That Awesome Warren Buffett CNBC Interview

Henry Blodget | Aug 22, 08 11:23 AM

There's a reason Warren Buffett is so revered: Because he deserves to be.

It's a tall order to get up at 5am and speak for three hours and never say anything that isn't wise, charming, or funny. Sure, it helps to have CNBC's lovely Becky Quick sitting right there, but that's not the source of Warren's wisdom.

Full three-hour transcript here (with minor deletions), courtesy of CNBC. If you don't have time to read it now, save it for the weekend.

BECKY QUICK, co-anchor (Omaha, Nebraska):

Good morning, everybody and welcome to SQUAWK BOX right here on CNBC. This morning we have quite a show in store for you coming up today. As you probably know, our special guest for the next three hours is a man who needs no introduction. We are talking about Warren Buffett.

And, Warren, good morning. Thank you for joining us this morning.

Mr. WARREN BUFFETT (Berkshire Hathaway Chairman & CEO): Yeah, early morning, right.

QUICK: Very early morning. You've only had a couple of complaints about that, right?

Mr. BUFFETT: No, I try not to complain too much...

QUICK: One of the things we'd like to get straight to...is what you see happening in the economy right now. We've been talking to you for some time about what you see as some significant problems in the economy. And, from your perspective, have things gotten any better? Have they gotten any worse?

Mr. BUFFETT: No, they've rippled out some, and that's what you'd expect. So the excesses in credit, the deleveraging that was required, the weak credits that are exposed, all that is--we're seeing manifestations out as the ripples go out, and **I think I said one time that, you know, you only find out who's been swimming naked when the tide goes out. Well, we found out that Wall Street has been kind of a nudist beach**. There's--it's just one discovery after another of firms that either didn't know what they were doing or that did things that they shouldn't have knowingly. And all of the troubles have not been revealed the first time around, usually, so there's considerable disillusionment that's set in in terms of are these guys telling us the truth now or maybe they just don't know what the truth is. So all of that's having an effect, and what we're seeing in business, in our retail businesses...

QUICK: Mm-hmm.

Mr. BUFFETT: ...certainly, **anything to do with housing is even a further slowing down**. I mean, June and July, both in terms of credit experience with people that first got into trouble of house payments and now on credit card payments and so on. And retail trade, it's not over by a long shot.

QUICK: Does that make you think that things are going to continue to decline over the next, let's say, six months?

Mr. BUFFETT: Oh, I think they could easily go beyond that, yeah.

QUICK: What's your prognosis, or what's your best guess or your best estimate of what...

Mr. BUFFETT: You never know. **I've said in the past it ought to be longer and deeper, and I think it is going to be longer and deeper, but no one knows when--what you do know is that it will turn around. I mean, the country will be doing far better five years from now than it is now, but it won't be, in my judgment, it probably won't be doing better five months from now.**

QUICK: You talk about how this has rippled out and it's affecting the consumer at this point. Have the credit markets themselves gotten any better?

Mr. BUFFETT: Well, the credit markets have had this situation where periodically it's seemed like they were getting better and then something else comes along. So the bankers feel a little bit better for a while and then something comes along and then they want to deleverage further. They find out they've got more trouble. Right now, for example, they're taking back all these auction rate securities. Well, they don't want to take things out of their balance sheet. So it's just one more problem for them, and you've seen these waves of problems and sometimes they create their own momentum. I mean, if the stock prices go down enough of the banks, then they feel like they can't sell securities. Of course, the extreme example was Freddie Mac was--has sort of been chasing a rabbit down the hill...

QUICK: Right.

Mr. BUFFETT: ...and promised they would raise additional money and of course the price of the stock got to the point where it became ridiculous. So troubles feed on themselves.

QUICK: Let's talk about Fannie Mae and Freddie Mac, specifically. These are two stocks that it seems like every time you turn around are touching new low levels. There's a lot of concern out there on the market about these two stocks right now. What's your general take on how they got here and what you think's going to happen next?

Mr. BUFFETT: Well, how they got here was they had two businesses, basically.

QUICK: Mm-hmm.

Mr. BUFFETT: They insured mortgages on a huge scale, trillions, and then they ran sort of a hedge fund, a carry trade where they bought mortgages and borrowed extensively against them. And because they had really the backing of the United States government--and everybody assumed they had the backing. I assumed it. And the truth is they do have the backing of the United States government in terms of their debt, not in terms of their equity--they were able to borrow without any normal restraints in terms of capital or margin requirements or anything of the sort. They had a blank-check from the federal government.

QUICK: Mm-hmm.

Mr. BUFFETT: And they also had an added problem in that they had a dual mission. The government expected them to promote housing and the stockholders expected them to raise the earnings substantially every year. And as the years went by, they emphasized the latter more and more. They started talking about "steady Freddie," and **Fannie Mae said, `We're going to increase the earnings at 15 percent a year.' Any large financial institution that tells you that sort of thing is giving you a line of baloney. I mean, they may do it for a while, but when they can't do it with operations, they do it with accounting and they cheat. And that's what happened at both those places on a huge, huge scale.**

And we have this--they're so wound up with national housing policy, that they're a national problem and, with this dual situation, you know, Lincoln said a house divided against itself, you know, must fall. And they existed half-slave, half-free for a long time, and then the motivations became in conflict, and when they got on the 15 percent a year merry-go-round and said, you know, `We're going to deliver earnings up every quarter, and we'll meet them to the penny,' when they can't do it operationally, they do it with accounting.

QUICK: So what happens now? You mentioned that this is all tied up with the national housing situation now. Are they two big to fail, and what does that mean?

Mr. BUFFETT: Yeah, they're too big to fail.

QUICK: Yeah.

Mr. BUFFETT: So that doesn't mean that the equity can't get wiped out, and it almost has in the stock market, and **in practical sense as institutions, they don't have any net worth. I mean, if you look at their obligations and look at the fact they have big deferred tax assets as assets. They would've been gone in any market where the government wasn't behind them long, long ago.** But the government is behind them, and they will stay behind them, and people that own insured mortgages or who own their debt, I think--nothing's going to happen to them. **The equity and the preferred stock is another question and I think you'll see some action fairly soon.** You've already seen it in the fact that the Treasury has made pretty much explicit what was formerly implicit.

QUICK: Do you say that knowing anything? Do you know there's a behind-the-scenes plan?

Mr. BUFFETT: No. I don't know. No. They--I'm not getting called on it.

QUICK: OK. You're not getting called on this, but you do...(unintelligible).

Mr. BUFFETT: I'm not getting called on that specific aspect of it.

QUICK: All right. Now you're telling me we're warm.

Mr. BUFFETT: They're looking--they're looking for help, obviously.

QUICK: Right.

Mr. BUFFETT: And **the scale of help needed is such that I don't think it can come from the private sector.**

QUICK: So there could have been a situation where you've been called in the past and you passed on any involvement?

Mr. BUFFETT: Yes. T**hey were looking for--they, obviously, had been looking for money.** They say that.

QUICK: Mm-hmm.

Mr. BUFFETT: And they were told to look for money and--but **even the amount of money they were told to look for would be inadequate. I mean, 5 1/2 billion at Freddie would be, you know, that'd be like taking a spoonful out of the Atlantic to try and save the Titanic.**

QUICK: How much to you think they need?

Mr. BUFFETT: They need a lot. But to get back to the confidence that they had and all of that, it takes far more now. I mean, an ounce of prevention really is worth a pound of cure.

QUICK: If you imagine where things will go with Fannie and Freddie, and you think about the regulators, where were the regulators for what was happening, and can something like this be prevented from happening again?

Mr. BUFFETT: Well, it's really an incredible case study in regulation because something called OFHEO was set up in 1992 by Congress, and the sole job of OFHEO was to watch over Fannie and Freddie, someone to watch over them. And they were there to evaluate the soundness and the accounting and all of that. Two companies were all they had to regulate. OFHEO has over 200 employees now. They have a budget now that's $65 million a year, and all they have to do is look at two companies. I mean, you know, I look at more than two companies.

QUICK: Mm-hmm.

Mr. BUFFETT: **And they sat there, made reports to the Congress, you can get them on the Internet, every year. And, in fact, they reported to Sarbanes and Oxley every year. And they went--wrote 100 page reports, and they said, `We've looked at these people and their standards are fine and their directors are fine and everything was fine.' And then all of a sudden you had two of the greatest accounting misstatements in history. You had all kinds of management malfeasance, and it all came out. And, of course, the classic thing was that after it all came out, OFHEO wrote a 350--340 page report examining what went wrong, and they blamed the management, they blamed the directors, they blamed the audit committee. They didn't have a word in there about themselves, and they're the ones that 200 people were going to work every day with just two companies to think about. It just shows the problems of regulation.**

QUICK: That sounds like an argument against regulation, though. Is that what you're saying?

Mr. BUFFETT: It's an argument explaining--it's an argument that **managing complex financial institutions where the management wants to deceive you can be very, very difficult. Or even when the management doesn't know what's going on, and--just take Bear Stearns.** Bear Stearns had--I read it, anyway--750,000 derivative contracts. Now, you know, I could clone Albert Einstein, you know, and--many, many times and have him work 12-hour days for me and he would not be able to keep track of what's going on in an institution like that. It's--the ones that are too big to fail may be too big to manage, in some cases. And they're particularly difficult to manage if they're promising Wall Street and their investors that they're going to do things that can't be done.

QUICK: You've come out and said derivatives are the weapons of financial mass destruction before. But you use derivatives, too.

Mr. BUFFETT: That's right. I don't say they're evil, per se.

QUICK: Yeah.

Mr. BUFFETT: I just say that once the genie opened the bottle on those many years ago, that their proliferation, their variation, their inability to be valued and their ability to allow institutions to pile up leverage like the world has never seen can cause great systemic problems. And that doesn't mean, you know--it's like gun powder or water. You can do damage with a lot of things, but these have systemic--they pose systemic risks. And incidentally, the government recognizes this. I mean, you've had a task force working on, you know, what do we do to prevent these things from causing a real problems? But they have caused problems so far. I don't think they're going to cause problems at Berkshire Hathaway. I know every single derivative contract we have. Now, when we bought Gen Re, they had 23,000 plus contracts.

QUICK: Mm-hmm.

