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The White House Looks for Work

By PETER BAKER

Three days before Christmas, President Obama gathered his economic team in the West Wing’s Roosevelt Room to review themes for his State of the Union address. The edge-of-the-cliff crisis he inherited had passed, but with more than 14 million Americans still out of work, he was looking for bold ways to bring down unemployment. The ideas presented to him, though, seemed familiar and uninspired. “You know, guys,” he said, according to someone in the room, “I’ve told you before, I want you to come to me with ideas that *excite* me.” Nothing he was hearing excited him.

Obama’s frustration could set the tone for the remainder of his term. For all the trials of war and terrorism, the economy has come to define his presidency. During the first half of his term, he used the tools of government to shape the nation’s economy more aggressively than any president in 75 years. As the national debt rises and Republicans assume more power on Capitol Hill, it won’t be easy finding ways to juice the economy that are exciting, effective *and* politically viable. Every day, in briefings, in trips around the country, in letters from the public, Obama is reminded of the many people who are still hurting. And he surely knows that if he cannot figure out in the next two years how to create jobs, he may lose his own.

Obama is fighting to keep Republicans, fresh from their fall electoral triumph, from reversing what he has started while prodding his own team to come up with something, anything, to put people back to work. "The president wanted to lower unemployment but didn't see a way to get more money out of Congress," one adviser who sat in on many such meetings told me. "He grew frustrated because the economic team didn't have that magic combination." Or as another adviser put it, "He was really frustrated that there weren't solutions on the cheap."

Obama has been casting about for ideas. He held two unpublicized meetings last month with outside economists, a group of liberals one day and a group of conservatives the next, soliciting suggestions while deflecting criticism. (He was "a bit defensive," one participant told me.) He likewise met with labor leaders and convened a four-hour meeting with chief executives from Google, General Electric, Honeywell, Boeing and other corporations. Obama was so intent on the conversation that he canceled a lunch break and asked the executives to bring their chicken, fish and pasta back from a buffet so they could keep talking.

Some of those who met with him repeated the common complaint that he has yet to articulate a coherent strategy. While the policies have been "quite good," the "public relations and related politics have not been," Alan Blinder, the Princeton University economist and former Federal Reserve vice chairman, told me. "One damaging result of that is the American public has little to no understanding why various things were done, why they made sense, what effect they were expected to have and did have, and instead they feel ripped off."

Douglas Holtz-Eakin, a former Congressional Budget Office director who advised John McCain during the 2008 campaign and attended another meeting with Obama last month, said the problem goes beyond public relations. "I honestly do not know where his policy rudder resides," he told me. "I really can't tell. What are the principles on which he operates? He's very smart; he knows all the policy options. I just don't know what are the criteria by which he's picking between them."

Obama would say his main criterion is finding what works. His approach to economic policy has been as much improvisational as ideological, a blend of Keynesian spending, business tax breaks, bank and auto bailouts, tax cuts for workers — really almost anything he thought could fix the problems. "For all the people who want to say he's a starry-eyed radical, in fact he's a moderate, middle-of-the-road guy," Christina Romer, who recently left as chairwoman of the President's Council of Economic Advisers, told me. "He worked to fix what we have, not throw it all out and start over. To the extent that he had to take emergency action, it was born of circumstances."

There is a compelling case that Obamanomics has produced results. An economy that was shrinking in size and bleeding more than 700,000 jobs a month is now growing at 2.6 percent and added 1.1 million jobs last year. The American Recovery and Reinvestment Act, known as the stimulus, produced or saved at least 1.9 million jobs and as many as 4.7 million last year, according to the Congressional Budget Office. The much-derided Troubled Asset Relief Program, or TARP, started by George W. Bush and continued by Obama, stabilized the financial sector, and the big banks have repaid the money with interest. According to a Treasury Department report sent to Congress this month, TARP will cost taxpayers $28 billion instead of the $700 billion originally set aside. The nearly $80 billion bailout of the auto industry may cost taxpayers only $15 billion, as the restructured General Motors and Chrysler come back to life with strong sales. The stock market has surged; corporate profits are setting records.

