary central planning by equation, reinforcing the notion that monetary policy can be reduced to a set of formulas. It cloaks interventionism, coercion, and fraudulence in the language of scientific neutrality. Yet, like other forms of centralized monetary control, it is destined to produce distortions, misallocations of capital, and the very instability it claims to prevent.

From the perspective of Africonomics, the Taylor Rule is emblematic of the Western mechanistic worldview and technocratic mindset. This mindset views markets and the economy not as a collection of people with inherent human dignity but rather as mechanical systems to be

manipulated by social engineers through technocratic policymaking. Such thinking has no place in an Africa seeking monetary sovereignty, economic stability, structural justice, and prosperity.

Mathematical manipulation of interest rates cannot deliver economic justice and stability. Interest rates, like other prices, must emerge organically from market processes, not from the spreadsheets of bureaucrats and coercively imposed from above. As long as central banks rely on artificial interest rate manipulation guided by arbitrary rules, they will continue to distort investment signals, fuel unsustainable credit expansion, debase currencies, cause instability, and erode long-term prosperity.

6. The Ethical and Economic Consequences of Arbitrary Monetary Policy

The consequences of arbitrary, centralized monetary policy are not confined to technical considerations. They are fundamentally unethical and structurally unjust, as the essence of fiat systems is the practice of monetary inflation. Inflation targeting, the K-percent rule, and the Taylor Rule all reflect a broader reality: the deliberate and systematic manipulation of money by state authorities to serve political and fiscal ends. This manipulation is not neutral. It results in currency debasement, coercive redistribution, economic dispossession, and violations of property rights.

At the heart of these policies is monetary inflation (artificial credit and currency creation). This inflation leads to price inflation and asset bubbles, but more critically, it functions as a form of unseen taxation, a hidden tool of economic confiscation and dispossession. Those who receive newly created money first—typically governments, banks, and politically connected institutions—benefit from higher purchasing power. Those who receive the money last—wage earners, savers, and the poor—face higher prices and diluted currency. This phenomenon, known as the Cantillon Effect, exposes the confiscatory and unjust nature of inflationary policy.

Moreover, fiat monetary policies facilitate deficit spending without taxation, enabling state overreach and governments to accumulate unsustainable debt while evading democratic accountability. In fiat regimes, central banks become enablers of fiscal irresponsibility, profligate spending, and the monetization of government debt through inflation and artificially low interest

rates. This further erodes the currency's purchasing power and undermines the incomes and well-being of the majority.

Beyond the harmful economic consequences, arbitrary monetary policy reveals a profound moral corruption and moral failure of Western economic thought. Monetary inflation is fraudulent, uncivilized, and destructive. It violates the objective, universal ethical principles of truth, justice, and nonaggression. It institutionalizes dishonest exchange, infringes on property rights, undermines contracts, dispossesses the majority, and benefits those closest to the state at the expense of productive individuals and families. It is a confiscatory and oppressive structural injustice disguised as scientific policymaking.

Africonomics views such a system not as a neutral framework for economic coordination but as a tool of state domination and exploitation. It is a modern form of economic colonization, perpetuating African dependency on foreign currencies, imported inflation, and subservience to international financial institutions. Arbitrary monetary policies imposed by Western central banks—especially the Federal Reserve and European Central Bank—produce ripple effects that devastate African economies and compromise national sovereignty.

In this context, inflation targeting and other rule-based fiat mechanisms are not technocratic refinements but rather instruments of systemic aggression through institutionalized monetary fraud, economic dispossession, and exploitation. They violate the ethical foundation on which a civilized society must rest: truth in money, honesty in exchange, and justice in governance.

7. Africonomics: The Case for Market-Based Sound Money

In contrast to the statist framework of centralized fiat monetary management, Africonomics proposes a radically different monetary foundation—one based on natural-moral law, monetary justice, and natural market order. Instead of attempting to engineer stability through arbitrary inflation targets, mathematical formulas, or fiat manipulation, Africonomics calls for the abolition of centralized monetary management and the restoration of a sound, market-based, commodity-linked monetary system.

In *The Nilar: The Path to African Economic Sovereignty and Prosperity*, Tacanho (2025) notes:

Money is not only an economic medium but also a moral and civilizational instrument. Because of its far-reaching effects on human life and relations, the monetary system must be honest, stable, and trustworthy. A sound

monetary system is essential for justice and prosperity. When money is stable and based on intrinsic value—as with a gold-based currency like the Nilar—it protects the economic agency of individuals, preserves the integrity of exchange, and fosters structural justice. Conversely, when money is politicized, manipulated, and systematically debased, it becomes a mechanism of nationwide fraud, economic dispossession, structural injustice, and technocratic tyranny.