Mr. BUFFETT: There was no way in the world I can get my mind around that. I mean, if I--if I had spent full time and had all kinds of assistants and everything, I never would've known what was in those contracts. We had one contract that was due in 100 years, so that meant that for 100 years some guy at our place put a mark on it every day and some guy at another place put a mark and they got their bonuses based on it. I mean, that is a system that is guaranteed to cause trouble. And so I got out of the business. It took me four years under benign market conditions, and we lost $400 some million in the process. So they are dangerous things. The ones we put on may be dangerous things, too, but I do know every contract, and I know what my gain-loss arrangement is and nobody else marks them. I mean, I keep track of it.

QUICK: You do it yourself on every one. OK. Warren, we have a lot more to talk about with you this morning. We'd like to get to some of your holdings, more on the economy, but we also are going to take a very quick pause right now for a quick break.

QUICK: All right, welcome back, everybody. You know, Warren, we know that you are a huge sports fan. You're somebody who watches all sorts of things, and, of course, one of your major holdings, Coca-Cola, so what better way to tie all this up than Coca-Cola, sports, you've got one of the major sponsors of the Olympics here.

Let's bring Carl back into this conversation from Beijing. And appropriately, yeah, Warren is holding up his Coca-Cola just right now, Carl. So, as always, he's got a cherry Coke by his side.

CARL QUINTANILLA, co-host: Cherry Coke, yes.

QUICK: Yeah, cherry Coke by his side. And, Warren, we've been talking all things Olympics the whole way through. What do you think about Coca-Cola and the major sponsorship that it has with the Olympics?

Mr. BUFFETT: Well, it has a long, long history with the Olympics, and it--it's very important. I mean, **Coca-Cola wants to be associated with happiness around the world.** Every major event they want to be here. And it's important--with a brand, there's something in the mind about a brand. I mean, you have something in your mind about Coca-Cola or--but you don't have anything in your mind about RC Cola because they've never been, you know. So we want that--we want that brand to be associated with something like the Olympics where there's happiness, where there's competition, where the nations are getting together. It's a venue we could not skip.

QUICK: There have been people in the past who have said, `Hey, these sponsorships get more and more expensive.' There are other ways that other companies can kind of make their way in...

Mr. BUFFETT: Yeah.

QUICK: ...without paying. Is that an option for Coca-Cola down the road?

Mr. BUFFETT: No, I--Coca-Cola would never be going on a country road when the interstate's available. And it's--we're not--we're not there to be around the edges, we're there to be front and center.

QUICK: You know, Carl, we've been talking earlier in the week about what some of the Chinese media had been reporting about Buffett, about Bill Gates. What have people been saying?

QUINTANILLA: Well, I think--I think the Coke comments are interesting, Warren. We interviewed the chief marketing officer from Coke here last week, and of all the Olympic sponsors, right, the global sponsors, the GEs of the world, the Lenovos, in China the poll numbers show that they associate the Olympics the most of all the sponsors with Coke. So the marketing machine is obviously working. We did--we did talk earlier in the week back--maybe it was last week--about Pangu Plaza, the big hotel and office park...

QUICK: Right.

QUINTANILLA: ...and shopping mall that's over my shoulder here. And The Times did that story earlier in the week about whether or not Bill Gates had rented out a penthouse for a year, and whether or not Warren was staying there.

Any truth to that at all, Warren?

Mr. BUFFETT: No, I'd actually talked about going to the Olympics a little bit with Bill, but I'm the kind of guy that has to have it explained to me on television what happened, you know, that I just saw. So I enjoy it enormously watching it on television, and Bill was over there for a week. Although the day or two before he went over he was playing at a bridge tournament in Omaha and then he came back to Omaha almost directly from the Olympics after about a week over there.

QUICK: So that wasn't you? You weren't--you weren't the one they spotted walking around in Beijing?

Mr. BUFFETT: No, that must be my double, George Clooney, actually that was spotted.

QUINTANILLA: Has--Warren, has the--have the games, in all seriousness, have the games made you think any differently about this part of the world--the world, western China, growth opportunities, the ability for American companies to operate effectively within a different government structure?

Mr. BUFFETT: Yeah, well, I was over there almost a year ago--Becky was with me--and I was blown away by what I saw. I'd been there--the time before that was 1995, and I really had never seen a country change so much in a--in a 12 or so year period, and clearly, when you think of the size of the country, to effect that sort of change. So I--no I've been a big believer in China before the Olympics and certainly they've put on a marvelous show during the Olympics. And--but I would have expected that. You get--you get a bunch of very, very bright people who care enormously about putting on a wonderful event, they're going to get the job done.

QUICK: What about Chinese stocks? Does--do those--does the stock market there interest you? You've been looking around the globe?

Mr. BUFFETT: Yeah, you know, you still can't buy stocks within China except under special circumstances.

QUICK: Right.

Mr. BUFFETT: But, yeah, I--we owned that PetroChina stock at one time. There's one other stock over there that we actually made a bid on here not so long ago, and it wasn't accepted. But it's a terrific--it's going to be a terrific area for business. So, under the right circumstances, you could see us with a lot of money there.

QUICK: What was the stock that you made the bid on?

Mr. BUFFETT: Oh, surprise, surprise. I never thought you'd ask.

QUINTANILLA: Nice, Beck.

Mr. BUFFETT: No, that--I have sort of a mind blankout after I learned...

QUICK: But it's not--it's not impossible to say that, yeah, you are continuing to look at stocks and you would make a bid from time to time if you found something that interested you.

Mr. BUFFETT: We made--we made a half a billion dollar bid on something, right.

QUICK: You made a half a billion dollar bid?

Mr. BUFFETT: Dollar bid, right.

QUICK: OK, if you don't remember the--if you don't remember the stock, what was the industry?

QUINTANILLA: Oh sure, now you tell us.

Mr. BUFFETT: Yeah, it's bigger than, yeah--you're good, but...

QUICK: But not that good. No dice on this one? All right, well, Carl...

Mr. BUFFETT: She thought she'd get me at 5 in the morning, folks, and I'd be punchy.

QUICK: Yes, and maybe you wouldn't quite be on the defensive just yet.

But, Carl, we do have about two and a half more hours where we can try and work on him and squeeze more details out, so...

QUINTANILLA: Yeah, I've heard--I've heard that if you get enough cherry Cokes in him, he will spill everything.

QUICK: We've got them lined up.

Mr. BUFFETT: It acts like truth serum, yeah. There's no question about that.

QUICK: Yeah, well we've got those cherry Cokes lined up, and we'll keep them coming.

All right, folks, coming up, we're going to go from Wall Street to Washington, as a new movie is out there creating some shock waves this morning. This movie is all about debt and why it could be putting the future of our country at risk. We'll get to the men behind the film who'll be joining us when SQUAWK BOX returns live from America's heartland.

QUICK: Welcome back, everybody, to this very special edition of SQUAWK BOX. Yeah, you hear the "Love Boat" music playing today. We are in Omaha where last night we got to watch a new movie premier that came out. We're going to be talking about that more. But we figured while we had Warren Buffett here and we're in this movie theater of sorts, Warren, we'd ask you about the first time you ever took a date to a movie theater.

Mr. BUFFETT: It was in eighth grade right here in Omaha, and a friend of mine wanted particularly to ask out one girl and he was afraid to go by himself, so he talked two others of us to each asking a girl. And we picked these girls up sequentially to go to the streetcar, and they lived miles apart. By the time we got to the streetcar they were all exhausted, and we came downtown to the movie. We picked a movie called "The Cat Woman" with Simone Simon and "The Mummy's Hand" with Lon Chaney. And we felt that the girls would get terrified and jump onto our laps or something of the sort. And what happened is, instead, we got terrified, and the boys jumped on each other's laps. The girls were very cool. We finally got them home, and I don't think anybody ever when on another date for about two years after that.

QUICK: All right, so it cured you the first time out. We'll take it as that. You know, Warren, we have a lot more to talk about with you today. That was a quick little fun one, but we also want to start asking you about some of the holdings of Berkshire Hathaway and where you see the economy going. We're going to get to all of that in just a few minutes.

BECKY QUICK, co-anchor (Omaha, Nebraska): We're in Omaha this morning, folks, for the world premiere of a new documentary that's resonating with Americans from Wall Street to Main Street. It is appropriately titled "I.O.U.S.A"... David Walker...served as comptroller general, and he plays a major part in this documentary. He's joining us this morning on set. And, Mr. Walker, thank you for being here today.

Mr. DAVID WALKER (Former U.S. Comptroller General): Good to be with both of you this morning.

QUICK: All right. Well, we were just listening to what you were talking about, a major problem that you've laid out. How serious and drastic is this problem, in your view?

Mr. WALKER: Well, I**--it talks about four deficits, the film does. The budget deficit, the savings deficit, the balance of payment/trade and the leadership.** I think they're all a problem. But the biggest problem's the leadership deficit. **We have too many people today focusing on short-term issues, not enough trying to take on structural problems to try to help make sure that our future is better than our past.**

QUICK: Mm-hmm.

Warren, you said at the beginning of the show you didn't necessarily agree with everything, but you do agree with taking a longer term look at some major problems out there.

Mr. WARREN BUFFETT: Absolutely. I admire what Dave's doing, that he--**the future does not--has not had much of a constituency in this country in recent years and, you know, it's because the electoral cycle's shorter than the policy cycle on many issues, and it's hard to get worried about what's going to happen 10 or 20 or 30 years out.** And we're feeling the effects of that in energy and, obviously, every fiscal decision you make today has an impact forever, really...

QUICK: Yeah.

Mr. BUFFETT: ...in the country. So I--like I say, I admire--I admire Dave and Pete Peterson in terms of what they've done here.

QUICK: David, you've been looking at the budget and studying these things for about a decade and a half and being really aware of every single thing that happened as the nation's chief auditor. When did you really get worried that things were headed down a terrible path?

Mr. WALKER: You know, I came in as auditor general of the United States, or the comptroller general, in 1988, and things were going pretty well. You know, we had tough budget controls in place, the economy was doing pretty well, we were moving to surplus, we had surpluses for four years in a row--although only one of them without the Social Security surplus. In 2002 the budget controls, the statutory ones that were in place that helped us take us from deficits to surpluses expired, and Washington totally lost control. It was more spending, enhanced entitlements, more tax cuts. Out of control.

QUICK: Is there a sense that right now--with American people facing some tougher times, with an economy that's in crisis, is there a sense that this is a message that's starting to resonate?

Mr. WALKER: Well, first, I've had the good fortune of being able to go to over half the states, over 40 cities...

QUICK: Right.