All of which seems offset by one simple figure: 9.4 percent. Or perhaps two, if you add $1.3 trillion. The first, of course, is the unemployment rate, which has remained stubbornly above 9 percent for 20 straight months, the longest since the Great Depression. Counting those who are seeking full-time jobs while working part time and those who have stopped looking altogether, it's closer to 17 percent. At the current rate, it could be 2017 before the country replaces the more than eight million jobs lost since December 2007. The second figure is this year's federal budget deficit, which has touched off a prairie fire of public protest and emerged as the central issue of the newly installed Republican House. In a recent poll by The Times and CBS News, 82 percent of Americans rated the economy bad, and just 43 percent approved of the way Obama was handling it. "People look at the economy today, and they're disappointed by what we've achieved," Treasury Secretary Timothy Geithner told me last month. "But that just misses the fundamental reality — it could have been so much worse." The program Obama managed to enact represented an "unbelievably heroic, implausible accomplishment," Geithner argued, yet one that requires patience. “Even if we had a magic wand,” he said, “it was going to take a long time to dig out.”

The path from crisis to anemic recovery was marked by turmoil inside the White House. The economic team fractured repeatedly over philosophy (should jobs or deficits take priority?) and personality (who got to attend which meetings?), resulting in feuds that ultimately helped break it apart. The process felt like a treadmill, as one former official put it, with proposals sometimes debated for months before decisions were reached. The word commonly used by those involved is “dysfunctional,” and in recent months, most of the initial team has left or made plans to leave, including Larry Summers, Christina Romer, Peter Orszag, Rahm Emanuel and Paul Volcker.

With Geithner as its anchor, a new economic team is being built around Bill Clinton-era figures like William Daley, Gene Sperling and Jack Lew, a group assembled to joust with Republicans instead of one another. Rather than responding to crises or putting into motion grand macroeconomic theories, they will focus on pushing the recovery into higher gear while at the same time figuring out how to reduce the deficit — two goals that some see as incompatible in the short term. And along the way, they need to convince Americans that the president is focused on jobs, jobs, jobs.

In his State of the Union address last year, Obama declared that “jobs must be our No. 1 focus in 2010,” then spent much of the year on other issues, some of his choosing, like health care, and others forced upon him, like the Gulf of Mexico spill. “The public didn’t sense that everyone in the White House was waking up thinking about how to create jobs,” said John Podesta, the former Clinton White House chief of staff and president of the Center for American Progress who directed Obama’s transition. “It seemed like they were waking up every day thinking about how to pass more bills. It was like, do something. And if that doesn’t work, do something else.”

Podesta said that Obama has a chance to explain his new approach when he walks into the House for this year’s State of the Union on Jan. 25. Members of the president’s staff say he will do just that. Days after being appointed director of the National Economic Council, Sperling told me that Obama will be intensifying his focus. "His message to me when offering this job could not have been clearer," Sperling said. "He wants us working to ensure that his entire administration is waking up every day asking what can we do for jobs and competitiveness. . . . He wants all hands on deck."

It may take all hands. While Obama and his team were hardly the only ones to underestimate the depth of the problem they inherited in early 2009, their failure to define it from those early days has undermined a bedrock idea of American liberalism, the faith in the capacity of government to play a constructive role in the markets and make up for the limits of individuals to cope with them. Since unemployment has remained so high for so long while deficits have soared, it must mean the stimulus did not work and the money was wasted. Smaller government, less regulation and lower taxes, therefore, would be the only answer. And so, Obama's challenge may be more fundamental even than reducing unemployment and winning re-election; he wants to prove that liberal economic theory can be adapted to the 21st century.

