

remains the best place in the world to do business.

Excessive litigation is one of the biggest obstacles to economic growth. The tort system now costs America's economy more than \$230 billion a year, and no other country faces a greater burden from junk lawsuits. Our litigious society deters job creation and consumes billions of dollars that could be better spent on investment and expansion. Frivolous lawsuits put American workers at a competitive disadvantage in the global economy and have a devastating impact on the medical community. When Congress convenes next year, the House and Senate need to pass sound reforms on our medical liability, class action, and asbestos litigation systems.

Another challenge in our economy is the rising cost of health care. More than a half of all uninsured Americans are small-business employees and their families. And while many businessowners want to provide health care for their workers, they just can't afford the high cost. To help more Americans get care, we need to expand tax-free health savings accounts, which are already making a difference for small businesses and families. We should encourage health information technology that minimizes error and controls costs. And Congress must allow small firms to join together and buy health insurance at the same discounts big companies get.

To grow their businesses and create jobs, small-business owners also need relief from excessive taxes and regulation. The tax relief we passed has been critical to our economic recovery, and Congress needs to make that tax relief permanent. We also need to reform our complicated Tax Code to encourage investment and growth and reduce headache for taxpayers. And to promote innovation in hiring, we must lift the burden of needless Federal regulation on hard-working entrepreneurs.

As our businesses create advanced, high-paying jobs, we must ensure that workers have the education and skills to fill those jobs. We've made a good start with the No Child Left Behind Act, which is already helping students make progress in the early grades. Now we need to bring high standards and accountability to high schools and make sure

job-training programs prepare workers for the innovative jobs of the 21st century.

To help our young people, we must also fix the long-term problems in the Social Security system. Workers in their mid-twenties today will find Social Security bankrupt when they retire, unless we act to save it. As we reform and strengthen the system, we will deliver all the benefits owed to current and near retirees. We must not increase payroll taxes, and we must tap into the power of markets and compound interest by giving younger workers the option of saving some of their payroll taxes in a personal investment account, a nest egg they can call their own, which the Government can never take away.

The week's conference provided a good opportunity to discuss our economic challenges with Americans from many backgrounds and to set the issues clearly before Congress. I'm open to good ideas from Democrats and Republicans. I will work with any who shares our goal of strengthening the economy. But I will not ignore these challenges and leave them to another day. We have a duty to the American people to act on these issues, and we will get results.

Thank you for listening.

NOTE: The address was recorded at 7:44 a.m. on December 17 in the Cabinet Room at the White House for broadcast at 10:06 a.m. on December 18. The transcript was made available by the Office of the Press Secretary on December 17 but was embargoed for release until the broadcast. The Office of the Press Secretary also released a Spanish language transcript of this address.

The President's News Conference

December 20, 2004

The President. Good morning, and happy holidays to you all. I thought I'd come and answer some of your questions. Before I do so, I've got a statement I'd like to make.

We're nearing the end of a year where—of substantial progress at home and here—and abroad. In 2004, the United States grew in prosperity, enhanced our security, and served the cause of freedom and peace. Our duties continue in the new year. I'm optimistic about achieving results. America's economy is on solid footing, growth is strong,

and the Nation's entrepreneurs have generated more than 2 million jobs in this year alone.

There's more we must do to keep this economy flexible, innovative, and competitive in the world. In a time of change, we must reform systems that were created to meet the needs of another era. Soon I will appoint a citizens panel to recommend ways we can transform the outdated Tax Code. I'll work with the new Congress to make health care more accessible and affordable, to reform the legal system, to raise standards of achievement in public schools, especially our high schools, and to fix the Social Security system for our children and our grandchildren.

Early in the year, I will also submit a budget that fits the times. We will provide every tool and resource for our military. We'll protect the homeland, and we'll meet other priorities of the Government. My budget will maintain strict discipline in the spending of tax dollars and keep our commitment to cutting the deficit in half over 5 years.

All of these goals require the energy and dedication of members of both political parties. Working in a spirit of bipartisanship, we will build the foundation of a stronger, more prosperous country. We'll meet our obligations to future generations as we do so.

Our duties to future generations include a sustained effort to protect our country against new dangers. Last week, I signed legislation that continues the essential reorganization of our Government by improving the Nation's intelligence operations. Because we acted, our vast intelligence enterprise will be more unified, coordinated, and effective than ever before, and the American people will be more secure as a result.

Our country is also safer because of the historic changes that have come around the world in places like Afghanistan. This year brought the first Presidential election in the 5,000-year history of that country. And the Government of President Hamid Karzai is a steadfast ally in the war on terror. President Karzai and the Afghan people can be certain of America's continued friendship and America's support as they build a secure and hopeful democracy.

In Iraq, a people that endured decades of oppression are also preparing to choose their own leaders. Next month, Iraqis will go to the polls and express their will in free elections. Preparations are underway for an energetic campaign, and the participation is wide and varied. More than 80 parties and coalitions have been formed, and more than 7,000 candidates have registered for the elections. When Iraqis vote on January the 30th, they will elect 275 Members to a transitional National Assembly as well as local legislatures throughout the country.

The new National Assembly will be responsible for drafting a constitution for a free Iraq. By next October, the constitution will be submitted to the people for ratification. If it is approved, then, by December, the voters of Iraq will elect a fully democratic constitutional government. My point is, the elections in January are just the beginning of a process, and it's important for the American people to understand that.