Mr. WALKER: ...over the last two years talking directly to the American people with others about this. They get it. The question is, do people in Washington get it? The risk is, is that, clearly, as Warren said, there are things that need to be done today. We do have challenges today. People are hurting today, and we need to do some things to deal with that. But we must also deal with our structural, systemic problems and not exacerbate the long range by doing things that might be good today but further mortgage our future.

QUICK: What--in short order, what would you like to see done if you had a wish list, maybe three things that could get done right away?

Mr. WALKER: Well, for the presidential candidates, I'll give them two things.

QUICK: OK.

Mr. WALKER: **Number one, publicly acknowledge that we're in a $53 trillion hole that gets deeper 2 to 3 trillion a year even if we balance the budget--unfortunately, we're headed the wrong way--and that they'll make addressing that a priority. And secondly, for them to endorse the need for a capable, credible and bipartisan commission to make recommendations to the next president and the next Congress for an up or down vote; things like budget controls, Social Security reform, round one of tax reform and round one of health care reform.** That would be a tremendous positive step.

QUICK: Warren, what do you think about that?

Mr. BUFFETT: Well, I think I--probably the second point I agree with more fully. I think that you've had situations like the Greenspan commission on Social Security...

QUICK: Right.

Mr. BUFFETT: ...back in 1982. There are times--**usually commissions are a waste of time. I mean, you know, the report goes in a drawer someplace and--I mean, just think of the last six or eight that you can recall and how much came out of them.** But there are occasions and, frankly, a time of recession would make the country more receptive. And you would need--you would need people on them that, in effect, the president couldn't ignore after the report came in. But there's--it makes perfectly good sense to have people that are smart, that care about the future of the country sit down. There are things we can do to improve ourselves always, and the time might be ripe for something like that.

QUICK: Mm-hmm. Dave:

Mr. WALKER: You know, we've got to learn how to walk and chew gum in Washington. You know, we need to be able to do more than one thing at a time. And that's why a commission is particularly critical, because we need to make progress on reinstituting budget controls. Social Security reform is easy. We can do that if we go about it the right way. Health care is the real challenge. And we do need tax reform, too. So if we had the right kind of commission with an up or down vote--and that's what's different from a number of the other recent commissions--then we could make progress on multiple fronts, and that's what we need.

QUICK: Have you reached out to the two campaigns? I mean, you said you've been across more than half the country. What about the two political candidates right now?

Mr. WALKER: Yes. I met with the top economic policy advisers of both of the campaigns--they both happen to be friends of mine--to help them understand where we're coming from in the foundation, what we believe is important. And I'm hopeful that the general election campaign will make fiscal responsibility and intergenerational equity a higher priority. But we'll wait and see.

QUICK: OK. You say that you're hopeful that the campaign will push that. Does that mean you didn't get a great reception from either one of these two when you sat down with them?

Mr. WALKER: Well, you know, that means most politicians like to gain votes rather than lose votes, OK? And that's why I think it's unrealistic to expect that they're going to get to a great level of specificity about, `Well, this is exactly what we're going to do to Social Security or taxes or health care.' That's why this proposal acknowledging the problem, endorsing this type of commission is the right way for both of them, because then they don't have to get into the specifics but yet they then have an ability to take on the issues after they're president. And for the sake of our country, our children and grandchildren, they need to.

QUICK: All right, Dave, we're going to talk more about the film later this morning. We'll also be joined by Pete Peterson coming up. But thank you for getting up early with us to talk about this right off the bat. And we'll get back to you just a little bit later this morning.

Mr. WALKER: Great.

QUICK: Again, we also have Warren Buffett who's with you this morning. We'll be talking more about "I.O.U.S.A.," but also the state of the economy. We're going to talk about the "Oracle of Omaha," where he's investing in the stock market right now--at least we'll try and get that out of him. Some of his investments, his thoughts on the state of the banking system. Stay tuned, this is a very special edition of SQUAWK BOX right here on CNBC.

(Announcements)

QUICK: All right, welcome back, everybody. As we mentioned a little earlier, the movie "I.O.U.S.A." premiered across the country last night, and we got the chance to host a live town hall in Omaha that was simulcast to theaters across the country last night. Our CNBC team was on the ground at some of those theaters across the country. They got the chance to catch up with crowds from the East Coast to the West Coast.

And, Warren, a lot of them heard you were going to be at this town hall meeting, and so we had our cameras ask some of those people some questions that they wanted to pose to you. Are you ready?

Mr. BUFFETT: I'm ready.

QUICK: All right. Let's get to some...

Mr. BUFFETT: Where's the popcorn?

QUICK: Oh, there--they didn't provide popcorn quite this early...

Mr. BUFFETT: All right.

QUICK: ...but we do have some questions that are coming up. Let's get to the first question for Mr. Buffett.

Unidentified Man #1: Do you think there's a characteristic about American democracy that leads to American debt?

QUICK: A characteristic about American democracy that leads to American debt. What do you think?

Mr. BUFFETT: Well, **there's nothing inappropriate about having debt in America. I mean, Berkshire has debt, and it's helped us grow over time. And it's when debt gets out of control that you worry. But the American democracy, it's always fun to spend a little more than you take in, and that applies to individuals, it applies to governments. And in a $14 trillion economy, having debt that's 60-odd percent of GDP is not inappropriate**. It wasn't inappropriate when we had 120 percent of GDP in debt after World War II, because we had to fight a war.

QUICK: Although you can't expect to maintain deficits like that endlessly.

Mr. BUFFETT: Yeah, you can expect to maintain a deficit that's a given percentage of the GDP. I mean, Berkshire can expect to have debt forever, and the larger we get in terms of our equity and earning power, the more debt we can sustain. And I don't think our shareholders would want us to operate--take on some rule where we're going to operate debt-free in the future. So it's--**what you worry about is when the debt starts spiraling out of control, when it goes up year after year after year as a percentage of GDP,**

because eventually when that occurs people--if you try to borrow money around the world in your own currency, the world will say no. That's what happened in South America in the past, it happened in the--in the Asian arena. We are able to borrow money in dollars. The world trusts the dollar. If we tried to run our debt up to 3- or 400 percent of GDP, nobody would want debt denominated in dollars.

QUICK: OK. Let's take another question. This one comes from Irvine, California.

Unidentified Man #2: Hey, Mr. Buffett, I would like to know what is going to happen with Fannie Mae. Are they going under?

QUICK: That was, again, what would be the best investment to hedge against the upcoming debt crisis?

Mr. BUFFETT: Yeah. Well, I would say **I don't think there's going to be an upcoming debt crisis, but if you believe that fiscal activities that the government will get out of control and that we will get on a situation where the debt skyrockets, you will have, obviously, you'll have inflation--significant inflation. No government likes to pay back its debt in dollars that are equivalent to the kind they took in.** The best thing you're going to have is develop your own talent. I mean, if you're the best doctor in town, if you're the best teacher in town, if you're, you know, the best salesman in town, you'll do well no matter what the currency does.

QUICK: Mm-hmm.

Mr. BUFFETT: I mean, you will get your share. So investing in yourself is always the best thing.

Now, second best thing is to own products or stocks that have products that don't require much capital investment, because you don't want to be--have a lot of required capital investment during inflation; where they have very little capital investment but they are sort of a royalty on whatever the current price level is in the country. I mean, if you take--I don't know what product you might buy regularly, but what--whatever you use for your hair or...

QUICK: (Unintelligible)

Mr. BUFFETT: You're not going to change that if the price level doubles.

QUICK: Right.

Mr. BUFFETT: And if they don't have to build new plants or anything, they just ride along that curve.

QUICK: OK. And very quickly, that Irvine, California, question, I think we heard the wrong one. The Irvine question, another one he was just asking about was what's going to happen with **Fannie Mae? Are they going under?**

Mr. BUFFETT: Well, in a sense they've gone under in that--in that they only are existing because the federal government has said that they're going to back up their obligations, so that...

QUICK: Right.

Mr. BUFFETT: ...**from a standpoint of an independent entity, it--it's--the game is over on that, pretty much**. And that does not mean the Fannie debt or the guarantee on Fannie mortgages is bad. Fannie Mae's an important institution in the--in the United States. But they priced risk wrong.

QUICK: Mm-hmm.

Mr. BUFFETT: **They did some things in accounting that were bad, they tried to obtain goals that couldn't be achieved, and in the--and they leveraged up to**

an extent that was kind of crazy and certainly was crazy to do it with the assets that they were using the leverage for. So essentially the equity got wiped out.

QUICK: OK. We're going to take a quick break right now, but folks, when we come back we're going to talk about Warren and Bill's excellent adventure.

We'll get the inside story of your summer expedition with Bill Gates. You just went this week to look at the tar sands.@

Mr. BUFFETT: True.

QUICK: All right. We're going to talk about all of that when we come up, and we'll be checking in with questions from more viewers across the country, too.

Unidentified Man #3: I was very curious, in your recent 10-Q, that you had not purchased any bank stocks, very surprised that you had not jumped on that in July. I was wondering how low they have to go before you're interested.

(Announcements)

Announcer: This is a special edition of SQUAWK BOX live from the Holland Performing Arts Center in the heart of beautiful Omaha, Nebraska. Now, once again, here's Warren Buffett and Becky Quick.

QUICK: Welcome back, everybody, to this special edition of SQUAWK BOX. We've been talking all morning long with Warren Buffett of Omaha, Nebraska, since we're live in Omaha today.

And, Warren, we've covered a range of topics, but there has been an awful lot of people who are interested in the trip you made this week. On Monday you headed up with Bill Gates and you got to take a look at the tar sands. What happened?

Mr. BUFFETT: Well, what happened was Bill and I talked some months ago about just how interesting the whole thing was from a geology standpoint and from the standpoint that that represents one of the few big upcoming sources of more oil production in the world, or very few. And we both thought we'd understand a little bit better if we went up and looked at it than simply by reading about it. So on Monday six of us, Bill and a few other fellows--the Kiewit company arranged it. They're--they've done a lot of construction up there. And we went up to northern Alberta and we saw a very big mining-type project. There are two ways that they recover oil from the tar sands. And then we went to this in situ project also, and we had some perfect people explain a lot about how it worked both from a economic standpoint and from a physical standpoint.

QUICK: Uh-huh. And was this something that you came up with, that Bill came up with, your friend, Walter Scott, from the Kiewit company? Who came up with the idea?

Mr. BUFFETT: Well, Walter Scott arranged it for us.

QUICK: Right.

