We do not usually find ourselves in agreement with the IMF, but we go along with their chief economist, Oliver Blanchard, in his criticism of Gordon Brown's £12.5bn cut in VAT. Blanchard has dismissed it as "not a good idea", warning that European governments faced a new Great Depression if their stimulus packages proved inadequate.

Olivier Blanchard told Le Monde: "Temporarily cutting VAT, a measure that was adopted in Great Britain, does not seem to me to be a good idea ... 2% less is not perceived by consumers as a real incentive to spend.

He said the IMF was sticking to its target of 2% of global gross domestic product for the fiscal stimulus required, but warned that more may be needed. "If the circumstances require it, states must be ready to do more, 3% or more if necessary," he said, adding: "We must think about it now because it is not easy to spend such large sums of money efficiently."

Blanchard added that recovery would be better helped by increased public spending than by reduced tax yields. "Building bridges or rebuilding schools should have more impact on demand than tax cuts that households would be tempted to put by for a rainy day."

We do not altogether disagree about the need for fiscal stimulus, but it is far from the whole story. One aspect of the recession is that firms have invested in physical capital which is not required. If a company builds a factory to make a million digital cameras or 100,000 luxury cars, then the investment is lost if it cannot sell anything like that number. It is not for governments to rescue commercial organisations that make errors of judgement, especially not with taxpayers' money. One reason for the over-optimism was that consumers had temporarily obtained undue amounts of purchasing power through borrowing on the strength of rising land values - the land beneath the houses they owned. Once the land price bubble started to collapse, the illusory spending power collapsed with it, leaving companies with the capacity to produce unwanted goods. There is no point in propping up this edifice built on sand.

The economy will have to be physically restructured so that it will produce what people can actually afford to buy with their current earnings. But with land prices still unrealistically high, and the well-known tendency for prices to be "sticky downwards", such restructuring will be retarded, and instead, derelict factories and boarded-up shops will become a familiar sight for the next five years. This will itself hold down people's levels of earnings and retard economic recovery even more. We are now in a vicious circle.

We support borrowing for public spending on infrastructure, but only if such projects can be justified in their own terms and are not mere make-work schemes. And we have a further reservation. Infrastructure sustains and enhances land value. All land value should be collected through the operation of an ad valorem tax on the rental value of land, so that the enhanced component of the value can be used to repay the money borrowed to pay for the schemes. The debt should not be rolled on in perpetuity.

Is this such a difficult principle to grasp?