THE PRE-CHRISTMAS WHITE HOUSE MEETING with unexciting ideas came almost two years to the day after a far different session in Chicago, as the newly elected president set up his administration. In any White House, certain moments become etched into the creation myth, part of the narrative told again and again to explain a presidency. For Obama, the meeting on Dec. 16, 2008, was one such moment.

Aides tell the story to underscore the gravity of the situation Obama faced. "That was a formative event," recalled David Axelrod, the president's senior adviser. "The briefing was brutal," said Austan Goolsbee, one of Obama's economic advisers. Obama was warned the country was in far worse shape than anyone realized. "This was not your father's or my father's recession," Rahm Emanuel, the former White House chief of staff, told me this month from Chicago, where he is running for mayor. "This was our grandfather's Depression."

This was all new to Obama, who, unlike Bush or Clinton, had never managed even a state economy. Now he was responsible for a nation in which everyone from homeowners to Wall Street tycoons had so overextended themselves that the system was coming apart. Obama's theory of the case was that the country was trapped in a bubble-and-bust cycle, cascading from one artificial, unsustainable boom to the next. He wanted to not just apply a short-term patch but also to erect a more durable system with a stronger set of rules.

Obama's instinct was to take on everything at once. "I want to pull the band-aid off quickly, not delay the pain," a senior Obama official remembers him saying. "He didn't want to muddle through it, Japan-style," recalled Larry Summers, tapped to be director of Obama's National Economic Council. Romer calculated how much government spending would be needed to fill the gaping hole of consumer demand and came up with $1.2 trillion, the highest of three options. Summers told her to leave that number out of the memorandum to Obama. Emanuel argued that such an astronomical figure would be politically explosive. Romer left it out but mentioned it to Obama during a briefing. "That's what you'd need to do to definitively heal the economy," she said, according to someone in the room. Still, she and Summers agreed on recommending close to $900 billion.

Liberals like the Nobel Prize-winning economists Joseph Stiglitz and Paul Krugman argue that the $800 billion package of infrastructure projects, aid to states and tax breaks that Congress eventually passed was inadequate and poorly targeted. "The stimulus was too small and not well-enough designed," Stiglitz told me. "Most of my concerns have turned out to be valid." Romer, who has returned to teach at Berkeley, told me she now agrees about the size. In Washington, she said, "you're not supposed to say the obvious thing, which is that in retrospect of course it should have been bigger. With unemployment at 10 percent, I don't know how you could say you wouldn't have done anything different. Of course you would have made it bigger."

Given what was known then, however, she said the $800 billion was reasonable and the most that Congress would approve. "In my mind," she said, "the problem was not in the original package; it was in not adjusting to changed circumstances." Once it was clear that the situation was deteriorating, she said, the White House should have gone back to Congress for more stimulus money. "That was where we could have been bolder," she said.

The crisis forced Obama to confront the larger question of government’s role in the economy. Should taxpayers save large enterprises from failure? When is the risk of not intervening too great? How much should politicians dictate to business? His team engaged in a fierce debate about whether to nationalize the biggest banks, as Stiglitz and Krugman advocated. Summers entertained the idea, at least for purposes of discussion, for banks that could not pass a “stress test” examining their solvency. Geithner and Ben Bernanke, the Federal Reserve chairman, argued against it. Ultimately the tests found the banks were in better shape than feared, a critical moment in shoring up confidence. “The cheapest form of stimulus is confidence,” Summers likes to say.

With the auto industry, the team was even more divided, and Obama adopted a more intrusive approach than with the banks. The government took over General Motors and pushed Chrysler into a merger with Fiat, forcing both firms into bankruptcy to restructure, reduce debt and lower labor costs. Then the government backed out; in G.M.’s initial public offering last November, the government cut its share of stock from 61 percent to 33 percent and recouped $13.5 billion. “In both cases,” Emanuel said, referring to banks and automakers, “the extremes were rejected. In both cases, he forced management to do things they would not or could not do for themselves. And in both cases, they’ve emerged stronger.”