As the Iraqi people take these important steps on the path to democracy, the enemies of freedom know exactly what is at stake. They know that a democratic Iraq will be a decisive blow to their ambitions, because free people will never choose to live in tyranny. And so the terrorists will attempt to delay the elections, to intimidate people in their country, to disrupt the democratic process in any way they can. No one can predict every turn in the months ahead, and I certainly don't expect the process to be trouble-free. Yet, I am confident of the result. I'm confident the terrorists will fail, the elections will go forward, and Iraq will be a democracy that reflects the values and traditions of its people.

America and our coalition have a strategy in place to aid the rise of a stable democracy in Iraq. To help the Iraqi Government provide security during the election period, we will increase U.S. troop strength. Coalition forces will continue hunting the terrorists and the insurgents. We will continue training Iraqi security forces so the Iraqi people can eventually take responsibility for their own security.

We have a vital interest in the success of a free Iraq. You see, free societies do not export terror. Free governments respect the

aspirations of their citizens and serve their hopes for a better life. Free nations are peaceful nations. And free nations in the heart of the Middle East will show what is possible to others who want to live in a free society.

In Iraq and elsewhere, we've asked a great deal of the men and women of our Armed Forces. Especially during this holiday season, those on duty far from home will be in our thoughts and our prayers. Our people in uniform and our military families are making many sacrifices for our country. They have the gratitude of our whole country.

Now I will be glad to answer some questions. Hunt [Terence Hunt, Associated Press].

Russia-U.S. Relations

Q. Thank you, Mr. President. A month ago in Chile, you asked Vladimir Putin to explain why he has taken actions widely seen as a move away from democracy. What do you think Mr. Putin's intentions are, and do you think that Russia's behavior has chilled relations with the United States?

The President. As you know, Vladimir Putin and I have got a good personal relationship, starting with our meeting in Slovenia. I intend to keep it that way. It's important for Russia and the United States to have the kind of relationship where, if we disagree with decisions, we can do so in a friendly and positive way.

When Vladimir made the decision, for example, on the—whether to elect Governors or appoint Governors, I issued a statement that said in a free society, in a society based upon Western values, we believe in the proper balance of power. I think he took that on and absorbed that in the spirit in which it was offered, the spirit of two people who've grown to appreciate each other and respect each other. I'll continue to work with him in a new term. Obviously, we have some disagreements. He probably has disagreements over some of the decisions I've made. Clearly, one such decision was in Iraq. But this is a vital and important relationship.

And it's a relationship where it's complicated—it's complex, rather than complicated. It's complex because we have joint efforts when it comes to sharing intelligence

to fight terrorism. We've got work to do to secure nuclear materials. I look forward to working with the Russians to continue to expand cooperation. I think one of the things we need to do is to give the Russians equal access to our sites, our nuclear storage sites, to see what works and what doesn't work, to build confidence between our two Governments.

Obviously, there's a lot of trade that's taking place between Russia and the West and the United States. And that trade relationship is an important relationship. I told Vladimir that we would work in a new term for—to see if Russia could then be admitted to the WTO. I think that would be a positive step for relations between our two countries. And I'll continue to express my belief that balanced government, the sharing of power amongst government will lead to a—will lead to stability in Russia. And the relationship is an important relationship, and I would call the relationship a good relationship.

Defense Secretary Rumsfeld

Q. Thank you, Mr. President. Several Republican lawmakers recently have criticized Secretary Rumsfeld. What does he need to do to rebuild their trust?

The President. Well, first of all, when I asked the Secretary to stay on as Secretary of Defense, I was very pleased when he said yes. And I asked him to stay on because I understand the nature of the job of the Secretary of Defense, and I believe he's doing a really fine job.

The Secretary of Defense is a complex job. It's complex in times of peace, and it's complex even more so in times of war. And the Secretary has managed this Department during two major battles in the war on terror, Afghanistan and Iraq. And at the same time, he's working to transform our military so it functions better, it's lighter, it's ready to strike on a moment's notice—in other words, that the force structure meets the demands we face in the 21st century.

Not only is he working to transform the nature of the forces, we're working to transform where our forces are based. As you know, we have recently worked with the South Korean Government, for example, to replace manpower with equipment, to keep

the Peninsula secure and the Far East secure but, at the same time, recognizing we have a different series of threats. And he's done a fine job, and I look forward to continuing to work with him.

And I know the Secretary understands the Hill. He's been around in Washington a long period of time, and he will continue to reach out to Members of the Hill, explaining the decisions he's made. And I believe that in a new term, Members of the Senate and the House will recognize what a good job he's doing.

Let's see here. Let's go to the TV personalities. [Laughter] Let's start with you, Cochran [John Cochran, ABC News]. David [David Gregory, NBC News], prepare yourself.

Kerik Nomination/Vetting Process/ Director of National Intelligence

Q. Any lessons you have learned, sir, from the failed nomination of Bernard Kerik? As you look forward now to pick a new Director of the Homeland Security Department and also as you pick a Director of National Intelligence, any lessons learned in terms of vetting and particularly with the DNI? What sort of qualities are you going to be looking for in that man or that woman that you choose?

