"Change" is one of the weirdest words in the politics of modern democracies, even if it is one of President Barack Obama's favourites. Now that he is in the White House he has to translate rhetoric into action, particularly in economic policy. The US is at present confronting a recession that is certainly the deepest since the early 1980s and may prove to be the worst since the Great Depression of 1929-33.

But Obama's response is no change from the past. Cynics have remarked on the similarity of the approach to that of his Republican predecessor. Obama has proposed in early 2009 a $900 billion fiscal package to stimulate the American economy, just as George W. Bush proposed in early 2001 a $1,300bn fiscal package to stimulate the US economy. Although Bush was in theory opposed to higher government spending and Obama frankly wants more of it, in practice Bush was a spendthrift and federal outlays soared during his presidency.

At any rate, the Obama package—which Congress passed without proper scrutiny—will expand an already large budget deficit. The Congressional Budget Office was expecting the federal deficit to exceed $1,000bn in 2009 even before Obama's changes took effect. Now it is likely that the deficit will be the largest, as a share of national income, since the Second World War.

If "change" is one item in a stale political vocabulary, "new" and "radical" are others, particularly when attached to such clichés as "idea", "doctrine" and "principle". In this case, however, Obama's team are able only to claim that their intellectual mentor is "newly relevant". They have sought a rationale for the dramatic increase in the budget deficit in old and familiar concepts associated with the British economist John Maynard Keynes. According to the biographies, in the 1930s Keynes advised Roosevelt to expand government spending and run a large budget deficit as a means of boosting demand and employment. Obama—-'it is claimed—is now following in Roosevelt's footsteps.

But was Keynes right? Is it correct that an increase in the budget deficit leads to higher output? In his own day, Keynes was resisted by the top officials in the UK Treasury, particularly by Ralph Hawtrey, in effect the government's chief economic adviser. Hawtrey was the leading protagonist of the so-called "Treasury view", the guts of which were that an increase in the budget deficit would fail to boost demand if it were financed by debt sales to non-banks and so did not affect the quantity of money.

Hawtrey accepted that a budget deficit financed from the banks would create more money, and so boost expenditure and incomes. But he believed that the amount of money in the economy could be increased without the government running a vast budget deficit. Like his many stuffy and cautious civil service contemporaries, Hawtrey had a Victorian aversion to waste and excessive public debt. He was on cordial terms with Keynes, but was suspicious of Keynesian economics.

Nowadays, little is heard of Hawtrey, whereas Keynes is revered as if he had been an intellectual pop star in his lifetime. The true story of the Hawtrey/Keynes tussle is complicated, interesting and more even-handed than is generally supposed.

For all his subsequent fame, Keynes's reputation in the Treasury during the 1930s was mixed. Hawtrey and others obstructed his pressure for more public works, emphasising instead the effectiveness of monetary measures in stimulating demand. Not only were interest rates lowered sharply (with the bank rate at two per cent from 1932 onwards), but the Treasury and Bank of England deliberately altered the terms of government debt issues in order to boost the quantity of money.

The result was that the quantity of money rose steadily from 1932, while from 1934 the budget deficit was being reduced (yes, reduced). Hawtrey's prescription was adopted and Keynesian public works were sidelined. What happened to the economy? Demand, output and employment all moved ahead nicely from 1932 to 1937. In September 1933, one Treasury memorandum noted: "Despite the rejection of the public works programmes put forward by Mr Keynes, the building industry is doing very well."

In the US, also, the actual conduct of policy was very different from the myths that have later circulated about it. Roosevelt liked Keynes personally but found him difficult to understand. The critical change to economic policy in the early years of the Roosevelt presidency was to buy up the American public's gold and then to devalue the dollar against gold. The resulting capital gain provided the backing for a surge of money creation, so that between 1933 and 1936 the quantity of money soared by 12 per cent a year. As in the UK, the economy recovered.

Obama's Treasury team are kidding themselves if they think their policy is "new", "radical" and "a change". As in the 1930s and during the Bush presidency, the prospects for recovery depend far more on the behaviour of the quantity of money and the conduct of monetary policy than on fiscal packages and budget deficits.