But not Obama. The flurry of actions proved deeply unpopular and stoked a Tea Party reaction. He was blamed for helping rich bankers and throwing taxpayer money away, even if the stimulus cut taxes for 95 percent of working Americans (a break many never realized they got). Critics branded his health care, climate-change and financial-regulation proposals “job killers.” Worse, perhaps, were the administration’s own rosy forecasts. A January 2009 study by Romer and Jared Bernstein, the economic adviser to Vice President Joseph Biden, predicted that if the stimulus passed, unemployment would be at 7 percent at the end of 2010.

“I truly believed that forecast,” Romer told me. “I consulted with every good forecaster who would talk with me, including the Federal Reserve.” The problem was that the baseline economy was in worse shape than even the grim assessment of that Chicago meeting in late 2008. Without the actions taken by Bush, Obama and the Federal Reserve, the economy was headed to what Bernanke called "Depression 2.0," in which unemployment potentially would peak at 16.5 percent, according to a later study by Blinder and Mark Zandi, chief economist at Moody's Analytics. But the Romer-Bernstein forecast set expectations that Obama could not meet. "I just think that killed them in terms of the perceptions," Zandi told me. "I would have made the same mistake. That was an economist's mistake, a technocratic mistake. But that really hurt them."

It was hardly the only moment of mistaken optimism. Soon after taking office, Obama's team began spotting "glimmers of hope" or, as Bernanke put it, "green shoots" indicating fresh growth. By the end of 2009, White House officials thought they were reaching escape velocity, breaking away from the gravitational pull of the Great Recession. "There was the sense that the economy was moving again," Emanuel said. Then came a string of episodes that he and others believe sidetracked the economy: the European financial crisis triggered by Greece, the gulf oil spill, conflict over Gaza and the concurrent gyrations in the stock market. "We got hit by the G-force," Emanuel said. Much of the late 2009 growth spurt owed to a temporary restocking of inventories, and the slowdown undercut the talk of green shoots. "It was too premature to say that, and so it built up expectations," Emanuel said. Instead of a "recovery summer," fears of a double-dip recession returned while the president was busy with other issues. "It was costly to the president because it looked like Washington was fiddling while unemployment was stubbornly high," a senior Obama official said.

Other advisers said the administration should have moved more aggressively a year ago to bolster the nascent recovery. There was discussion then about a series of measures, like a payroll tax holiday, business tax breaks and infrastructure spending, that would have amounted to a second stimulus. But it lingered. "Where we didn't do enough was in the fall of '09," Romer told me. "We never coalesced and never made as strong a push as we should have for some of the things that finally got done last month, like a payroll tax cut."

I went to see Geithner one evening in late December in his high-ceilinged office at the end of the third floor in the Treasury Building. At 49, Geithner is relaxed and confident, prone to using words like “cool” to describe esoteric economic ideas, and is so well liked within the administration that he is universally known simply as Tim. He is a surprising survivor, given the lacerating criticism of his early days in office, but he bonded with Obama, who was born just two weeks earlier, and emerged as the strongest figure on the economic team, even if not its most effective public spokesman.

When we talked, he had just helped negotiate the deal with Republicans to extend Bush-era tax cuts for two years while also temporarily trimming payroll taxes and providing more unemployment benefits. He sank into a chair, a young man in an old man’s job, and began ruminating about how the team had handled the economy.

All the second-guessing, he said, missed the point. “Everybody now has these cool ideas — why didn’t we do it in this way, why didn’t we do it bigger, why didn’t we have a different mix,” he said, thinking about the stimulus. “All of that is marginal.” What was important, he said, were speed and force. As for nationalizing or liquidating the banks, he said, “They both would have been catastrophic.”

Still, any way you look at it, he said, “it was a brutal two years.”