The President. Well, first, let me say that I was disappointed that the nomination of Bernard Kerik didn't go forward. In retrospect, he made the right decision to pull his name down. He made the decision. There was a—when the process gets going, our counsel asks a lot of questions and a prospective nominee listens to the questions and answers them and takes a look at what we feel is necessary to be cleared before the FBI check and before the hearings take place on the Hill.

And Bernard Kerik, after answering questions and thinking about the questions, decided to pull his name down. I think he would have done a fine job as the Secretary of Homeland Security, and I appreciate his service to our country.

We've vetted a lot of people in this administration. We vetted people in the first. We're vetting people in the second term, and I've got great confidence in our vetting process.

And so the lessons learned is, continue to vet and ask good questions and get these candidates, the prospective nominees, to understand what we expect a candidate will face during a background check—FBI background check as well as congressional hearings.

Now, in terms of the NDI—DNI, I'm going to find someone that knows something about intelligence, and capable and honest and ready to do the job. And I will let you know at the appropriate time when I find such a person.

Gregory.

Training Iraqi Forces/Polls

Q. Mr. President, thank you. A year ago we were in this room, almost to the day, and you were heralding the capture of Saddam Hussein and announcing the end of Ba'athists' tyranny in Iraq. A year later, the chairman of the Armed Services Committee in the Senate said, after returning from Iraq, that—talking about Iraqi troops—the raw material is lacking in the willpower and commitment after they receive military training. At the same time, here at home a higher percentage of Americans is less confident of a successful conclusion in Iraq, 48 percent less confident to 41 percent. What's going wrong?

The President. Well, first let me talk about the Iraqi troops. The ultimate success in Iraq is for the Iraqis to secure their country. I recognize that; the American people recognize that. That's the strategy. The strategy is to work to provide security for a political process to go forward. The strategy is to help rebuild Iraq. And the strategy is to train Iraqis so they can fight off the thugs and the killers and the terrorists who want to destroy the progress of a free society.

Now, I would call the results mixed in terms of standing up Iraqi units who are willing to fight. There have been some cases where when the heat got on, they left the battlefield. That's unacceptable. Iraq will never secure itself if they have troops that when the heat gets on, they leave the battlefield. I fully understand that. On the other hand, there were some really fine units in Fallujah, for example, in Najaf, that did their duty. And so the—our military trainers, our military leaders have analyzed what worked

and what didn't work. And I met with General Abizaid and General Casey in the White House last week. And I think it was before the—I think it was Thursday morning, if I'm not mistaken—I was going to say before the interminable press conference—I mean press party. Anyway. [Laughter]

Here's what—first of all, recruiting is strong. The place where the generals told me that we need to do better is to make sure that there is a command structure that connects the soldier to the strategy in a better way, I guess is the best way to describe it. In other words, they've got some generals in place and they've got foot soldiers in place, but the whole command structure necessary to have a viable military is not in place. And so they're going to spend a lot of time and effort on achieving that objective. And so the American people are taking a look at Iraq and wondering whether the Iraqis are eventually able—going to be able to fight off these bombers and killers. And our objective is to give them the tools and the training necessary to do so.

Q. What about that percentage, though, 48 to 41? More Americans losing confidence—

The President. You know, polls change, Dave. Polls go up. Polls go down. I can understand why people—they're looking on your TV screen and seeing indiscriminate bombing where thousands of innocent—or hundreds of innocent Iraqis are getting killed, and they're saying whether or not we're able to achieve the objective. What they don't see are the small businesses starting; 15 of the 18 provinces are relatively stable, where progress is being made; life is better now than it was under Saddam Hussein. And so there is—there are very hopeful signs.

But no question about it, the bombers are having an effect. You know, these people are targeting innocent Iraqis. They're trying to shake the will of the Iraqi people and, frankly, trying to shake the will of the American people. And car bombs that destroy young children or car bombs that indiscriminately bomb in religious sites are effective propaganda tools. But we must meet the objective, which is to help the Iraqis defend themselves and at the same time have a political process

to go forward. It's in our long-term interests that we succeed, and I'm confident we will.

I saw an interesting comment today by somebody, I think in the Karbala area or Najaf area, who said, "Look, what they're trying to do"—"they" being the terrorists—"are trying to create sectarian violence." He said, "They're not going to intimidate us from voting. People want to vote. People want to live in a free society." And our job in these tough times is to work and complete our strategy.

Yes, John [John King, Cable News Network]. And then John [John Roberts, CBS News].

Q. Mr. President, thank you.

The President. I had to work my way through all the mass medias.

Syria and Iran

Q. You mentioned that meeting with General Abizaid and General Casey. One of their complaints now and a complaint we have heard dating back more than a year ago, even to when combat was underway in Iraq, is what some called meddling, interference from Syria and Iran, people coming across the border, people going back across the border, sometimes money. Now they say meddling in the political process. What specifically is the problem now, in your view? And there are some who watch this and see a series of complaints from the administration, but they say, "Will there ever be consequences?"

The President. Well, the—yes, I spent some time talking to our generals about whether or not there are former Saddam loyalists in Syria, for example, funneling money to the insurgents. And my attitude is, if there's any question that they're there, we ought to be working with the Syrian Government to prevent them from either sending money and/or support of any kind. We have sent messages to the Syrians in the past, and we will continue to do so. We have tools at our disposal, a variety of tools, ranging from diplomatic tools to economic pressure. Nothing is taken off the table. And when I said the other day that I expect these countries to honor the political process in Iraq without meddling, I meant it. And, hopefully, those Governments heard what I said.