A sound monetary system is one where money emerges from the marketplace—selected by individuals through voluntary interactions rather than imposed by decree. Historically, such systems have taken the form of commodity monies, particularly gold- and silver-based currencies, which possess intrinsic value, natural scarcity, and resistance to political manipulation. These forms of money are immune to inflation by design, since governments or central banks cannot arbitrarily increase their supply.

Africonomics holds that monetary soundness is an economic, moral, and civilizational necessity. Money must not be subject to systematic debasement or technocratic manipulation because it is the cornerstone of indirect exchange societies and the lifeblood of the economy. It represents purchasing power, intermediates economic transactions, and communicates crucial signals, incentives, and disincentives. Thus, money must be honest, reliable, and stable—like the Nilar.

In societies plagued by inflation, economic instability, and fiscal confiscation, sound money acts as a bulwark against state tyranny and economic exploitation. It restores trust in exchange, preserves the value of work and savings, and aligns economic incentives with long-term prosperity. For African nations, the case for monetary sovereignty is particularly urgent. Most remain dependent on foreign fiat currencies, such as the U.S. dollar, the euro, or the CFA franc, which are themselves subject to the arbitrary policies of Western central banks. This dependency, which constitutes monetary colonization, debilitates African economies and renders them vulnerable to imported inflation, interest rate shocks, and global monetary distortions.

Africonomics therefore advocates for the creation of independent, commodity-backed currencies, like the proposed Nilar—a gold-based currency system designed to restore African monetary sovereignty, economic stability, and prosperity. Such a sound currency would liberate African nations from the fraudulent and destructive architecture of fiat dependence, establishing the foundation for a new reality of integrated, stable, and thriving African economies.

The Nilar complements the broader Africonomics vision of a free, prosperous, and structurally just Africa—built on natural-moral law, economic truth, sound money, and respect for natural individual rights. It removes the state’s power to inflate, redistribute, and confiscate

wealth under the guise of scientific monetary policy. It ensures that money is honest, stable, and reliable, with its value determined by the people who use it, not by those who rule over them.

Inflation targeting, like all forms of centralized fiat manipulation, must be rejected—not only because it fails to deliver the promised stability but because it is built on arbitrariness, coercion, and economic fraudulence. Sound money, by contrast, is truthful, voluntary, and just. It is the monetary system of a structurally just, dignified, and civilized society.

8. Conclusion: Rejecting Technocratic Fiat for Monetary Justice

The global monetary order, built on centralized fiat currencies and maintained by opaque institutions like central banks, rests on a framework of contrived policies, arbitrary targets, and false certainties. Inflation targeting—the celebrated 2 percent goal—and related mechanisms like the K-percent rule and the Taylor rule are not products of economic science but of political expediency, ideological dogma, and technocratic presumption.

These monetary policies do not reflect economic truth. They are not grounded in sound theory, nor are they validated by empirical evidence. Instead, they are tools of monetary manipulation, designed to obscure the real effects of artificial credit and currency creation, to facilitate deficit financing, and to condition populations to accept the ongoing erosion of their purchasing power as both normal and desirable.

The destruction caused by fiat monetary practices is extensive, structural, and moral, detrimentally impacting every aspect of society. Inflationary monetary regimes rob savers, mislead investors, distort production, and transfer wealth from the many to the privileged few. They foster dependency, reduce accountability, and entrench statist systems of economic dispossession, exploitation, and oppression. This is especially true in Africa and other developing regions, where imported inflation and currency fragility undermine economic development, human dignity, and national sovereignty.

Africonomics offers a principled and practical alternative: reject centralized monetary manipulation and return to sound, market-based, commodity-linked currencies. In doing so, nations—and especially African nations—can reclaim their economic sovereignty, restore monetary honesty, and build societies grounded in economic truth, structural justice, and

voluntary cooperation. It is not enough to debate whether the inflation target should be 2 percent or 1.5 percent. The question is whether any centralized authority should be entrusted with the power to manipulate the currency in the first place. Africonomics answers with a resounding no.

What is needed is not better technocrats or more sophisticated mathematical equations. The economic, ethical, and civilizational imperative is the abolition of fiat monetary tyranny, the restoration of sound money, and the establishment of monetary justice. It is time to end the era of arbitrary and inflationary policies and establish a principled monetary system that aligns with human dignity, liberty, and prosperity.

African leaders are called to abandon the unjust fiat currency systems that have destabilized and impoverished the continent for decades and implement the Nilar—a gold-based currency for African monetary sovereignty, economic stability, and prosperity.

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