EARLIER THIS MONTH I met with Summers at a restaurant in suburban Boston three days after his last day at the White House. Tan from a holiday in Jamaica and trying to get his bearings again at Harvard, where he plans to teach a course on Obama’s economic policy and write a book, Summers sat at a corner table and ordered bisque and — from the lighter-fare menu —a steak “as rare as your chef will make it.”

A former treasury secretary and Harvard president, Summers, 56, was the most prominent member of Obama’s economic team. It has become a cliché to describe him as brilliant and brash, but as we talked for three hours that night, he struck me as thoughtful and analytical about what went right and what didn’t. He didn’t want to be quoted from that conversation, though, preferring to polish his thoughts with academic precision and e-mail them to me later. “We always believed that the greatest risk was doing too little, not to do too much," he wrote. "We fought for the largest fiscal program we could get." More infrastructure money might not have made a difference given that much of what was included in the package has yet to be spent. As for the banks, Summers said their revival and payback of TARP money make it hard to argue that "the economy would somehow be in better shape today if the government had nationalized the banking system."

At the National Economic Council, Summers was charged with running the process for developing policy. But the team never embraced the no-drama-Obama ethos. Over the last two months, I interviewed nearly all of the team's main figures, past and present, and when we talked about their relations with one another, it was like picking through the wreckage of a messy divorce.

At the center was Summers, a larger-than-life figure who by many accounts was ill suited to run a bureaucratic process. To some of his colleagues, Summers was an eye-rolling intellectual bully. "He's much better at telling you why you're stupid than creating a system that can produce usable policy solutions," said one Obama adviser, who, like others, did not want to be named criticizing Summers. At meetings, colleagues with differing viewpoints felt the full force of his capacity for finding flaws in their reasoning.

It was a measure of Summers's stature that everyone around him paid attention to signs of his status. Rahm Emanuel promised him a White House car, befitting a former cabinet secretary, but discovered that he could not deliver because the number of vehicles had been capped. Likewise, after Summers was not invited to march onto the floor of the House with the cabinet for Obama's first State of the Union address, Emanuel made sure he was included for the second. "Larry was invaluable to the president," Emanuel told me. "It was not unreasonable to ask for a car. It was not unreasonable to ask to walk in there." (A White House spokeswoman said Summers was promised a car but did not request it.)

Summers skirmished with colleagues over protocol. Austan Goolsbee, who opposed rescuing Chrysler, once cautioned Obama during a meeting that rescuing auto suppliers would signal that they would also save the automakers; Summers cornered him afterward and “exploded,” according to a memoir by Steven Rattner, the auto-task-force leader. “You do not relitigate in front of the president,” Summers scolded. Goolsbee retorted, “I was not litigating in front of the president.” The moment to decide whether to rescue Chrysler came during the president’s morning economic briefing. And while Goolsbee and others of his rank did not typically attend that meeting, his absence was seen as depriving the president of the strongest opposition voice. Obama noticed, and summoned Goolsbee.

Summers skirmished with Romer over a meeting at which she was not included. “I didn’t come here to waste my time,” Romer angrily told him, according to someone informed about the conversation. “I’m perfectly happy to go home.” While Summers was often blamed, the White House spokeswoman said that Emanuel’s office determined meetings and tried to keep them small. Summers and Emanuel also clashed over incentives for small business — the chief of staff kept demanding a proposal, but Summers opposed the idea of using TARP money for the initiative, arguing it would not be effective. It took months to develop a policy.

Obama knew what he was getting with Summers. And Summers’s defenders, while calling him abrasive, said he was on the right side of nearly every issue and called the complaints exaggerated. “Larry is a brilliant guy with a forceful personality and strong opinions,” Sperling said. “He was also very dedicated to ensuring the full range of opinions were fairly presented to the president.” Summers understands where his strengths lie and where they don’t. “I told the president when he offered me the job that what I would be able to bring him was access to all views, and hopefully ensure that the thinking was rigorous,” he told me. “But probably making everyone feel validated was not going to be my best thing.”

