



*This is a transcript of Warren Buffett's three-hour long live appearance on CNBC's Squawk Box, Monday, November 14, 2011.*

*Among many other topics covered, **Buffett revealed** that Berkshire Hathaway has bought almost \$11 billion worth of IBM common stock this year. He also said it is "**not clear**" that Europe has the will or ability to do "whatever is necessary" to fix its debt problems.*

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**JOE KERNEN:** Good morning. The "full Monti." Mario Monti takes over the Italian government after Silvio Berlusconi leaves to a chorus of hallelujah. Boeing lands one of the biggest deals in aviation history. And legendary investor Warren Buffett joins us live for the next three hours to tackle Europe, the markets, and the Super Committee. It's Monday, November 14th, 2011. Squawk Box begins right now.

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**JOE:** Is he there with you right now?

**BECKY QUICK in Omaha, Nebraska:** He is. He's sitting right here and he's listening.

**JOE:** Excellent.

**WARREN BUFFETT:** What's a synonym—what's a synonym for "**gravitas**"?

**JOE:** Yeah.

**BECKY:** What's a synonym? That's a good question.

**BUFFETT:** I was thinking some other words.

**JOE:** Yes. Wow, he looks—God, you look—you look—you look healthy and rosy cheeks.

**ANDREW ROSS ANDREW:** He looks great, doesn't he?

**BECKY:** Thank you.

**JOE:** It's like 5:00 or 4:00 out there, isn't it?

**BECKY:** It's 5:00 out here, and we are, and we're ready to go. And we were just talking about it and, Warren, you had your thinking cap on early this morning, right?

**BUFFETT:** Been up for hours, was thinking in the bathtub.

**BECKY:** And we know what happens when he thinks in the bathtub. The last time he did this he came up with the [Bank of America investment](#), so, guys, we've got a lot of different things we're going to be covering over the next three hours. And, Warren, you're ready to go, right?

**BUFFETT:** Sure.

**BECKY:** OK.

**BUFFETT:** Fire away.

**JOE:** Has he—has he seen pictures of (Becky's baby boy) Kyle?

**BUFFETT:** I have...

**BECKY:** I didn't show him any new pictures this morning, no.

**JOE:** It's...

**BECKY:** I haven't but I will.

**JOE:** Has he taken care of college yet?

**BECKY:** No, unfortunately not.

**JOE:** That was a nervous laugh.

**BECKY:** But I will show him some of those pictures...

**JOE:** That was a nervous laugh I just heard from you. Just an idea. I mean, it's not—you know, you're doing this for us. Actually, we owe you anyway. You're right.

**BECKY:** Yeah, I paid Joe to slip that in for me.

**BUFFETT:** I see. OK.

**JOE:** That was pretty...

**BUFFETT:** Yeah.

**JOE:** You know what you'll get, Becky?

**BECKY:** What?

**JOE:** One of those boxes of [See's candies](#).

**ANDREW:** Right.

**JOE:** That's what—that's usually—or a brick. That's what he sent me, a brick.

**BUFFETT:** Yeah.

**JOE:** I'm not sure what that was supposed to mean. Anyway, let's check...

**BUFFETT:** Joe, you're in my will. It says, "To my friend Joe Kernen, who wanted to be mentioned in my will: hi, Joe."

**JOE:** "Hi, Joe."

**ANDREW:** "Hi, Joe."

**JOE:** Yeah, I'm going to use your—I already stole your epitaph, though, on the tombstone, Warren, and that is, "He lived to be really, really, really old." That's the one I'm going to use.

**BUFFETT:** I like that one.

**JOE:** Yeah, that's a good one. All right, we'll get back to you. Let's check on the markets this morning.

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**BECKY:** Come on, we're going to play right in. We're going to jump right into these questions. Warren Buffett is with us for the next three hours. And, Warren, we just heard Ross talking about the situation in Europe. That's been driving the markets for quite a while at this point, and a lot of people feel better now that they see [Mario Monti](#) in (Italy) and [Lucas Papademos](#) in Greece. Do you feel better about the situation at this point?