John.

Second Term Agenda/Social Security Reform

Q. Thank you, Mr. President. You've made Social Security reform the top of your domestic agenda for a second term. You've been talking extensively about the benefits of private accounts. But by most estimations, private accounts may leave something for young workers at the end but wouldn't do much to solve the overall financial problem with Social Security.

And I'm just wondering, as you're promoting these private accounts, why aren't you talking about some of the tough measures that may have to be taken to preserve the solvency of Social Security, such as increasing the retirement age, cutting benefits, or means testing for Social Security?

The President. Yes, I appreciate that question. First of all, let me put the Social Security issue in proper perspective. It is a very important issue, but it's not the only issue, very important issue we'll be dealing with. I expect the Congress to bring forth meaningful tort reform. I want the legal system reformed in such a way that we are competitive in the world. I'll be talking about the budget, of course. There is a lot of concern in the financial markets about our deficits, short-term and long-term deficits. The long-term deficit, of course, is caused by some of the entitlement programs, the unfunded liabilities inherent in our entitlement programs. I will continue to push on an education agenda. There's no doubt in my mind that the No Child Left Behind Act is meaningful, real, reform that is having real results. And I look forward to strengthening No Child Left Behind. Immigration reform is a very important agenda item as we move forward.

But Social Security as well is a big item. And I campaigned on it, as you're painfully aware, since you had to suffer through many of my speeches. I didn't duck the issue like others have done have in the past. I said this is a vital issue, and we need to work together to solve it. Now, the temptation is going to be, by well-meaning people such as yourself, John, and others here, as we run up to the issue, to get me to negotiate with myself in public, to say, you know, "What's this mean,

Mr. President? What's that mean?" I'm not going to do that.

I don't get to write the law. I will propose a solution at the appropriate time, but the law will be written in the Halls of Congress. And I will negotiate with them, with the Members of Congress, and they will want me to start playing my hand: "Will you accept this? Will you not accept that? Why don't you do this hard thing? Why don't you do that?" I fully recognize this is going to be a decision that requires difficult choices, John. Inherent in your question is, do I recognize that? You bet I do. Otherwise, it would have been done.

And so I am—I just want to try to condition you. I'm not doing a very good job, because the other day in the Oval when the press pool came in, I was asked about this, a series of question on—a question on Social Security with these different aspects to it. And I said, "I'm not going to negotiate with myself," and I will negotiate at the appropriate time with the law writers. And so thank you for trying.

The principles I laid out in the course of the campaign and the principles we laid out at the recent economic summit are still the principles I believe in. And that is, nothing will change for those near our Social Security; payroll—I believe you were the one who asked me about the payroll tax, if I'm not mistaken—will not go up.

And I know there's a big definition about what that means. Well, again, I will repeat, don't bother to ask me. Or you can ask me. I shouldn't—I can't tell you what to ask. It's not the holiday spirit. [*Laughter*] It is all part of trying to get me to set the parameters apart from the Congress, which is not a good way to get substantive reform done.

As to personal accounts, it is, in my judgment, essential to make the system viable in the out years to allow younger workers to earn an interest rate more significant than that which is being earned with their own money now inside the Social Security trust. But the first step in this process is for Members of Congress to realize we have a problem.

And so for a while, I think it's important for me to continue to work with members

of both parties to explain the problem. Because if people don't think there's a problem, we can talk about this issue until we're blue in the face, and nothing will get done. And there is a problem. There's a problem because now it requires three workers per retiree to keep Social Security promises. In 2040, it will require two workers per employee to meet the promises. And when the system was set up and designed, I think it was, like, 15 or more workers per employee. That is a problem. The system goes into the red. In other words, there's more money going out than coming in, in 2018. There is an unfunded liability of \$11 trillion. And I understand how this works. Many times, legislative bodies will not react unless the crisis is apparent, crisis is upon them. I believe that crisis is.

And so for a period of time, we're going to have to explain to Members of Congress, the crisis is here. It's a lot less painful to act now than if we wait.

Q. Can I ask a followup?

The President. No. [Laughter] Otherwise, it will make everybody else jealous, and I don't want that to happen.

Angle [Jim Angle, FOX News].

Personal Retirement Accounts

Q. Thank you, sir. Mr. President, on that point, there is already a lot of opposition to the idea of personal accounts, some of it fairly entrenched among the Democrats. I wonder what your strategy is to try to convince them to your view? And specifically, they say that personal accounts would destroy Social Security. You argue that it would help save the system. Can you explain how?

The President. I will try to explain how without negotiating with myself. It's a very tricky way to get me to play my cards. I understand that. I think what you—people ought to do is to go look at the Moynihan Commission report. The other day, in the discussions at the economic summit, we discussed the role of a personal account, in other words, what—how a personal account would work. And that is, the people could set aside a negotiated amount of their own money in an account that would be managed by that person, but under serious guidelines. As I said, you can't use the money to go to

the lottery or take it to the track. There would be—it's like the—some of the guidelines that some of the Thrift Savings Plans right here in the Federal Government.

And the younger worker would gain a rate of return which would be more substantial than the rate of return of the money now being earned in the Social Security trust. And over time, that rate of return would enable that person to be—have an account that would make up for the deficiencies in the current system. In other words, the current system can't sustain that which has been promised to the workers. That's what's important for people to understand, the higher rate of return on the negotiated amount of money set aside would enable that worker to more likely get that which was promised.