The dysfunction extended beyond Summers. Paul Volcker, the former central banker tapped to lead a new Presidential Economic Recovery Advisory Board, apparently felt ignored, at least until the president embraced his suggestion, dubbed “the Volcker rule,” to bar big banks from risking their own capital in speculative trades. Valerie Jarrett, Obama’s senior adviser in charge of relations with the business community, was derided by fellow administration officials who deemed her outreach to corporate executives empty engagement, because meetings had no tangible outcome, though, of course, her office did not set the policies that angered business in the first place. Romer was seen as insecure in Summers's shadow, frustrating some colleagues who called her difficult, a presumption her defenders considered sexist.

"There's no question there were strong personalities all around, and at times we were not as united as the president would have liked," Romer told me. "I think overall we did pretty well, and we got to some good decisions and got many things done." Whatever their differences, she noted that she shared a lot of views with Summers. "We were probably the two people in closest alignment philosophically and economically on the team," she said.

And then there was Orszag, who turned 40 just after he was chosen as director of the Office of Management and Budget and was celebrated for his brainy dynamism. By last summer, he had left after falling out with colleagues, who considered him arrogant. When Transportation Secretary Ray LaHood mentioned to a reporter that he had settled a dispute with Orszag by going around him to Emanuel, a peeved Orszag would not take his apology calls; LaHood ultimately sent a case of wine to make amends. Orszag also exchanged testy e-mails with Emanuel over the health care effort. When colleagues suspected him of leaking information to the media, Orszag denied it. But he eventually concluded that he had allowed himself to become overexposed and recognized his relationships were poisoned.

At the heart of the friction was the deficit, which Orszag saw as a priority. Other officials tired of Orzsag's refrain. "Yes, the deficit's important, but not this year," said one official. "I think the deficit for him was always most important. He was not winning the argument." Orszag agreed that cutting spending too soon would hurt the economy, but he wanted to begin planning ahead. One reason he left, eventually winding up at Citigroup, was the sense that the administration was trapped in a dynamic that would make it hard to reduce the deficit adequately.

Reflecting on it now, Orszag looked back on the tensions with regret. "Unfortunately," he told me, "I think the environment often brought out the worst in people instead of the best in people. And I'd include myself in that."

ACROSS LAFAYETTE SQUARE from the White House is the headquarters of the United States Chamber of Commerce. Last spring, four massive banners were hung on its building spelling out "J-O-B-S," a message presumably visible from the third floor of the White House, where the president wakes up. By fall, the chamber and Obama were at war during a midterm campaign that ended with repudiation of the president's party.

"The basic issue here," Thomas Donohue, the chamber president, told me last month, "is uncertainty — uncertainty on what health care is actually going to cost, uncertainty on hundreds of rule-makings in the Dodd-Frank bill, uncertainty about what's going to come out of the E.P.A. putting through what they couldn't get legislatively, uncertainty about taxes."

The health care program and the financial-regulation law sponsored by Senator Chris Dodd and Representative Barney Frank were bad enough, as far as the chamber was concerned. But Obama's periodic forays into populism made it personal. He couldn't seem to decide whether he was going to take Wall Street to task for its irresponsible behavior or cajole it into freeing up money to get the economy moving. One day he derided "fat-cat bankers" who caused the recession; another day, he soothed them by saying that he and the American people "don't begrudge" multimillion-dollar bonuses.

In the aggregate, at least, balance sheets haven't suffered. Given the profits washing through America's corporations now, some scoff at the depiction of Obama as antibusiness. "That's the most ridiculous assertion I've ever heard," Richard Trumka, president of the A.F.L.-C.I.O., told me. "This president has been more pro-business than any before him, including Bush."

Obama's experiments with antibusiness rhetoric fueled tensions between his political and economic advisers. The political team wanted Obama to connect with the widespread resentment Americans felt toward Wall Street and what Geithner called "the very deep public desire for Old Testament justice."