**BUFFETT:** Well, I feel better about those [two developments](#), but they have a situation that—where they found a—kind of a fundamental flaw, which is that they can't print money. And when you have a loss of confidence, that begins a run, which has occurred to some degree on both sovereign debt and banks over there. And it's—in 2008 we had our own run in the United States, and it took—it took the full power of the United States and some very strong action. The ability—or the belief that the authorities would do whatever it took, and we did believe that, and it led us out. But it's not clear who can say, 'We'll do whatever it takes,' over there and that they've got the ability to do whatever it takes. It's going to have to become much more clear as to—as to who can do what and that they will do it, that—they need both the will and the ability.

**BECKY:** (German Chancellor) [Angela Merkel](#) is already pushing for reforms to the EU to deal with exactly that problem. She's hoping to get changes in place and voted on by all the countries that are involved by next year some time. Short of that, do you worry what happens to the euro?

**BUFFETT:** Yeah, well, runs don't necessarily—markets are stronger than everything. I mean, when you—we've seen that time after time. And used to be when you had a run on banks, you know, that the tellers started paying out slowly and they piled up gold in the teller window. But now you do it electronically and, in effect, just by not

rolling over debt, you have runs. I mean, the—there's tens of billions of euros coming due every month in Italy, and you not only need to take care of any added deficit but you have to take care of the rollover. And stopping a run is tough. You don't get half your confidence back. And what would it take if—for you to put your savings in an Italian bank or...

**BECKY:** Well, I was going to ask you that. You've sold all of...

**BUFFETT:** We sold—we sold everything. Yeah.

**BECKY:** ...everything you had in European sovereign debt.

**BUFFETT:** More than a year ago, yeah.

**BECKY:** So what would it take for you to go back into these markets?

**BUFFETT:** Well, we haven't done it. I mean—and it's something I look at every day. And I'm sure people in Italy that have deposits in euros in Italy think, you know, there's something rather strange here when I can get 5X and—or close to a—well, 3X, essentially, in Italy and get X in Germany and they're both denominated in euros. And whether Germans are deciding they'll put their money in Italy, I—you know, I doubt it. It's very, very tough to stop a run. It takes—it takes a belief, widespread belief, that the people in authority will do whatever it takes to stop it and they have the ability to do whatever it takes. We believed Bernanke and Paulson and the president of the United States when they said that in September of 2008 even though the issue was somewhat in doubt. There's no one with comparable authority. And getting 17 people to agree to reforms next year is not necessarily a great answer.

**BECKY:** You know, you first talked to us about this—I believe it was last spring when we were in India. And you mentioned that you had some serious concerns about the euro and some questions about whether it would break apart. Do you feel better about the euro at this point or more concerned than you were last spring?

**BUFFETT:** Well, time works against you in this situation because people have become more worried and the spread between everybody else and Germany, even France against Germany, has widened, so that just means the world is seeing the line getting a little longer. And that means, you know, people react with emotion, but emotion becomes reality in a situation like this. So I would say that they're doing some things. And Europe's got all kinds of strengths. I mean, Europe is not going to go away. Ten years from now we will be selling more goods and buying—to Europe and buying more goods from Europe, and they will have more GDP per capita. But getting from here to there may be a problem.

**BECKY:** You think it's officially a run on Europe at this point?

**BUFFETT:** Well, it's partially. I mean, you are—European banks are losing US funding, and therefore they're disposing of US assets. They depend more on wholesale funding than on deposits, compared to the United States' banks. They're larger relative to their economies than most US banks. We think our banks are too big, many people. But those banks are even bigger relative to their economies, and

they do depend on wholesale funding; and wholesale funding, you know, is not sentimental. And our money market funds have had large investments in European banks, are pulling them down. European banks need more capital, and the sooner they get it, the better.

**BECKY:** Where can they get it? I mean, if you're talking about a loss in confidence, can they get it from anywhere in the private sector?

**BUFFETT:** Well, their stocks are selling at X. Can they sell more stocks—stock at 90 percent of X or 80 percent of X? That was forced on the banks here in the United States. They didn't like it. I didn't like it as a stockholder of banks, but we had—on a Monday, we had Bernanke and Paulson come in and say to, I think it was 11 banks, 'You're going to take,' you know, 'X billions of dollars.' And before they left the room they did it. Whether they've got that kind of muscle over there, you know, can speak with a—that strong a single voice is another question. But they—the banks can't raise capital. And the government could always say, 'Look it, you raise capital or we'll supply the capital, and we'll put it in at one euro per share so you better do it at two euros per share.'