Now, the benefits, as far as I'm concerned, of the personal savings account, is, one, it encourages an ownership society. One of the philosophies of this Government is, if you own something, it is—it makes the country a better—if more people own something, the country is better off. You have a stake in the future of the country if you own something. Secondly, it's capital available for—when people save, it provides capital for entrepreneurial growth and entrepreneurial expansion, which is positive. In other words, it enhances savings. And thirdly, it means that people can take their own assets, their own retirement assets, and pass them on, if they so choose, to their family members, for example. That's positive. That's a step.

The Social Security system was designed in a—obviously, in an era that is long gone, and it has worked in many ways. It's now in a precarious position, and the question is whether or not our society has got the will necessary to adjust from a defined benefit plan to a defined contribution plan. And I believe the will will be there, but I'm under no illusions. It's going to take hard work. It's going to take hard work to convince a lot of people, some of whom would rather not deal with the issue—why deal with the issue unless there is a crisis?—and some of whom have got preconceived notions about the benefits of what may be possible.

Okay, let's get away from the media. Yes, Carl [Carl Cannon, National Journal], thank

you. I accused Carl of trying to look like Johnny Damon. [*Laughter*]

Timetable for Iraq/Training Iraqi Forces

Q. Mr. President, it's—140,000 Americans are spending this Christmas in Iraq, as you know, some of them their second Christmas there. Now, you outlined your vision for Iraq, both in your statement and in response to David Gregory. My question is, how long do you think it will take that vision to be realized, and how long will those troops be there?

The President. No, it's a very legitimate question, Carl. And I get asked that by family members I meet with, and people say, "How long do you think it will take?" And my answer is, you know, we would like to achieve our objective as quickly as possible. It is our commander—again—I can—the best people that reflect the answer to that question are people like Abizaid and Casey, who are right there on the ground. And they are optimistic and positive about the gains we're making.

Again, I repeat, we're under no illusions that this Iraqi force is not ready to fight. They're—in toto, there are units that are, and that they believe they'll have a command structure stood up pretty quickly, that the training is intense, that the recruitment is good, the equipping of troops is taking place. So they're optimistic that as soon as possible it can be achieved. But it's—I'm also wise enough not to give you a specific moment in time because, sure enough, if we don't achieve it, I'll spend the next press conference I have with you answering why we didn't achieve this specific moment.

Sanger [David Sanger, New York Times].

North Korea/Iran

Q. Thank you, Mr. President. You spent a good deal of time before the Iraq war, some in this room, explaining to us why the combination of Saddam Hussein as a dictator and the weapons that you thought at the time he had assembled made a case for regime change. In the case of North Korea and Iran, you have not declared yourself on the question of regime change, though North Korea, your intelligence agencies believe, may have added six or seven nuclear weapons in the past 2 years. And Iran seems to have a covert

program, or at least your Government believes it does. Where do you stand on regime change? And how would it be accomplished?

The President. I'll tell you where I stand, David. I stand on the—continuing the six-party talks with North Korea to convince Kim Chong-il to give up his weapons systems. As you might remember, our countries tried a strategy of bilateral relationships in hopes that we can convince Kim Chong-il. It didn't work. As a matter of fact, when we thought we had in good faith agreed to an agreement—I mean, agreed to a plan that would work, he, himself, was enriching uranium, or saw to it that the uranium was enriched. In other words, he broke the agreement.

I think it's an important lesson for this administration to learn and that the best way to convince him to disarm is to get others to weigh in as well—the Iranian situation as well. We're relying upon others, because we've sanctioned ourselves out of influence with Iran, to send a message that we expect them to—in other words, we don't have much leverage with the Iranians right now, and we expect them to listen to those voices, and we're a part of the universal acclaim.

I believe that—and so, therefore, we're dealing—this is how we're dealing with the issue. And it's much different between the situation in Iraq and Iran because of this. Diplomacy had failed for 13 years in Iraq. As you might remember, and I'm sure you do, all the U.N. resolutions that were passed out of the United Nations, totally ignored by Saddam Hussein.

And so diplomacy must be the first choice and always the first choice of an administration trying to solve an issue of, in this case, nuclear armament. And we'll continue to press on diplomacy.

Now, in terms of my vision for the future of the world, I believe everybody ought to be free. I believe the world is more peaceful as liberty takes hold. Free societies don't fight each other. And so we'll work to continue to send a message to reformers around the world that America stands strong in our belief that freedom is universal, and that we hope at some point in time, everybody is free.

Yes.

Federal Spending/Budget Process

Q. Thank you, Mr. President. You talked earlier about the importance of spending discipline in the Federal budget, but you went your entire first term without vetoing a single spending bill, even though you had a lot of tough talk on that issue in your first term. And I'm wondering, this time around, what are you going to do to convince Congress you really are serious about cutting Federal spending? Will you veto spending bills this time?

The President. Here's what happened. I submitted a budget, and Congress hit our number, which is a tribute to Senator Hastert and—I mean, Senator Frist and Speaker Hastert's leadership. In other words, we worked together. We came up with a budget, like we're doing now. We went through the process of asking our agencies, "Can you live with this," and, "If you don't like it, counter-propose."