Mr. BUFFETT: Walter's a whole lot smarter than I am about what goes on in mining and all of--anything to do with the real world. I'm good with numbers. And so he arranged the trip for us. But it was something that Bill and I cooked up by--a couple of months ago when we were talking about the tar sands. We said why don't we go up and take a look? And so we found a date when six of us could do it. Walter arranged the trip. We had some wonderful people up there in Alberta at both projects that explained how the things really work, the costs involved. And they just couldn't have been more helpful.

QUICK: OK. So having seen that, there's already been a lot of people who've been speculating that you must be interested in investing in this arena. Are you?

Mr. BUFFETT: No, no. I go to the movies, but I don't buy movie companies. I mean, I--I'm always interested in understanding the math of things and understanding as much as I can about all aspects of business. And what I learn today may be useful to me two years from now. I mean, if I understand the tar stands today and oil prices change or whatever may happen, I'm--I've got that filed away and I can--I can use it at some later date. And that's really the wonderful thing about investments is your knowledge is cumulative. So if you learn about coal or you learn about retailing or something, 40 years you--it's useful at some point.

QUICK: Wait, does that make you think that an investment in a tar sands company, somebody who's making--taking advantage of that would not be worth it at $120 a barrel for oil?

Mr. BUFFETT: Well, the biggest variable in whether it's a good investment is the price of oil. Now, it's important to know how much they can get out and what their costs are going to be and what the capital costs--all of that is important and that fits into it. But you still have to figure out what your own feeling is about what oil's going to be selling for three years from now or five years from now. Because you could be the world's greatest mining engineer, but if you were wrong about the price of oil in a big way it would negate all that knowledge. So it--I can tell you that if 100--i**f you had $120 oil from now till, you know, 50 years from now, that the tar sands would be--would work out very well. But I don't know the answer to that.** And I may form an opinion at some point, and I've got it--I'm prepared to form that opinion now.

QUICK: But you are not actively looking right now to invest in any of these companies?

Mr. BUFFETT: Do I have a buy order this morning? The answer's no.

QUICK: OK. Warren, we have a lot more to get to with you this morning. When we return, we're going to be speaking more with Warren Buffett. Again, this is a big day. We've still got two hours left and we've still got two big stories coming up. Again, I'm here live with Warren Buffett in Omaha. We're also going to be covering everything that's happening with the Olympics. Carl is standing by live in Beijing. This is day 13 of the Olympics, coming to an end. We'll have more SQUAWK in two minutes.

CARL QUINTANILLA, co-anchor (Beijing):

But first we're going to start with the man of the hour, Beck--actually, he's the man of three hours--Warren Buffett with you in Omaha.

BECKY QUICK, co-anchor (Omaha, Nebraska):

That's right, Carl. We are live in Omaha today because last night there was a groundbreaking event in the world of finance and politics and it took place right here. This was the world premiere of a documentary that's called "I.O.U.S.A." This film takes a look at what it thinks are America's four key deficits and it explores into all the risks of these deficits, what it means to the future of this country and its citizens.

Now, Warren, you were in the documentary last night right along with Robert Rubin, with Paul Volcker and with Alan Greenspan. So let's take a quick look at a brief clip from the film last night.

(Clip from "I.O.U.S.A.")

QUICK: OK. Again, that was a clip with Alan Greenspan from the movie last night. It premiered on hundreds of movie screens across the country last night, including right here in Omaha. After the debut, I got the chance to moderate a town hall meeting with the men who were behind the movie, Blackstone's Pete Peterson and the former US Comptroller General David Walker.

This is a quick look from that.

And Warren, we did have a big discussion last night about what the big problems are and exactly where things are going at this moment. In your--in your view, we just heard from Alan Greenspan, he said that you need to be looking at what's happening down the road. What do you think about that?

Mr. WARREN BUFFETT (Berkshire Hathaway Chairman & CEO): Well, I think in any personal activity, business activity or certainly governmental activity, you know, there should be--you should be thinking plenty about what happens down the road. That's one of the jobs of government is to think about what is going to be our energy situation if we don't change 20 or 30 years from now.

QUICK: Mm-hmm.

Mr. BUFFETT: What's going to be the fiscal situation. And so unfortunately, you have a many--the most important things in society, the policy cycle is longer than the electoral cycle.

QUICK: Mm-hmm.

Mr. BUFFETT: So **it's very tough to elect people every two years and ask them to be thinking about something 20 years down the road.**

QUICK: OK. We're going to talking more about this film in just a little bit. David Walker will be joining us again, Pete Peterson, to talk about some of these issues.

We also, though, have you here for a lot of things that are happening right now in the economy. And at the top of the last hour you talked about where you think the economy is headed. You still think that the trouble in the economy, it could get much deeper from here?

Mr. BUFFETT: Well, I think you're seeing the ripples go out from what's started as a crisis in home lending and the fact that we had a--we had a housing boom fueled by a lot of lending by people who didn't know what they were lending on. And that's caused enormous problems in the financial markets as people have started looking at these instruments which they thought were triple-A and they're finding out they're about triple-F and--but those problem--problems have a way of spreading, and that caused the banks to start want--starting to want to start deleveraging in a big way. And when banks start deleveraging, that has--sends ripples out. So there's consequences to every pebble that's dropped in the ocean and we had a pretty big pebble dropped in.

QUICK: Now, you--your view of the economy comes not only from your own holdings, all the companies that you own outright--everything from GEICO to Dairy Queen to Gen Re to Acme Brick Company, all the companies that you hold--but also the holdings that you have in other big companies, correct?

Mr. BUFFETT: Right.

QUICK: What sort of insight does that give you?

Mr. BUFFETT: Well, it--obviously, I pay a lot of attention to what's happening. And **we'll say at American Express--and Ken Chenault talked about that here a month ago--but they are experiencing credit deterioration and they're experiencing it sort of in all segments. So they're seeing the rich customers slow down in payments, slow down in purchases. And American Express can describe that rather than I, but I pay a lot of attention to that sort of thing. And incidentally, it will get cured at some time in the future, but right now the situation is getting worse and I would say I don't see any early end to that.**

QUICK: We want to talk to you about...

Mr. BUFFETT: But I do see an end.

QUICK: You do see an end, but no early end. I mean, is that six months, is that 12 months, is that 18 months?

Mr. BUFFETT: I don't know.

QUICK: Can you put a time?

Mr. BUFFETT: Yeah, I don't know the answer to that. All I know is that it's not--I don't think it's going to be really soon. **I think that--my candidate is Obama, so I think President Obama is going to have plenty on his plate in January.**

QUICK: OK. Let's talk about your most recent disclosures for some of your holdings. When we saw the last numbers, your shares in Anheuser-Busch, a lot of people were surprised to see that you had gotten out of those shares before a deal went through with InBev.

Mr. BUFFETT: That's right. I sold about 60 percent of them in the second quarter.

QUICK: Why?

Mr. BUFFETT: Well, I wasn't--it was an evaluation of whether I thought the deal would go through and the desire to sell at least some of the shares. I mean, **Anheuser-Busch did not want the deal to go through and they hired investment bankers, very expensive. They spent $72 million with two investment banking firms. And believe me, most of that was spent with the idea of trying to keep InBev away. So who knew how it was going to come out?** And InBev persevered, they raised their price and on the remaining shares we'll do somewhat better; although there's still a time factor and we've used the money for other things. But in retrospect, I was wrong to decide to partially sell the holdings.

QUICK: What...

Mr. BUFFETT: But that--that's not news. I'm often wrong.

QUICK: What price did you sell at? It did not say in the filings.

Mr. BUFFETT: Oh, I--we probably averaged around 61 or 2, something like that.

QUICK: OK, 61 or 62, you still had a third. Are you--do you still hold that position?

Mr. BUFFETT: Yeah. We--yeah. We hold the shares, yeah. You didn't ask me that last time, so yeah.

QUICK: I know, I didn't. I had to circle back this time a lot. So you still have those shares.

One of the other things from that filing that Berkshire filed with the SEC noted that you weren't talking at that point about what's going on with ConocoPhillips.

Mr. BUFFETT: That's right.

QUICK: OK. Well, we have you here right now. That means a lot of people are out there assuming that you're either buying or selling shares of Conoco and...

Mr. BUFFETT: That's certainly correct.

QUICK: And if I was a betting man, would it be right to think that maybe you were selling and taking profits based on where oil prices have gone?

Mr. BUFFETT: Well, if you were a betting man, you'd be betting.

QUICK: Oh, so you're not going to necessarily come out there on that.

Let's talk about the price of oil in general.

Mr. BUFFETT: Sure.

QUICK: Price of oil has gone rapidly higher in the last few days. Once again, about 120, still down from where it was...

Mr. BUFFETT: Mm-hmm.

QUICK: ...just a month ago. But 120, you think that that's a comfortable price for oil?

Mr. BUFFETT: It's very hard to tell, but what you do know is that the situation in respect to supply and demand in oil has changed dramatically in the last five or six years from what has existed ever since World War II. I mean, ever since World War II we've always had a significant amount of producible capacity beyond the demand that existed. Now, maybe for one reason or another it wasn't being produced.

The Texas Railroad Commission used to--which was kind of--kind of a domestic OPEC--used to shut down the wells in Texas because there was so much producing capacity and they didn't want to knock down the price, which was $3 a barrel then. So we've always had the situation post World War II where it's been a lot more supply could come on than there was demand. In the last 10 years, the first five years oil demand went up around four million barrels a day, and then in the next five years it went up another eight million barrels a day. That's 12 million barrels a day. We did not bring on, in the world, anything like that in terms of productive capacity. So at 86 million barrels a day, which is the present demand, roughly...

QUICK: Mm-hmm.

Mr. BUFFETT: ...the world that has no real buffer stock in terms of the--you can't turn the tap on and get 90 or 95. And that means that prices have been and will be quite volatile and probably--well, they have been at a--certainly at a higher level. It is a different world in terms of supply and demand on oil than existed five years ago.

QUICK: What's your thought as to what the nation needs to be doing right now? I know you've spoken with Boone Pickens about his plan.

Mr. BUFFETT: Yeah. Well, **Boone's on the right track. And then one way or another, you know, we're using 20 million barrels or so a day of oil, we're using a quarter of the oil, roughly, in the world. We and the world cannot certainly keep increasing our demand for oil. If we--if we required another 10 million or 12 million barrels a day in the next 10 years, I'm not sure where it would come from or at what price it would come from. We just don't have that. The tar sands would actually--will increase some, but oil depletes, production of oil depletes.**

QUICK: Hm.