**BECKY:** Would you be a buyer of some of the banks if they started trying to raise additional capital?

**BUFFETT:** I'd look. But I—whether I'd be a buyer, I'd have to understand the banks better than I understand them. I—we do not own stock in any banks that are members of the euro zone.

**BECKY:** Have you been looking at any of these banks?

**BUFFETT:** I look. Anytime something goes down a lot, I look.

**BECKY:** Did you see anything you like so far?

**BUFFETT:** Not enough to write a check. That's the test.

**BECKY:** So there are a lot of concerns about what happens in Europe right now and how this is going to affect the United States. [We spoke with Mohamed El-Erian](#) on Friday and his big concern is that the United States is already nearing a sort of stall level in the economy and that these problems in Europe could really push us into an all-out stall.

**BUFFETT:** Well, I'd like to comment on the first thing first.

**BECKY:** OK.

**BUFFETT:** I think, to some extent, we're not looking at this economy quite correctly in that we have, as you know, more than 70 businesses and some of those businesses have many businesses. So we've really got a cross section of American business. Of the 70 plus businesses, all but about five are doing considerably better than was the case a year ago, and they were doing better then than two years ago. They've been in a steady recovery.

**BECKY:** What's "considerably better"?

**BUFFETT:** Well, if you take our five largest businesses outside of insurance...

**BECKY:** Mm-hmm.

**BUFFETT:** ...that would be the [Burlington Northern Railroad](#), that would be [MidAmerican Energy](#), that would be [Marmon](#), which has over 110 businesses serving basic industry, it would be [ISCAR](#), which makes cutting tools for—used throughout the world—I mean, it's a barometer of industry—and it would take our new acquisition, [Lubrizol](#). Every one of those companies will set a record for earnings this year. In aggregate they will earn \$9 billion pretaxed, and it's a record for all five. And they—and they cut across industry. And if you look at many of our smaller businesses, our recreational vehicle business, our farm business, you name it, they're all doing well.

What is getting killed and what is in a—not in a recession but in a depression is anything connected with residential construction. And that includes things like our carpet business, our insulation business, our brick business. Those businesses are in a depression. You have a huge segment of the American economy that's doing really quite well. Then you have this other segment which is in a depression, and that depression has much more effect on unemployment, I believe, than is generally realized. When that comes back, and it will come back—I don't know when, but it will come back—when that comes back, when we get a million housing units, annually, started, I think unemployment will go down a lot.

**BECKY:** When you first started looking at some of these things earlier this year, you had said maybe by the end of this year we'd start to see a turn in housing.

**BUFFETT:** Looks like I was wrong. That—that's one of the problems of appearing on these shows. No, I—we don't see any evidence, but that's—in a sense that's good. I mean, we have—we have households, and we have housing units. We built way too many housing units compared to households. Surprise, we had this huge inventory. We're now creating more households than housing units. We're drawing down on the inventory every day. I don't know how long that takes. I know when it's through, when we've reached something close to a balance, that we will have at least a million households being formed annually. We'll have at least a million housing units being created, and unemployment, in my view, will be a lot lower.

**BECKY:** OK. I think Joe has a question for you from Studio 2. Joe?

**JOE:** Yeah, Warren, it—based on [this piece](#) [subscription required] in The Journal today about all the developers that bought all this farmland. Like, they were paying, like, 90,000 an acre for it, so now all the farmers are coming around and they're buying it back for—this is perfect. You know, sell high, buy low. They're buying it back for 10, 15, 20,000 an acre instead of 90. You have said many times that if you could own, vs. gold, all the farmland in the United States, you'd rather have that than all the gold in the world. Have you gone in and looked at any farmland, any real estate like that?



**BUFFETT:** No. I own one farm that I bought about 25 years ago my son farms, and so we're exposed to farming in the Buffett family. He's going to take care of me if it turns out that farms are really the thing to have instead of businesses. But I believe in owning productive assets...

**JOE:** Yeah.

**BUFFETT:** ...whether it's farms, apartment houses or businesses. And they'll do very well over time, and sometimes one class is doing better than another. But if you own any of those things over the next 20 years in the United States, I think you'll do well.

**JOE:** I'm wondering if you've decided how to play also—and it would be a big help—maybe you haven't because it just—there's so many political considerations, but the—you're big in utilities. I understand that. That makes a lot of sense. But whether it would be renewable or natural gas or clean coal or just buying oil assets, is there a way to just—to game the system for the future of what we use for energy?