And then we came up with a budget that we thought was necessary, and we took it to the leadership, and they accepted the budget. And they passed bills that met our budget targets. And so how could you veto a series of appropriations bills if the Congress has done what you've asked them to do?

Now, I think the President ought to have a line-item veto, because within the appropriations bills there may be some differences of opinion on how the money is being spent. But overall, they have done a superb job of working with the White House to meet the budget numbers we submitted, and so the appropriations bill I just signed was one that conformed with the budget agreement we had with the United States Congress. And I really do appreciate the leadership not only of Speaker Hastert and Senator Frist but also the budget committee chairman. I talked to Senator Gregg this morning, as a matter of fact, who's running—he'll be heading the budget committee in the United States Senate.

And we're working very closely with Members of Congress as we develop the budget. And it's going to be a tough budget, no question about it, and it's a budget that I think will send the right signal to the financial markets and to those concerned about our short-term deficits. As well, we've got to deal with

the long-term deficit issues. That's the issue that John Roberts talked about, which is the unfunded liabilities when it comes to some of the entitlement programs.

Ed [Ed Chen, Los Angeles Times].

Social Security Reform

Q. Good morning, Mr. President. I'd like to ask you, on Social Security, you said that you don't like to come to the table with—having negotiated with yourself. Yet, you have ruled out tax cuts and no cuts in benefits for the retired and the near-retired. I wonder how you square that statement. And also, what do you—in your mind, what is near-retired?

The President. Yes, well, that's going to fall in the negotiating with myself category. But look, it was very important for me in the course of the campaign, and it's going to be very important for all of us who feel like we have a problem that needs to be fixed, to assure Americans who are on Social Security that nothing will change.

Part of the problem, politically, with this issue in the past, Ed, as you know, is the minute you bring up Social Security reform, people go running around the country saying, "Really what he says is he's going to take away your check," or "That which you have become dependent upon will no longer be available for you to live on." And so, therefore, part of setting the stage or laying the groundwork for there to be a successful reform effort is assuring our seniors that they just don't have to worry about anything. When they hear the debate that is taking place on the floor of the Congress, they just need to know that the check they're getting won't change, that promises will be met, that, you know, if there is to be an increase in their check, they'll get their check. In other words, the formula that has enabled them to the—to a certain extent—the formula they're relying on won't change, let me put it that way. I was trying to be really brilliant.

Now, what was the other part of your question?

Q. If I could just follow up. Why—

The President. Is this a followup or part of the question?

Q. You asked, though. [Laughter]

The President. Okay, yes, you're right. [Laughter]

Medicare Reform

Q. Why did you choose to take on Social Security and not Medicare, which some people believe is a worse problem?

The President. Well, I appreciate that, Ed, but we did take on Medicare. And it was the Medicare reform bill that really began to change Medicare as we knew it. In other words, it introduced market forces for the first time. It provided a prescription drug coverage for our seniors, which I believe will be cost effective. I recognize some of the actuaries haven't come to that conclusion yet. But the logic is irrefutable, it seems like to me, that if the Government is willing to pay \$100,000 for heart surgery but not a dime for the prescription drug that would prevent the heart surgery from happening in the first place, aren't we saving money when we provide the money necessary to prevent the surgery from being needed in the first place? I think we are. That's one of the differences of opinion that I had with the actuaries.

I readily concede I'm out of my lane. I'm not pretending to be an actuary. But I know that we made progress in modernizing the Medicare system. And there's more work to be done, no question about it. But as you know, it's a 3-year phase-in on Medicare—or 2-year phase-in from now. And in 2006, the prescription drug coverage will become available for our seniors. And I look forward to working with Members of Congress to make sure the Medicare system is solvent in the long run.

Let's have somebody new. Mike [Mike Allen, Washington Post], you want to—no, you're not new. [Laughter] That is a cheap shot. Go ahead—that is generous.

Immigration Reform

Q. Thank you. [Laughter] Yes, Mr. President—

The President. Yes, Mike, welcome.

Q. —since early in your first term you've talked about immigration reform, but yet, people in your own party on the Hill seem opposed to this idea. And you've gotten opposition even on the other side. Do you plan

to expend some of your political capital this time to see this through?

The President. Yes, I appreciate that—well, first of all, welcome. I'd like to welcome all the new faces—some prettier than others, I might add. [Laughter]

Yes, I intend to work with Members of Congress to get something done. I think this is an issue that will make it easier for us to enforce our borders. And I believe it's an issue that is—that will show the—if when we get it right, the compassionate heart of American people. And no question, it's a tough issue, just like some of the other issues we're taking on. But my job is to confront tough issues and to ask Congress to work together to confront tough issues.

Now let me talk about the immigration issue. First, we want our Border Patrol agents chasing crooks and thieves and drugrunners and terrorists, not good-hearted people who are coming here to work. And therefore, it makes sense to allow the good-hearted people who are coming here to do jobs that Americans won't do a legal way to do so. And providing that legal avenue, it takes the pressure off the border.

Now, we need to make sure the border is modern, and we need to upgrade our Border Patrol. But if we expect the Border Patrol to be able to enforce a long border, particularly in the south—and the north, for that matter—we ought to have a system that recognizes people are coming here to do jobs that Americans will not do. And there ought to be a legal way for them to do so. To me, that is—and not only that, but once the person is here, if he or she feels like he or she needs to go back to see her family, to the country of origin, they should be able to do so within a prescribed—in other words, and the card, the permit would last for a prescribed period of time. It's a compassionate way to treat people who come to our country. It recognizes the reality of the world in which we live. There are some people—there are some jobs in America that Americans won't do and others are willing to do.