Mr. BUFFETT: And so one way or another, we're going to have to learn to use a lot less oil. And my guess is we're using less oil right now in the United States because of price factors.

QUICK: Yes.

Mr. BUFFETT: But I'm not sure that the world demand is--maybe it's decreased a million barrels a day or something like that, but that isn't going to do it over 10 years. We're going to have to use less oil.

QUICK: OK, Warren, we're going to be checking in with you again after we come back. We'll have more from Omaha, folks. But we're also going to be checking in with Carl. He's got plenty more coming up in Beijing. Carl:

QUINTANILLA: Becky, if Warren breaks any more news we're going to have to just go off the air here, our heads are going to explode for all he information that's coming from him.

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Mr. BUFFETT: (From town hall meeting) Every line in the tax code is important to some constituency. I'm not sure every line in the Bible is, though. The--and actually, you know, you've got thousands of lobbyists there protecting each line in the tax code and I'm--again, I'm not sure about whether the Bible has an equal army of people in--on K Street.

QUICK: All right, that was Warren Buffett answering a question on taxes during our town hall right here in Omaha last night. Again, this was a town hall that was celebrating and looking into the opening of "I.O.U.S.A.," that's a new documentary that opened and premiered last night in theaters across the country. That question that came was from someone who wrote in asking why the tax code is longer than the Bible. Well, it's something we got to talk about with plenty of our participants last night. In fact, we're joined right now by some of the other participants in that conversation.

Pete Peterson is here with us this morning. Also David Walker and Bill Novelli, the CEO of the AARP.

And gentlemen, thank you for being here once again this morning on the same stage where we were last night. I'm guessing everybody is working on adrenaline at this point, practically all-nighters for everybody involved.

Pete, let's start out with you. The movie last night, "I.O.U.S.A.," is something that the Peter G. Peter--Peter G. Peterson Foundation did put some financial backing into. Why did you get interested in it? What's important that you think in the message?

Mr. PETE PETERSON (Peter G. Peterson Foundation): Well, Dave and I have concluded unanimously, the two of us, that the country faces some long-term challenges that if we don't address them are undeniable, at least in our opinion, unsustainable, and yet they're, politically speaking, not touchable.

QUICK: Mm-hmm.

Mr. PETERSON: And our job, we think, in a democracy like ours is to use every means we can, and this film is only part of a much broader program to educate the American public and to activate them and motivate them to do something about it. And the doing something about it is essentially to let our elected representatives know that this is serious and they want action. At the present time they feel--that is, our representatives feel that if they confront some of these long-term problems, since all of them involve somebody either giving up something or paying more for something, that it will result--not only being politically incorrect, but politically terminal.

QUICK: Mm-hmm.

Mr. PETERSON: And we've got to change that around so that they feel that if they don't do anything, then they're going to be in re-election trouble.

QUICK: David Walker, we spoke with you earlier this morning. Again, David Walker who's the former comptroller general of the United States. If you have to look and put your finger on one issue that you think is the most pressing thing, what is it?

Mr. DAVID WALKER (Peter G. Peterson Foundation): Health care costs are totally out of control. Health care costs represent 34 trillion, just Medicare alone, 34 trillion of our $53 trillion hole. **The United States is the only country on the face of the earth that's dumb enough not to have a**

budget for health care. Every other country does. We need to engage in fundamental reform of health care to achieve universal coverage for basic and essential health care, have a budget for health care. We need universal practice standards, evidence-based practice standards, and we need to enhance personal responsibility and accountability.

QUICK: All right. Bill, you represent the AARP, and some people have said in the past that seniors get very concerned when you start taking away benefits or changing things that have been set up. What are--what does your constituency think about the plan presented here?

Mr. WILLIAM NOVELLI (AARP CEO): Well, we've done a tremendous amount of research among our 40 million members and the rest of the public down to 18 years old, and we're pretty sure that the public is ahead of the politicians. People do want change. The generations in this country are very closely connected to each other and they have one thing in common, they want this country to be strong for the future, for their children and their grandchildren. And so what we have here is a big opportunity. This video that has been done here is a good kind of wake-up call, and from an AARP standpoint we can do town hall meetings across the country, thousands of them. So this is an opportunity to make change.

QUICK: Warren, you're not convinced that things are quite as dire.

Mr. BUFFETT: No, I--the short-term outlook is not. But **we've had a number of recessions in this country; in fact, we had a Great Depression, we had--we've got world wars. And throughout, the genius of the American economy, our emphasis on a meritocracy and a market system and a rule of law has enabled generation after generation to live better than their parents did. And, I mean, most of the people in this room, practically all of them last night, lived better than John D. Rockefeller lived. I mean, all kinds of things have happened. And in the 20th century alone, the standard of living of the average American went up seven for one. There's never been a period like it in history. And that's not an accident. It's because we unleash human potential and will continue to do that in the future.** And we'll always have challenges and we'll always have disputes between different demographic groups and income groups. The rich don't want to pay their share of the taxes. The poor probably, you know, they--in the last 20 years, the net worth of the Forbes 400 has gone from 220 billion to a trillion five hundred and forty billion. So you'll always have fights within the family about who gets what of the pie, but the pie will grow.

QUICK: But there are points that all four of you agree on. What's the closest point where, I mean, you say, `Yes, this is something the American people need to hear'?

Mr. BUFFETT: Well, I think you should always be thinking about the future. I mean, I think you're crazy if you're not--if you're not planning out where you'll be in 10 and 20 or 30 years. You'll get surprises in those plans.

QUICK: Mm-hmm.

Mr. BUFFETT: And frankly, American ingenuity will tend to surprise on the upside much of the time. I also think that it's dangerous politically over time. It doesn't endanger the economy in a huge way, but it's dangerous politically over time to run very large current account deficits whereby there's a massive transfer of assets or IOUs to the rest of the world from America. I think that will cause a lot of demagoguery and potentially some real problems 20 years down the road. We'd still have a more prosperous society.

QUICK: Mm-hmm.

Mr. BUFFETT: But it wouldn't be--wouldn't be as good as if we didn't do it.

QUICK: David?

Mr. WALKER: I think we agree on two things. I believe all four of us do, based on listening last night and talking this morning. Number one, we need to focus on the future.

QUICK: Hm.

Mr. WALKER: We're a great country, we need to do a number of things to make sure we stay great. And secondly, we support a capable, credible and bipartisan commission to be able to make recommendations to the next president and the next Congress to deal with some of these challenges so we can start making a down payment on our big hole and try to increase the likelihood that our future will be better than our past.

QUICK: You've had conversations with both campaigns, with the McCain and the Obama campaigns. What's been your takeaway from those conversations?

Mr. WALKER: Well, the takeaway is there's a difference between getting elected and governing, and there's a tendency for people not to want to talk with too much specificity with regard to some of these challenges in order to get elected.

QUICK: Mm-hmm. Right.

Mr. WALKER: The challenge is this: If they don't at least acknowledge the problem and figure a--figure a path for it, like a commission, then you don't have a mandate to be able to do something after you're elected. And so that's why I think acknowledging the problem, endorsing a capable, credible and bipartisan commission is the right thing to do for them and the right thing for the country.

QUICK: Mr. Peterson, you put some financing into this film. Would you consider doing a debate with the two political candidates that focuses specifically on the economic issues out there?

Mr. PETERSON: I'm just the aging founder of this. We have the CEO sitting here. We're exploring all kinds of possibilities.

Mr. BUFFETT: The one thing you won't find, Becky, you won't--you won't find either candidate telling you that if we're going to spend $3.1 trillion next year, the federal government will tell you how they're going to raise 3.1 trillion. They just aren't going to come up with it. They...

QUICK: Long on promises, short on ways on how to do it right now.

Mr. WALKER: Maybe if you invited them, they'd come. But they would have some trepidation, I think. And I think we'd find some ways to come up with some funding for it if it was necessary.

QUICK: But...

Mr. PETERSON: The other big audience that we're going to focus on are the young people. And I'm one of these old fogies that doesn't even do e-mail, so I'm hardly the person to plan it. But we've got a bunch of young people who are experts looking at Facebook and MySpace and MTV and so forth, because it's going to be very important to get these young people aware of their future, incidentally, not mine. Buffett and I'll do pretty well, if we don't live...

Mr. BUFFETT: I hope so.

Mr. PETERSON: If we don't live too long.

Mr. BUFFETT: Yeah.

QUICK: David, if you had, again, to take a look and go out to Congress, do you think this is a message that plays back? You're in an election season, it's a tricky time. But what's been the push back? What's been the...

Mr. WALKER: Well, I agree with what Bill Novelli said.

QUICK: Mm-hmm.

Mr. WALKER: I mean, the American people are ahead of the politicians.

QUICK: Hm.

Mr. WALKER: They're not accustomed to hearing the truth from the politicians and they're looking for two things. They want truth and they want leadership.

QUICK: Mm-hmm.

Mr. WALKER: And they need--we need more of both right now. So I think that if we can get the American people engaged, involved, if we can get the presidential candidates to acknowledge the problem, to be able to endorse the type of commission we're talking about as a way forward, there's hope.

QUICK: OK.

Mr. NOVELLI: Becky, you got a question last night from a woman who said, `I'm a boomer and I'm worried about my adult daughter.'

QUICK: Yeah. Mm-hmm.

Mr. NOVELLI: This is true all over the country. You know, the majority of adults in this country think that their children are going to be worse off than they were. This would be the American dream going backwards. We can't let this happen.

QUICK: All right, gentlemen, I want to thank you all for joining us this morning. It's a topic we'll be discussing through this morning as well.

But also coming up, this is something you've never heard Warren Buffett talk about ever before. We're going to be back in two minutes. I'm as intrigued as you are.

Mr. BUFFETT: (Unintelligible)

QUICK: So is he, you should see his face. We're going to be spending the morning with the world's most famous investor and we have much more SQUAWK right after this.

BECKY QUICK, co-anchor (Omaha, Nebraska):

Coming up, we will have much more from the "Oracle of Omaha." He has lots of wisdom to share with all of us. In fact, just listen to this.

Mr. WARREN BUFFETT (Berkshire Hathaway Chairman & CEO): **It has not paid to sell America short since 1776, and the time to start is not 2008.**

QUICK: All right. Welcome back, everyone, to this special edition of SQUAWK BOX. We are live in Omaha, Nebraska, and we are fortunate enough to be joined this morning with Warren Buffett. He's got to be the world's most celebrated investor.