**BUFFETT:** Well, through that American energy—I believe that our two utilities are the top two industrial utilities in the United States in terms of their ownership in wind generation, and we are just in the process of negotiating a contract on some solar. I got a call on Saturday that we just got approved in Iowa for some additional wind generation as well, so we're in that field. In terms of oil, it's kind of interesting. If it turns out that oil becomes worth far more money, that helps our railroad enormously because trucks use approximately three times as much diesel fuel per ton mile carried...

**JOE:** Yeah.

**BUFFETT:** ...as railroad. So we might—we would be a huge beneficiary if it turns out that oil rises in price...

**JOE:** Yeah, it would...

**BUFFETT:** ...but I—go ahead.

**JOE:** No, it was just based on the ([delay](#) of TransCanada's planned Keystone) XL last week, I've seen now that Canada might go to Asia with a lot of the oil, and I was just wondering what you thought of the, you know, delaying that XL pipeline and whether that factored into any investments you have.

**BUFFETT:** Well, it doesn't factor in to anything. It's a very hot issue, obviously, [in Nebraska](#). I am no geologist. I don't understand, you know, what the effects might be, so I stay out of that one just because I—there's all kinds of things I don't understand.

**JOE:** Yeah.

**BUFFETT:** And you've just hit on one of them.

**JOE:** Yeah.

**BECKY:** Although the question became that was laid out in the Journal on Friday last week is this is 20,000 potential jobs vs. the environmental impact and with that prism, do you think that the administration focuses on jobs as much as you think they should be?

**BUFFETT:** Well, you can say if you build anything—if you build a tomb for me, you know, if I start building a huge tomb, and I employ 20,000 people to haul granite blocks across the plains of Nebraska to build this tomb, which will make everybody forget about Egypt, that creates jobs, too. But everybody cloaks everything in job creation.

**BECKY:** Mm-hmm.

**BUFFETT:** So I'm very suspicious when people say, you know, 'This will create jobs,' and 'If I open up a hamburger stand, it'll create jobs.' So it—there's a lot of rhetoric there that gets a little loose. If you're really seriously hurting the environment, you know, you can—you can have those 20,000 people start building me a tomb.

**BECKY:** Instead. OK. Andrew's got a question for you, too. Andrew?

**ANDREW:** Hey, Warren, I want to go back to housing for a second. Given your views on where you had hoped housing would be at the end of this year, and the fact that we're not there yet, do you think there's a role either for government or that the banks need to be playing it a different way than they are to either refi or to modify the way these loans have been put together?

**BUFFETT:** Yeah. Well, refi doesn't really change the number of housing units or change the number of households, but it certainly changes the burden of the payments on somebody that, you know, is financing at 6 and could finance at 4. So I think things that help people refi that have good credit histories and all of that sort of thing, I think—I think that could be quite useful. It doesn't change the basic equation. The one that...

**ANDREW:** Do you think the banks aren't being helpful enough?

**BUFFETT:** Well, it isn't so much the banks. I mean, Freddie (Mac) and Fannie (Mae) are, you know, have guaranteed close to half the mortgages. You would need them more than anybody else to have a policy on refis. They—they're the ones that affect a very high percentage of the smaller mortgages. The banks may service those mortgages for Frannie—for Fannie and Freddie, but they're just their agents.

**ANDREW:** Would you like to see Fannie and Freddie take a more aggressive approach? Would you like to see the president try to mandate some kind of approach for Fannie and Freddie in terms of how they deal with these mortgages?

**BUFFETT:** I would be in favor of anything that took people who had been making payments regularly, but because their house doesn't qualify in terms of value to get refied, but to let them make similar payments, for example, and have a greater amount apply against principal, but I—you've got to be very careful with these programs because people learn how to game them very quickly. So it makes it very



important how you—how you draft them. But certainly somebody that's paying 6 1/2 or 7 percent interest pays it straight through, their house is under water, and they're going to keep making the payments, I would—I would try to get them in a market rate, if I could figure out a way to do it without having a whole bunch of people game the system.

**BECKY:** Hm. You know, there are a lot of questions around how you can fix the housing market, if there's any way to fix it, aside from just waiting. Ben Bernanke is another key player in this and maybe we can talk about that in just a moment, but we have a new mandate here on Squawk Box, we have to take commercial breaks.