Geithner and the economic team warned that the White House rhetoric was too sweeping, since most American businesses had little to do with the financial crisis. David Axelrod, the political adviser, said critics used the rhetoric “to make the case that he was somehow inhospitable to business, and nothing could be further from the truth.”

Obama has powerful incentives to make up with business. Still nervous after the crash, and uncertain about government policies, American corporations are sitting on $2 trillion in cash, and the president wants them to use it to hire people. “How do I get companies sitting around the table to start investing in job-creating enterprises?” Obama asked executives at last month’s lunch, according to a person in the room. Obama next month plans to cross Lafayette Square to address the chamber at its headquarters. And it did not go unnoticed that in hiring former Commerce Secretary William Daley as chief of staff, Obama turned his White House over to an executive from JPMorgan Chase.

Another initiative that is playing well with the chamber is expanded trade. Three years ago, during the Ohio Democratic primary, Obama appealed to labor by vowing to renegotiate the North American Free Trade Agreement, or Nafta, but never followed through. Today he presents himself as a free-trader, vowing to double exports and last month sealing a revised version of Bush’s free-trade pact with South Korea. Then he enlisted Daley, the man who pushed Nafta through Congress.

By itself, trade is no short-term balm, but it represents one of the “solutions on the cheap” the president wanted, a way of promoting growth without deficit spending. In our conversation, Donohue, of the chamber, played down past conflicts, noting that his group supported the original stimulus bill as well as the South Korea agreement. “I want to be very clear — we’re not having any fight with the president,” he told me. “We have fights over issues, but not with him.” Given Obama’s actions lately, Donohue said “he’s moving in a direction that shows that he’s figured it out.”

ALMOST NO ONE NOTICED, but Obama laid out his new economic direction during a speech in Winston-Salem, N.C., last month, just hours before striking a tax-cut deal with Republicans. In the speech, he declared “the threat of a depression has passed” and offered a vision for rebuilding by improving American competitiveness in a global economy, calling it "our generation's Sputnik moment."

The competitiveness theme, which will be prominent in the State of the Union address, is a convenient rubric that encompasses trade as well as other presidential priorities like more education-accountability reforms, more federal support for research and innovation, more green technology industry like the advanced battery plants Obama likes to visit and more infrastructure like high-speed trains. Obama has tried before to link these disparate priorities into a coherent theme, calling such ideas, along with health care and financial regulation, the pillars of a New Foundation for a postcrisis economy, à la the New Deal. But he never made it stick. "Messaging when we have 9.8 percent unemployment is difficult," Axelrod said. Now Obama is reframing these ideas as a response to China and other economic rivals that, he tells audiences, are moving forward while America risks lagging behind. In that way, he has turned his message into a made-in-America appeal to patriotism, and potentially grounds for consensus with Republicans. "This is a theme people can rally around," Goolsbee told me. "We've shifted out of the rescue mode. We've got to move into full-fledged growth mode."

Goolsbee will be operating in that mode as part of the new team. He replaced Romer as head of the Council of Economic Advisers, just as Sperling replaced Summers as head of the National Economic Council, Jack Lew replaced Orszag at the Office of Management and Budget and Daley replaced Emanuel as chief of staff. The selection of Sperling, who held the same job under Clinton, was telling. A onetime boy wonder who, despite his graying hair, still has the same whirling-dervish, work-till-midnight energy, Sperling was passed over for other prominent jobs. He bided his time as a counselor to Geithner, and eventually won over Obama with his doggedness. As a champion of the payroll tax holiday, he proved critical to shaping Obama's tax deal with Republicans and so many other issues that White House officials refer to him as B.O.G., the Bureau of Gene. Where Summers was a master macroeconomic thinker, Sperling is known for his mastery of getting things done, or at least waging the fight, in the place where policy, politics and media meet. Lew is also returning to the same job he had under Clinton, when he balanced the budget alongside Congressional Republicans.