Warren, we want to thank you for joining us here this morning.

Mr. BUFFETT: I'm enjoying it.

QUICK: Well, we have a lot to talk about. If you take a look at what's been happening with the Federal Reserve, with the challenges they've been facing, what kind of job, **what kind of ratings would you give the Federal Reserve up to this point?**

Mr. BUFFETT: Well, I--I'm inclined to give anybody that takes on a tough job

like that a pretty good rating. I mean, they get the toughest problems of the world thrown at them. And in my job, I wait for easy pitches. I mean, I--you know, somebody can say Microsoft at 27 or General Motors at 10 and I don't have to swing. I--there's no called strike in my business. So I wait--I could wait a year and get one pitch I like and swing. And so I wait for the easy ones. And in the Federal Reserve position, you have to take on the toughest problems. There are no obvious answers, there's trade-offs. And when I--when somebody that's very bright, very public-spirited takes on the job, I'm disinclined to ever criticize.

QUICK: Do you think the Federal Reserve has gotten inflation under control? Do you think that they've focused a fair amount on the economy?

Mr. BUFFETT: **No, they've got a tough problem. I mean, with these dual goals of essentially stimulating growth and at the same time containing inflation, they're in direct conflict.** And the temptation is, since the lack of growth is apparent today and the inflation tends to kick in later on, to ignore the inflation aspects. It's a very tough balancing act and it can't be done perfectly. And like I say, I couldn't do it perfectly and I don't think anybody can, but I admire the people that take on the job. I admire Bernanke, I admire Greenspan. That doesn't mean I think they were always right. It's--I think they're thought to have more power than they really do have. I mean, Ben Bernanke does not have any magic wand that's going to create--enable people that have borrowed too much money on their homes or people who've lent unwisely or the banks that are too leveraged, that doesn't go away easily.

QUICK: We talked earlier this morning about Fannie Mae and Freddie Mac and some of the major problems facing those two institutions right now. In your opinion do these stocks, you think, get wiped out?

Mr. BUFFETT: **Well, there's certainly a reasonable chance of [Fannie and Freddie going bankrupt] because they wrote insurance at the wrong price. And if you write insurance and write--we write insurance at the wrong price, you know, we're going to go broke. I mean, it--when you write insurance, you make a promise. In their case, they guaranteed the credit of trillions of dollars worth of mortgages and they charged a service fee for doing it--an insurance premium you can call it--and they got the wrong price for it**. And then they--their other activity, which is to run a very large sort of hedge fund with a carry, where they lend money long and they borrow money in various ways, they had a spread on that. And that works fine as long as the spread's maintained and they've done some things to protect that, but it doesn't do well if the assets crumble on them, and they've had some crumbling. So they got into trouble the way people have historically got into trouble both in terms of running a carry trade and both in--and in terms of writing insurance at the wrong prices. And there is no easy cure. You can't tear up your old insurance contracts. And they can--they keep existing because they've got the federal government behind them. And the federal government should be behind them, excluding the equity portion.

QUICK: You own shares of Fannie Mae, Berkshire Hathaway did, up until when, about 2001?

Mr. BUFFETT: We were the largest shareholders of Freddie Mac in the--in the United States, and around 2000 or 2001...

QUICK: Yeah.

Mr. BUFFETT: **...it became so apparent to me that they were intent on trying to report quarterly gains to please Wall Street, and there are all--if you've got the government behind you and you can borrow money in unlimited amounts, you can report earnings for any given quarter that you want to. I mean, the chickens don't come home to roost till later. And the management was intent on that. They started doing things on the asset side they shouldn't have done, they made promises they shouldn't have made, and so we got out.**

QUICK: All right. If--is there anything that would ever convince to you get back in, or would these companies have to be completely recapitalized and reset up?

Mr. BUFFETT: It would--it would--it would take a much different situation.

QUICK: (Unintelligible)

Mr. BUFFETT: You need--if you run an institution with enormous leverage, you need somebody with a fiduciary gene running it. And they had a peculiar problem in that they were trying to serve two masters. And then Congress was telling them push the money out and foster housing in every way you can, don't require as much in down payments, make--you know, all kinds of things, take on projects that they wouldn't have taken on for an economic reason. And Wall Street was saying deliver us 15 percent earnings gains every quarter. And they tried to do both of those things, and in the end they're going to do neither.

QUICK: When you take a look at the United States and its stock market compared to what you see overseas right now, where--what makes you most excited when...

Mr. BUFFETT: Well, I see values in all arenas. I mean, we try to look for the best ones, but there's no magic to any given market and things are cheaper than they were a year ago in markets here and in markets around the world. So everything is more attractive, generally speaking, both here and in Germany and the UK and Korea and you name it. And I just try to look for the things I understand the best and that also are selling for less than I think they're worth.

QUICK: The dollar has gotten much stronger over the last month.

Mr. BUFFETT: Right.

QUICK: Is that a trend that you think can or will continue?

Mr. BUFFETT: Well, **it won't continue if over the next five or 10 years we run very large current account deficits. Now, exports have been doing well lately. I mean, the country is remarkably innovative and resilient. I mean, we are going to export 12 percent of our GDP this year, and in 1970 it was 5 percent.**

QUICK: Mm-hmm.

Mr. BUFFETT: So people who think that America is not in the game are totally wrong. But we have been importing like 17 percent of GDP. If we have that gap and it continues, the dollar over time will get weaker. Not necessarily next week or next month or next year, but it will get weaker over time. You can't run persistent, huge current account deficits for decades and not have consequences.

QUICK: But you don't have any bets against the dollar right now.

Mr. BUFFETT: Not right now.

QUICK: You've taken them in the past. At the moment, nothing?

Mr. BUFFETT: That's right.

QUICK: You have any currency plays right now?

Mr. BUFFETT: None--no direct currency play. We own stocks in companies in other countries, but no currency plays.

QUICK: OK, let's take a couple questions from people that we were listening from last night. Again, we've been spending the morning with you, but last night we did have CNBC crews who went out to some of the theaters across the country that were previewing "I.O.U.S.A." We got a chance to catch up with some of the people there and ask them a few questions. Let's start out with one question that's coming from Chicago.

Unidentified Woman: Hi, Warren. Identifying the debt problem and coming up with a solution seems like an easier task than motivating Congress. What would you suggest that we do to help motivate a shortsighted Congress?

QUICK: OK. That's, again, going back to how do you motivate a shortsighted congress. What would you suggest?

Mr. BUFFETT: It's very tough. I mean, in the end, can I name a politician in the last 20 years that said, `My campaign is I'm going to increase your taxes a lot and come close to closing the budget deficit.' And since nobody wants spending cut--they all want the other guy's spending cut...

QUICK: Mm-hmm.

Mr. BUFFETT: ...and, you know, we'll have to increase taxes. I--Walter Mondale tried it in 1984 without much success. Now, what I do with politicians is I ask them what they believe in and will work for that a majority of their constituents oppose. Now, if they give me an answer to that, I know they really believe that. I mean, I don't get long answers to that question. But what they...

QUICK: I bet you don't.

Mr. BUFFETT: Yeah, no. But that's the real test of what they believe in. Anybody's for anything that gets them elected, so if they--if they say, `I'm for lowering your taxes,' or `I'm for bringing all kinds of things to my district,' or `earmarking things,' you know, of course they're going to say that. And they'll say that whether they believe in it or not because it keeps their jobs. Now, the question is what do they believe in that might endanger their job if in--if done?

QUICK: What did Barack Obama say when you asked him that question? You're supporting him.

Mr. BUFFETT: Yeah. I'm not going to ask him that question.

QUICK: You haven't asked him that question.

Mr. BUFFETT: No, I didn't--I didn't--I didn't put that one to him.

QUICK: Why not?

Mr. BUFFETT: I didn't feel like putting him on the spot that way.

QUICK: But he got your support anyways.

Mr. BUFFETT: Well, I have a choice of two candidates...

QUICK: Right.

Mr. BUFFETT: ...and I support Barack and I think that on balance he will be better for America. Although I admire John McCain as an individual, but I think that Barack would be better. But I will--I can tell you that both candidates are not addressing things in the campaign that are important issues, because they feel it'll cost them votes.

QUICK: What do you think is the most important issue that's not being addressed by either campaign?

Mr. BUFFETT: Well, I think in the--certainly in the financial area. Now, they've both made certain proposals on taxes, but in terms of the realism of what would happen in terms of closing budget deficits or something of the sort, I don't think they really want to get that specific about it now.

QUICK: OK. I think we're going to have more on this conversation--a little bit more about what's happening in the election, what you think about the ideas of a windfall profits tax, and we'll talk about all of those issues in just a little bit coming up.

Meantime, though, we're going to take a very quick break and let you catch your breath. You can have a sip of your Cherry Coke. You, too. Anyway, folks, we'll be right back with much more from Warren Buffett on his home turf right here in Omaha, Nebraska.

(Announcements)

QUICK: Warren, you couldn't hear what Steve had just been talking about, but he did say that one point coming out of Jackson Hole is that this rise we've seen again in the dollar--rise that we've seen again in oil is clear evidence that the Fed does not have everything under control when it comes to inflation. What do you think about that?

Mr. BUFFETT: Well, the Fed doesn't have--but even without that fact, I mean, the Fed's got real problems with inflation and have got it in commodity prices. I--every business we have, but some of them in a dramatic way, are getting cost increases thrown at us. I just was looking at the reports for July on certain businesses, and we're trying to push through price increases ourselves. And our margins are getting squeezed in certain major businesses simply because we don't get price increases as fast as we're getting them. But we're pushing up prices.

QUICK: So you see it going right through? Which...

Mr. BUFFETT: Sure it's going to go through.

QUICK: Which businesses are the toughest to get them through?

Mr. BUFFETT: Well, it's tough, and we're in various things connected with residential housing.

QUICK: Right.

Mr. BUFFETT: Take carpet, for example...

QUICK: Right.

Mr. BUFFETT: ...**or insulation. These things all have a huge energy base to them. I mean, carpet is oil, and weekly we get these price increases thrown at us and they're usually effective immediately, whereas we have trouble with our retailers getting them to say, well, 30 days from now or 60 days from now. And we don't want to--we don't like telling a retailer that you can have your price increase tomorrow. So there have been increase after increase in prices and our margins are still going down, and that's happening--if you take brick, that's natural gas. I mean, there's all kinds of areas where it's happening. Food it's just--it's pouring through.**

QUICK: But does that mean you were not surprised by that very hot PPI number that we just...