Now, one of the important aspects of my vision is that this is not automatic citizenship. The American people must understand that, that if somebody who is here working wants to be a citizen, they can get in line like those

who have been here legally and have been working to become a citizen in a legal manner.

And this is a very important issue, and it's a—and I look forward to working with Members of Congress. I fully understand the politics of immigration reform. I was the Governor of Texas, right there on the frontlines of border politics. I know what it means to have mothers and fathers come to my State and across the border of my State to work. Family values do not stop at the Rio Grande River, is what I used to tell the people of my State. People are coming to put food on the table; they're doing jobs Americans will not do.

And to me, it makes sense for us to recognize that reality and to help those who are needing to enforce our borders; legalize the process of people doing jobs Americans won't do; take the pressure off of employers so they're not having to rely upon false IDs; cut out the "coyotes" who are the smugglers of these people, putting them in the back of tractor trailers in the middle of August in Texas, allowing people to suffocate in the back of the trucks; stop the process of people feeling like they've got to walk miles across desert in Arizona and Texas in order just to feed their family, and they find them dead out there. I mean, this is a system that can be much better.

And I'm passionate on it because the nature of this country is one that is good-hearted and compassionate. Our people are compassionate. The system we have today is not a compassionate system. It's not working. And as a result, the country is less secure than it could be with a rational system.

Yes, sir. Let us take it overseas, across the pond.

Usama bin Laden/Guantanamo Detainees

Q. Thank you very much, Mr. President. I wonder whether I could ask you two central questions about the war on terrorism. The first one is, do you have a sense of where Usama bin Laden is and why the trail on him seems to have gone cold? And secondly, how concerned are you by the reports of torture, to use your word, the interminable delays to justice, for the detainees held in Guantanamo and how much that damages America's rep-

utation as a nation which stands for liberty and justice internationally?

The President. Right, thank you. If I had to guess, I would guess that Usama bin Laden is in a remote region on the Afghan-Pakistan border. But I don't have to guess at the damage we have done to his organization. Many of his senior operators have been killed or detained. Pakistan Government has been aggressive in pursuit of Al Qaida targets in Waziristan.

And I appreciate the work of President Musharraf. He came the other day, on a Saturday morning, to the White House, and it was an opportunity to thank him once again for some of the bold steps he's taken. And Al Qaida is dangerous, no question about it. But we've got a good strategy, and it's a strategy that requires cooperation with other nations, and the cooperation has been great when it comes to sharing intelligence and cutting off finances and arresting people or killing people. We'll stay on the hunt.

In terms of the second part of your—oh, the damage. Look, we are a nation of laws and to the extent that people say, "Well, America is no longer a nation of laws," that does hurt our reputation. But I think it's an unfair criticism. As you might remember, our courts have made a ruling. They looked at the jurisdiction, the right of people in Guantanamo to have habeas review, and so we're now complying with the court's decisions. We want to fully vet the court decision, because I believe I have the right to set up military tribunals. And so the law is working to determine what Presidential powers are available and what's not available. We're reviewing the status of the people in Guantanamo on a regular basis. I think 200 and some-odd have been released. But you've got to understand the dilemma we're in. These are people that got scooped up off a battlefield, attempting to kill U.S. troops. I want to make sure, before they're released, that they don't come back to kill again.

I think it's important to let the world know that we fully understand our obligations in a society that honors rule of law to do that. But I also have an obligation to protect the American people, to make sure we understand the nature of the people that we hold, whether or not there's possible intelligence

we can gather from them that we could then use to protect us. So we'll continue to work the issue hard.

Let's see here, yes, Hutch [Ron Hutcheson, Knight Ridder]. Go ahead and yell it out, Hutch.

Defense Secretary Rumsfeld

Q. Going for another new face, huh?

The President. Yes. [Laughter]

Q. I'd like to go back to Secretary Rumsfeld—

The President. It's not a pretty face. [Laughter]

Q. Thank you. [Laughter] You talked about the big picture elements of the Secretary's job, but did you find it offensive that he didn't take the time to personally sign condolence letters to the families of troops killed in Iraq? And if so, why is that an offense that you're willing to overlook?

The President. Listen, I know how—I know Secretary Rumsfeld's heart. I know how much he cares for the troops. He and his wife go out to Walter Reed and Bethesda all the time to provide comfort and solace. I have seen the anguish in his—or heard the anguish in his voice and seen his eyes when we talk about the danger in Iraq and the fact that youngsters are over there in harm's way. And he is—he's a good, decent man. He's a caring fellow. Sometimes, perhaps, his demeanor is rough and gruff, but beneath that rough and gruff, no-nonsense demeanor is a good human being who cares deeply about the military and deeply about the grief that war causes.

Deans [Bob Deans, Cox Newspapers].

Situation in the Middle East

Q. Mr. President, I want to kick forward to the elections in Gaza in a few weeks if I could, please. As you know, Presidents back to Carter have searched for a solution to the Palestinian-Israeli conflict. Your dad worked hard for it. Your predecessor said once it was like going to the dentist without getting your gums numbed. I'm wondering what great—

The President. Guy had a way with words. [Laughter]

Q. I'm wondering, sir, what lesson you draw, though, from their efforts, how you

think the war in Iraq may, at this point, have improved prospects for a Mideast peace, and whether you think you might sit in that diplomatic dental chair yourself this year?

