Kwarteng has a duty to calm febrile markets and only QE...

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The interest rate on government bonds is rising - now being well over 4.5% on ten year bonds. The signs this morning are that they will go up again; fuelled, no doubt, by reports from the Institute for Fiscal Studies (IFS) that there is a £60 billion hole in Kwarteng’s budget, largely as a result of supposedly unfunded tax cuts, as the IFS (in its doom mongering way) would have it.

There is, of course, no such hole: the government can run an unfunded deficit whenever it likes using funds made available to it by the Bank of England. To claim otherwise is to simply deny reality. If Kwarteng wished to borrow from the Bank of England in this way then he could, and they could not refuse him.

Markets are assuming that he will not want to do that. Instead, they think that they will be asked to provide another £60 billion of funds to the government as part of the biggest programme of net new bond issuance in the coming year that any UK government will ever have undertaken. As a result the markets are pushing rates up because, they claim, this is the price of diverting funds available to them from other uses. Whether that is true or not does not matter of course: the market can set a price that they think reflects future demand without knowing whether their assumptions are justified or not, and does so all the time.

What is the alternative to this? It is, of course, quantitative easing. If the government announced a £100 billion bond buying programme to fund the emergency energy price support that it is providing over the next year, using the precedents of 2009 and 2020 as wholly justifiable excuse, the market would not be phased. And what would immediately happen as a result is that the pressure on sterling would be reduced, considerably.

If the resulting injection of £100 billion into the central bank reserve accounts held by the commercial banks at the Bank of England was to then be subject to a 0.1% interest rate the cost of this support would then become negligible, instead of exceeding £4 billion per annum if interest was to be paid at currently likely Bank of England base rates. Another useful precedent would have been set.

Around the world governments would take note. Within weeks the move would have been copied. The markets would have to get used to it.

The gilt crisis would be over.

The deficit would have been covered.

A move that could be expanded to significantly cut the cost of borrowing to the government over coming years would have been pioneered.

The government's finances would be on a far stronger footing.

And all for the sake of £100 billion of QE that could be arranged any time the government likes, at the stroke of a computer key stroke or two.

I think Kwarteng needs to take this seriously. He has a duty to calm markets he has made febrile. This is a way to do it.

He needs to do it now.