Mr. BUFFETT: No, I wasn't surprised at all.

QUICK: You weren't.

Mr. BUFFETT: No. **I--in fact, if anything I feel that the CPI has been sort of understating what's been going on. We are in an--we are in a economy that is going to see significant--and is seeing significant inflation.** The only--the only people who aren't getting much inflation are blue-collar workers and the middle class in terms of their income. So they are getting squeezed like crazy.

QUICK: Would it--does that mean you expect to see more PPI increases and eventually see that showing up in the CPI as well?

Mr. BUFFETT: It has to, but--yeah. They--the cost of living is going up and, you know, unfortunately, the prices of houses going down and there's--there are problems in the economy. We will get through this. **But as Paul Volcker mentioned in the movie last night, the problem with inflation is if it gets ignited, it gets very hard to put at a--at a--at a point. I mean, Paul Volcker had to go in with a 2x4 to the economy in the early '80s and we had inflationary expectations built in to a terrific degree.**

QUICK: Mm-hmm.

Mr. BUFFETT: And if that happens again, we've got lots of troubles.

QUICK: Warren, we teased earlier that we were going to mention something nobody had heard about just yet. We know that you're a huge baseball fan, but you also have a big day coming up. What is that big day?

Mr. BUFFETT: It's a--it's a huge day for all of baseball, actually. On September 9th in Fenway Park I will be starting. And--but more important than that--because I've thrown out the first pitch other times--but this time I brought my secret weapon.

QUICK: Which is?

Mr. BUFFETT: **Jack Welch is going to be my catcher.**

QUICK: Jack Welch is your catcher.

Mr. BUFFETT: Yeah. I mean, can you imagine being able to pitch with Jack calling the pitches? And, I mean, anything he calls for. I've got--I've got a fastball, a curve, a sinker, you know, a spitball, a knuckleball, a sidearm delivery. And if Jack calls for any pitch, including the ball that bounces four or five times before it gets to the plate, I'm going to throw it.

QUICK: You're going to throw exactly what he calls for.

Mr. BUFFETT: So if I--if that's the pitch, it's because Jack called it.

QUICK: All right, we'll all be watching that. That's coming up, again, you said September 9th.

Mr. BUFFETT: September 9th, right.

QUICK: OK. Folks, we still have a lot more to come this morning. You have not heard the last from Warren Buffett yet. We'll get much more on his holdings, what he's thinking about buying and selling, maybe. We'll also talk to him about the economy. We'll get to the election and much, much more. Plus, don't forget, Carl is live in Beijing as day 13 of the Olympics comes to an end. We are going for the gold this morning. This is a special split edition of SQUAWK BOX live from America's heartland and from China. It's all coming up when we come right back.

BECKY QUICK, co-anchor (Omaha, Nebraska):

Welcome back, everyone, to SQUAWK BOX here on CNBC, first in business worldwide. We are just one hour away from the opening bell right now. Again, we've been watching the futures higher through the morning. We've been spending a lot of time this morning with Warren Buffett and he's been answering questions from followers across the country. If you see right now, the Dow futures are, in fact, close to 100 points above fair value, but let's head back to California to get a question of--from one of you at home.

Unidentified Man #1: What are the odds that we could have a bank failure similar to the 1929 era?

QUICK: Warren, that question was, again, what are the odds that we could have a bank failure similar to what we saw in 1929?

Mr. WARREN BUFFETT (Berkshire Hathaway CEO): Well, **that's quite unlikely, partly because of the FDIC. People--you had failures in the Great Depression where the failure of Bank A caused the failure of Bank B. When they saw a line at Bank A, everybody lined up at Bank B and then they lined up at Bank C. And the FDIC was one of the great ideas of the Depression. You've got terrific woman, Sheila Bair, running that. So we won't see failures simply because there's a wave of failures elsewhere. What we'll see here are failures where the banks were dumb in what they did and you will see a fair number of those.** We had a huge number of bank failures in this Midwest area, including Nebraska, in the early 1980s when there was a farm bubble. Where there's been a real estate bubble and the bankers have participated big time, you'll see some bank failures, but you will not see any losses to anybody that--in terms of FDIC covered accounts of 100,000 or under, so nobody needs to worry about their $80,000 account at any bank, even though the bank may have been run in a dumb way.

QUICK: Although you've said it before that the financial system is much more intertwined and linked than it had been in the past, especially when you start looking at some of the investment banks and beyond. Do you worry about that?

Mr. BUFFETT: Well, that's why the Fed had to rush in on Bear Stearns.

QUICK: Right.

Mr. BUFFETT: I mean, they weren't--**they weren't worried about Bear Stearns, they were worried about the consequences of Bear Stearns toppling and then the domino action following, which would've happened in my view. I think they made exactly the right decision.** There's enormous interconnection and derivatives have accentuated that in a big way so that trouble spread. And even if you made sound loans getting 10 or 20 percent down, if the other guy made a bunch of dumb loans and that causes a huge supply of houses and house prices, appreciation, and even the better loans can get impaired to some degree. So nobody gets insulated from the problems of the economy. And if you're a bank, you feel some of those effects no matter how prudent you've been over time. But there's not going to be a wise--there's not going to be bank failures happening just because there's other banks fail.

QUICK: Could there be another Bear Stearns this time around, though?

Mr. BUFFETT: Sure. People--and I've said that you only find out who's been swimming naked when the tide goes out.

QUICK: Mm-hmm.

Mr. BUFFETT: Well, **Wall Street has turned out to be a nudist beach. I mean, there's--there've been plenty of people that pushed balance sheets extremely hard. I mean, there was virtually no limit on credit. People, anything was going in the credit market and they were mispricing credit, they were--they were overleveraging and now the truth comes out as people start looking with, you know, some care at what's really on the liability side and the asset side of these banks. A long time ago there was a movie producer holding an annual meeting and one of his shareholders said in the film, you know, `I don't understand all these figures, Mr. Scurus,' or whatever his name was. `What do they mean?' And the CEO said, `Well,' he said, `I don't really understand them very well, either.' But he said, `But I can tell you this, the liabilities are good.'** Well, that's what you find out in a period like this. The assets may not be so hot, but the liabilities are good and then that's when the trouble begins.

QUICK: When people start looking around to find the next potential Bear Stearns, **Lehman Brothers is the name that comes up again and again. Should people be concerned about what's happening at Lehman?**

Mr. BUFFETT: I don't think it's appropriate, really, to talk about financials.

QUICK: Financials, in particular, banks.

Mr. BUFFETT: No. I think that--I really think that's inappropriate to talk about them.

QUICK: Do you think that's caused...

Mr. BUFFETT: I have no problem talking about Fannie and Freddie because the government stands behind them.

QUICK: Do you think that's part of what caused the problems with Bear Stearns, though? Once the rumors get out, once the media picks up on it, once the names came back again and again? Is that...

Mr. BUFFETT: If you had a $400 billion balance sheet and 400 or so billion of stated equity underneath it, that means that you're dependent on the kindness of strangers every day.

QUICK: Mm-hmm.

Mr. BUFFETT: And you know, it--if the strangers aren't there, you don't have a way of paying back the 400 billion. And so if your name is bandied--if you--in the case of the kindness of strangers, if your virtue is questioned, you know, you've got a problem. And there is no bank, investment bank, that can pay all its liabilities tomorrow, and if people present those liabilities and say we don't want to have anything to do with you, even if you offer us a little more on the repos or something of the sort, the game is over and it's a--I think **Jamie Dimon said, you know, `Anybody who spreads rumors about financial institutions ought to be--ought to be put in jail.' It's--you can** cause trouble. If I were to say XYZ is in trouble, they are in trouble.

QUICK: Right.

Mr. BUFFETT: I mean, you create your own fire in this case.

QUICK: Do you agree with Jamie Dimon that people should be going after the people who are spreading rumors about these financial institutions?

Mr. BUFFETT: It's hard to do. I mean, to find out where a rumor starts or anything. But I mean, it is--it's very serious business to question the integrity of a financial institution when you can't possibly pay all your liabilities the next day or the next week. And a rung--or a question creates its own dynamic and you can do a lot of harm to a financial institutions just by spreading rumors. So there ought to be penalties attached.

QUICK: I know it's hard to prove, but would your gut tell you that that's partially what happened with Bear Stearns?

Mr. BUFFETT: Well, it's partially, but there--it isn't the whole story, but Bear Stearns, you know, they had problems and their balance sheet was too big and the assets were too illiquid and--but the rumors moved it along. I mean, and it comes like that.

QUICK: Mm-hmm.

Mr. BUFFETT: You know, I ran Salomon in 1991 for a little while and we could've been put out of business. As it was, our balance sheet was shrinking every day. There was a lot of pressure. But one big story in the paper that says, you know, Salomon did go out of business tomorrow or something of the sort would have meant we would have gone out of business. I mean, everybody would have pulled their lines from us.

QUICK: OK. OK. Warren, we're going to have a lot more coming up. We've got more questions from people back home and we've got more questions from right here as well. Again, folks, if you are just joining us we, are live with Warren Buffett from Omaha, Nebraska. We'll have more SQUAWK right after this.

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QUICK: Welcome back, everybody. We are in Omaha, Nebraska. Last night it was the premiere of the "I.O.U.S.A." movie and after that debut we got the chance to moderate a town hall meeting right here with the men behind the movie, Blackstone's Pete Peterson and former US Comptroller General David Walker. Warren Buffett was also on that prestigious panel and in the movie and we had a chance to send people out to go around the country to get questions, Warren, from people around the country that they'd like to have come back to you. These are people who were at the "I.O.U.S.A." premiere, but right now we do have a question from Chicago. So why don't we listen to this.

Unidentified Man #2: Hi, Warren. Given the state of the US credit markets and the way that banks are withholding lending from retail customers essentially, how do you see the housing market playing out over the next 18 to 24 months?

QUICK: Hm. That's a great question. How do you see the **housing market** playing out, given how banks are lending right now?