The President. I've been in the diplomatic dental chair for 4 years. This is an issue we talk about a lot, but it became apparent to me that peace would never happen so long as the interlocutor in the peace process was not really dedicated to peace or dedicated to a state.

I was at—look, I gave the speech June 24, 2002, in the Rose Garden that laid out the vision about how to achieve—at least from my point of view, how to achieve a peaceful solution and something that I hope happens. But I'm realistic about how to achieve peace, and it starts with my understanding that there will never be peace until a true democratic state emerges in the Palestinian territory. And I'm hopeful right now because the Palestinians will begin to have elections, have—will have elections, which is the beginning of the process toward the development of a state. It is not the sign that democracy has arrived. It is the beginning of a process.

And we look forward to working with Israel to uphold her obligations to enable a Palestinian state to emerge. But we've got a good chance to get it done. And I just want the people—and I know the world is wondering whether or not this is just empty rhetoric or does—do I really believe that now is the time to move the process forward. And the answer is, now is the time to move the process forward. But we cannot shortcut the process by saying, you know, "Well, the Palestinians can't self-govern. They're not suitable for a democracy."

I subscribe to this theory, that the only way to achieve peace is for there to be democracies living side by side. Democracies don't fight each other. And the last system didn't work, which was the hope that a Palestinian Authority, run by a singular head who on some days would say, "We're for peace," and some days would say, "Now is the time to attack," hope that everything would be fine. It just didn't work.

So I look forward to working with the world, the new Secretary of State, to work with the Palestinians to develop the structures necessary for a democracy to emerge.

And I appreciate the fact that Prime Minister Tony Blair is willing to help that process by holding a conference with Palestinians that will help develop the state. And if the free world focuses on helping the Palestinians develop a state and there is leadership willing to accept the help, it's possible to achieve peace. And there are responsibilities for all parties. The Palestinians have responsibilities. The Israelis have responsibilities. The Americans have responsibilities. The EU has responsibilities. But we all have got to keep the big vision in mind in order to achieve the objective.

Listen, thank you all very much. I wish everybody—truly wish everybody a happy holidays. For those of you coming to Crawford, I look forward to not seeing you down there. [*Laughter*]

Thank you all.

Crawford Pirates

Q. Are you going to the Rose Bowl?

The President. No, I won't be going to the Rose Bowl. I'll be watching the Rose Bowl.

And by the way, in case you're not following high school football in Texas—atta boy, Jackson [David Jackson, Dallas Morning News]—the Crawford Pirates are the State 2A, Division II champs. And we look forward—don't we—to wave the championship banner above the Crawford High School.

All right, happy holidays.

NOTE: The President's news conference began at 10:32 a.m. in Room 450 of the Dwight D. Eisenhower Executive Office Building. In his remarks, he referred to President Hamid Karzai of Afghanistan; President Vladimir Putin of Russia; former President Saddam Hussein of Iraq; Gen. John P. Abizaid, USA, combatant commander, U.S. Central Command; Gen. George W. Casey, USA, commanding general, Multi-National Force—Iraq; professional baseball player Johnny Damon; Chairman Kim Chong-il of North Korea; Osama bin Laden, leader of the Al Qaida terrorist organization; President Pervez Musharraf of Pakistan; Joyce Rumsfeld, wife of Secretary of Defense Donald H. Rumsfeld; and Prime Minister Tony Blair of the United Kingdom. He also referred to the President's Commission to Strengthen Social Security (Moynihan Commission). The Office of the Press Secretary also released a Spanish language transcript of this news conference.

Proclamation 7857—To Implement the United States-Australia Free Trade Agreement

December 20, 2004

By the President of the United States of America

A Proclamation

1. On May 18, 2004, the United States entered into the United States-Australia Free Trade Agreement (USAFTA). The USAFTA was approved by the Congress in section 101(a) of the United States-Australia Free Trade Agreement Implementation Act (the "USAFTA Act") (Public Law 108-286, 118 Stat. 919) (19 U.S.C. 3805 note).

2. Section 105(a) of the USAFTA Act authorizes the President to establish or designate within the Department of Commerce an office that shall be responsible for providing administrative assistance to panels established under Chapter 21 of the USAFTA.

3. Section 201 of the USAFTA Act authorizes the President to proclaim such modifications or continuation of any duty, such continuation of duty-free or excise treatment, or such additional duties, as the President determines to be necessary or appropriate to carry out or apply Articles 2.3, 2.5, and 2.6, and the schedule of reductions with respect to Australia set forth in Annex 2-B, of the USAFTA.

4. Section 203 of the USAFTA Act provides certain rules for determining whether a good is an originating good for the purpose of implementing preferential tariff treatment under the USAFTA. I have decided that it is necessary to include these rules of origin, together with particular rules applicable to certain other goods, in the Harmonized Tariff Schedule of the United States (HTS).

5. Section 206 of the USAFTA Act authorizes the President to take certain enforcement actions relating to trade with Australia in textile and apparel goods.

6. Sections 321-328 of the USAFTA Act authorize the President to take certain actions in response to a request by an interested party for relief from serious damage or actual threat thereof to a domestic industry producing certain textile or apparel articles.