The renewed focus on the economy goes back to last August, when after months of grappling with health care, the oil spill and the financial-regulation bill, Obama resolved to redouble efforts to create jobs. While he was on vacation in Martha's Vineyard, Obama called his economic advisers and told them to develop a new agenda for the fall, which led to a September proposal to invest more money in infrastructure, make the research-and-development tax credit for businesses permanent and allow companies to deduct more expenses right away. His advisers also began discussing ideas for his next State of the Union, like a payroll tax holiday, ideas that ultimately were worked into last month's tax deal with Republicans instead.

The president's search for an agenda that will excite him, and the rest of America, has taken him to the far corners of the economic conversation. He recently asked advisers to present arguments about whether the slow recovery is part of an economic cycle that will ultimately turn around or something different, a "new normal" signaling stagnation as in Japan in the 1990s. "He's trying to gather different ideas and different perspectives both on where we are and where we're going," Goolsbee said.

In the end, Obama concluded that the economic moment is part of a cycle. He has to hope so. The unemployment rate drifted down to 9.4 percent in December from a high of 9.8 percent, but largely because many people gave up looking for work; the economy added just 100,000 jobs last month, not enough to keep up with population growth. Economists say the economy needs to grow 2.5 percent a year just to absorb newcomers to the labor force. It takes roughly 2 percentage points of growth over that to cut unemployment by 1 percentage point. "That's a very different kind of challenge than putting out a financial fire," Geithner told me.

The tax deal between Obama and Republicans amounted to a second stimulus package, and economists responded by upgrading growth projections for 2011 to around 3.5 percent. But even if that optimism is borne out, and the pace is maintained, unemployment would still be about 8 percent when voters pass judgment on Obama's presidency in 2012. His political advisers hope that the direction of the economy will be clear enough to satisfy voters, as it was in 1984 when Ronald Reagan was re-elected despite more than 7 percent unemployment.

The slow recovery is typical of recessions that follow a financial crisis, as outlined in “This Time Is Different,” a book by the economists Kenneth Rogoff and Carmen Reinhart. “They’re deeper, they last longer and it takes years for unemployment to come back,” Rogoff told me last month, shortly after a meeting with Obama. While crediting the president for averting a catastrophe, Rogoff said Obama erred by not preparing the country for a drawn-out and painful recovery. “The biggest tactical mistake he made and the administration made,” he said, “was they wanted to be reassuring to everyone, so they painted this rosy picture, saying we’re going to bounce back.” After two years, he said, the president has essentially done everything he can and must wait to see if it works. “What’s going to happen with unemployment and the economy is largely set at this point,” he said. “He’s taken his decisions, and now it will unfold and things will begin to improve.”

Instead, the debate will shift to curbing deficits and redesigning the tax code. Republicans have made shrinking government the core of their economic message, appealing to many Americans who think Obama (and before him, Bush) let spending get out of hand. “We’re at that transition moment,” Lew told me. “We’ve got to look ahead at the very serious fiscal challenges we have.” Obama plans to use the State of the Union to present himself as a fiscal conservative. But it will be a delicate balance for someone who believes government spending helped turn the economy around; he hopes to make the case that he can rein in the deficit but that the deepest cuts should wait until after the recovery gathers momentum. “We have to be able to walk and chew gum at the same time,” Lew said. “I deeply believe that this would be the wrong time to hit the brakes.”

The burden clearly weighs on Obama as he searches for that magic combination. He has made a point of talking more lately about jobs and associating himself with the burdens of employers and employees alike. He announced Sperling’s appointment this month not at the White House but at a factory in Maryland, where he expressed sympathy for the stresses of running a business in hard times. The factory owner’s family once lived above the store, and Obama joked that some days it probably feels as if they still do. “You know,” added the man living over the most stressful store in America, “that’s what happens when you’re in charge.”

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