Mr. BUFFETT: Hm. **It will be pretty tough. The, you know, we had a very, very big bubble and we had a lot of people do things they shouldn't have done as borrowers in terms of either counting on making payments they couldn't make or lying about their financial circumstances. We had a lot of mortgage lenders that were doing bad things and we had a lot of investors that were doing stupid things. So you put all that together and you put it into an $11 trillion mortgage market and you've got lots of pain for the investors and you've got pain for the people that can't make their payments.**

Now the nice thing about borrowing on a house is if you make your payments, you keep it. And so if you signed up for payments you could handle, you're fine unless you lose your job or there's a divorce or death or something of that sort. But **a lot of people speculated on houses and bought them with no down payments. And the consequences of that won't get washed out in the next month or two. They will last, in my view, a considerable period of time**. But the good thing about it is we have--we have household formation growth in this country. We're not a stagnant economy and we will work our way out of it, but it took--with the farm crisis here in the early '80s, it took years to work our way out of it.

QUICK: There are people who will point to statistics like with housing starts that we saw earlier this week. People said, hey, it's still down, but the rate of decline is decreasing. Is that about the best thing people can find to say about this? Or is the best...

Mr. BUFFETT: Well, the best thing they could find is **if there weren't any housing starts, then we would clear up the inventory much quicker.**

QUICK: Right.

Mr. BUFFETT: I mean, in the end, housing starts work against the housing recovery. So it's going to**--it will take time. I mean, there--the losses are huge with the home builders and then the losses of people losing homes but, again, only if they don't make the payments. And lenders are losing a lot of money. People are finding out they didn't have any idea what they were doing when they bought the CDOs and that sort of thing. And the rating agencies did not cover themselves with glory and frankly Wall Street didn't either. So it's--there's a lot of blame to go around and we probably shouldn't worry too much about that. We should--we should worry about really creating enough households so that the excess supply gets sopped up. There's a lot of vacant homes now. And the market won't really come back until you get a normal--a close to normal ratio of vacant homes, homes up for sale compared to current sales, and that's a ways off.**

QUICK: We get anecdotal evidence all the time from people who say they are having a really tough time even though they have great credit. They can't get a mortgage. Other people saying I can't get a second mortgage, I can't find something for a second home. Is it your sense from what you know about lending right now that lending has gotten that much tighter?

Mr. BUFFETT: Well, I don't know about every area in the country.

QUICK: Mm-hmm.

Mr. BUFFETT: But I think if you have a significant down payment and you have a job and your income covers the payments by the old traditional yard sticks, I don't think there's a problem getting a loan. I mean, Wells Fargo is lending a lot of money.

QUICK: Mm-hmm.

Mr. BUFFETT: And they're looking for more loans. But they're not going to lend it to you for nothing down. They're not going to lend you so that you have payments that are 50 percent of your income and that stuff--you've got to get the bad practices out of the system and then we won't have these problems.

QUICK: Fair to say that since you think these problems could stick around for a long period of time that maybe the home builders don't look that cheap and you haven't been looking there for bargains?

Mr. BUFFETT: No. The home builders still have plenty of problems and that doesn't mean--you know, the time to buy the stocks is not necessarily when they've already--their business has already turned up.

QUICK: Sure.

Mr. BUFFETT: I don't look--I don't try to pick turns in any kind of an industry in terms of buying stocks. I just like to buy them when I think they're cheap relative to their long-term earning power and I don't happen to have that conviction about home builders now, but it very well may be the case. It's just I don't have the conviction.

QUICK: OK. Warren, we have more to come. It's been a long morning already but, hey, time is flying by.

Mr. BUFFETT: You're paying me by the hour. I mean, why should I complain?

QUICK: OK. We'll have much more with Warren Buffett when we return and more from Carl in Beijing. Stick around folks, SQUAWK BOX is coming right back.

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QUICK: No, it's not in his ear, folks. Welcome back, everybody. Let's get back to our conversation with Warren Buffett. Carl is also joining us right now from Beijing, and Carl, we've been chatting all through the morning talking about a lot of different things.

CARL QUINTANILLA, co-anchor (Beijing):

Yes.

QUICK: But actually, we're going to have a conversation with Warren, too. One of the things he'd been wondering. Warren, do you want to toss out to Carl, what you've been thinking about?

Mr. BUFFETT: Well, I wonder what he enjoys the most over there. I mean, he has seen these terrific athletes. What one memory are you going to come back with, Carl?

QUINTANILLA: That's a good--that's a good question, Warren. You know, I was here last summer and we did a documentary about McDonald's and the city at the time was full of cranes, was very dirty, very polluted, and I still can't get over even 20 days later how the Chinese marshaled whatever resources they had to get the city to look like it does right now. They figured out some way to do big projects in a short amount of time and I think that's going to be interesting to see how they leverage that as they go west to all those big cities that we really have no idea what they look like, what the infrastructure's like there. Pictures that come in over the next year from there, I think, are going to be fascinating.

My question to you is if you had to guess at this moment, how--what is your investment in China, if there is going to be one, going to look like? Is it going to be individual companies? Is it going to be currency plays, debt? Have you--have you sorted that out in your own mind?

Mr. BUFFETT: It will certainly be extensions of the businesses that we already have. We opened that plant in Dalian for Iscar almost a year ago. I was amazed when I saw what has been accomplished in Dalian at the time. But we will be there with our businesses. But I like buying securities and I like buying companies, and I'm open to doing either one. And I would be surprised if we don't do something in the next few years.

QUINTANILLA: Yeah.

QUICK: You would be surprised if you don't do something and then...

QUINTANILLA: I think it's interesting, too...

QUICK: Go ahead, Carl.

QUINTANILLA: In fact, I think it's interesting, Warren, you know, we walked in here and everyone worries about China slowing down as the global economy slows. You know, will their exports be bought? You know, is their economy dependent on exports? And the lesson we got from a lot of companies here was there is a self-contained economy here. There are Chinese businessmen doing business with other Chinese, and I wonder if you think that decoupling is significant or not?

Mr. BUFFETT: Well, **I think their economy is going to do fine. Who knows whether it gets overheated or the inflation picks up or something, but it's like the United States. It really isn't important what happens in the next six months or a year. It's what's going to happen over the next 10 years. We're going to do well. The truth is, the Chinese will do better, because they're starting from a lower base, but they have learned a tremendous amount about business in the last 20 years, and about how to unleash the human potential, and that's something that our country learned earlier. And--but they're picking it up very, very, very fast.**

QUICK: You know, Warren, we had Jim Chanos on the program several months ago, and he had said when we asked him, what's the one thing you worry about that you think could be the next big drop? He had pointed out, well, maybe you look at this endless infrastructure play when it comes to the Indias, the Chinas of the world. Maybe that is not going to be as strong as some people think. What do you think about that idea?

Mr. BUFFETT: I don't know whether it will be or not, but **I know that 10 years from now, 20 years from now, China and India are going to be a long way ahead of where they are now. So I don't really--I don't worry too much about whether there's going to be a sudden interruption or something. I wouldn't be able to predict it anyway, and if I did, I still want to be in wonderful businesses bought at the right price and have them in the right place. So I don't--I don't worry about the things that I really am not going to understand anyway. I worry about what's important and knowable. And if I can find a few things that are important and knowable, I play in that box and I don't worry about what's unimportant and I don't worry about what's unknowable.**

QUICK: Mm-hmm.

QUINTANILLA: Warren, are you--**are you going to try to learn Mandarin at this stage of the game?**

Mr. BUFFETT: No, no, I'm not even going to try to learn how to eat the food. I am--if I can't make a deal while eating at McDonald's, I'm in trouble.

QUICK: Hey, Warren, you have a little bit of insight into the Olympics, too, right? You were in Las Vegas just before the United States basketball team left to go over.

Mr. BUFFETT: Right.

QUICK: They were in Las Vegas at the same time. They were playing the Canadian team as they warmed up. What insight can you tell us about the Redeem Team?

Mr. BUFFETT: Well, they were--**we had dinner, a good many of them. LeBron was there, it was on a Thursday night, I think, and they played the Canadians the next day. And they are--they were determined to win. I mean, enough of this being humiliated stuff. So, that was a team that I would have bet a lot of money on in terms of how they were going to do when they got there, and they're a remarkable group. I was a little disappointed. I went to the Canadian game, and they had me on the sidelines, so I thought this was going to be my big moment, right? No chance. So I left at the half. I mean, if they weren't going to put me in the game, the hell with it.**

QUICK: The only guy who walked away from that game early. Hey, Carl, we just want to say thank you again for everything, all your coverage, all your hard work over the last few weeks, you and your entire team out there. I know you're on your way home. We want to make sure you have a safe trip, and I can't wait for you to come home. Hurry back, OK?

QUINTANILLA: It's going to be--it's going to be fun to be back at the desk, Beck. I'll see you next week.

QUICK: OK. Carl and the entire team who are out there in Beijing, we thank you all.

When we come back, folks, we have a quick parting shot from Warren Buffett. Stay right here.

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QUICK: Welcome back, everybody. We are in Omaha this morning with Warren Buffett. Warren, we are headed into the heavy, heavy political season. Next week you've got the Democratic National Convention, and Barack Obama is expected to name a vice presidential candidate to go along with him today, tomorrow, sometime coming up. Who would you like to see Barack Obama pick?

Mr. BUFFETT: My first choice would be Sam Nunn. I think he'd be absolutely terrific. I have no notion of who Barack's going to pick, but he's the man, that if anything should happen to Barack, would be president of the United States. So he'd be my pick.

QUICK: OK. We are also at the Holland Performing Arts Center. You point out an interesting note. This center was built with money from Dick Holland.

Mr. BUFFETT: Yeah. Dick Holland and Dick became a partner of mine in 1958 and he gave a very, very large contribution to the--to make this possible and my guess is that the stock that he gave, it was Berkshire Hathaway. It cost about $5,000.

QUICK: OK. Again, Warren, we'd like to thank you very much for being with us for these three hours. We have completely appreciated this time.

Mr. BUFFETT: It's been fun.

QUICK: OK. Folks, that does it for us today. Again, we've been here for three hours in Omaha. Make sure you join us on Monday, though. Joe's going to be back and we're all set for you to come in. SQUAWK ON THE STREET starts right now.

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Alex said: Aug. 22, 9:18 PM

Humorless? Hey, he tried to make the George Clooney crack.

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sanjay Bakshi said: Aug. 24, 11:08 AM

Mr. Buffett said, "If you run an institution with enormous leverage, you need somebody with a fiduciary gene running it."

"Fiduciary Gene"

What prose!

The idea of the "fiduciary gene" deserves to become a meme, in my view...

Thanks for sharing this transcript.

Sanjay Bakshi

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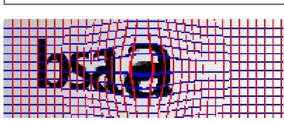

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