**BUFFETT:** Oh, how capitalistic.

**BECKY:** Exactly. How unfortunate and how capitalistic. So let's slip in a quick break and when we come back, we can talk a little bit more about that. And, Joe, I'll let you take things away from here.

**JOE:** Yeah, I do remember—we used to not with Buffett, we wouldn't...

**BECKY:** Yeah. I think we got caught on that.

**JOE:** Yeah, he could—he could buy all the advertising on the show. I'm trying to get, you know, I've got a lot of ideas for spending more Warren's today.

**ANDREW:** Yeah.

**JOE:** I don't know why. Anyway, coming up, much more from Warren Buffett live from Omaha.

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**BECKY:** We were just talking about housing and the issues there, and I figured we'd pick it up with some more questions about how to potentially fix housing. Warren, one of the big questions out there is what could the Fed do, if anything? Because Ben Bernanke recently said that if there's need, they'd consider [QE3](#). Now, you already told us that you didn't like QE2, so what do you think about a potential QE3?

**BUFFETT:** Well, I don't think it's stimulus that's needed in housing. What's needed in housing is to create more households than housing units. And as soon as that gets tight—and, obviously, it's a local situation, so it's not going to be the same in Omaha as south Florida. But every day we are reducing the housing stock. We are creating more households than housing units at this 600,000 pace of housing starts. You know the answer is coming, you just don't know exactly when. When it comes, it will be a big change. It would be a terrible mistake to try and do some cash for clunkers type thing that would create a whole bunch of houses down the—Schumer had this bill with bipartisan support a few weeks ago that talked about letting people come into the country if they would make a short investment in an owner-occupied house. That could actually change the number of households in the United States. It might not be a big factor, but that is the basic equation. And it is going in our favor, but

this wasn't created in a week or a month. Then it won't, you know, it won't be solved in a week or a month, and it won't even be solved this year like I said it might be.

**BECKY:** Do you think the—do you think the [Schumer Bill](#) is a good idea?

**BUFFETT:** I think, yeah, I think it could be a good idea. I haven't read all the details of the bill, but assuming—I mean, you would want other—perhaps other qualifications as well, but if you could bring households into this country that can afford to buy housing units and that have a source of income, sopping up those units is—you can blow up the units. That's one of the alternatives is to get rid of the supply, but increasing the demand is a good thing. And we're doing that. One of the things you have to understand is that in a recession, initially, household formation goes way down.

**BECKY:** Mm-hmm.

**BUFFETT:** So in 2009, we had very little household formation, but that doesn't continue. The age cohorts were built in 25 years ago went burst, so when hormones still kick in.

**BECKY:** Right.

**BUFFETT:** I mean, and we'll form households.

**BECKY:** So QE3, there are a lot of people speculating that if it did come it would be the Fed buying mortgage securities instead of Treasury securities, securities like they did with the other QEs. But you're saying that's not a good idea? Just in general in terms of stimulating housing?

**BUFFETT:** Well, I—well, what we have done is we've had two conventional tools to fight recessions.

**BECKY:** Right.

**BUFFETT:** And one, you know, one is fiscal policy and we've run huge deficits for that. The second is monetary policy, which the chairman is in charge of, and we have pushed that pedal to the floor. I don't think either one of those is going to very much. But incidentally, I think they've done a lot. I think in this non-housing segment, we have a pretty healthy economy. Just look at profits thorough industry after industry after industry.

**BECKY:** Mm-hmm.

**BUFFETT:** They're terrific.

**BECKY:** You're talking away from the point, though. Is it a big mistake if Ben Bernanke increases this income after—with QE3?

**BUFFETT:** I wouldn't do it.

**BECKY:** Would you be concerned about the market's reaction if he did do it?

**BUFFETT:** Not necessarily. I don't worry about the market. If the market goes down, you know, I buy things cheaper. So I—go to it, Ben.

**BECKY:** But we have seen the market react already in terms of higher oil prices and other commodities that have jumped. Is—what is this telling us?

**BUFFETT:** If you create more money and credit, prices are going to go up at some point. They may not go up tomorrow or next week or next month, but, you know, you can go back to the helicopter, Ben's speech in Minneapolis. I mean, they—if you drop money on households or you drop money on banks or you let—in this case, we build up huge credit balances with the Fed at—by banks; if you do that, eventually you'll get an increase in prices, and if you do enough of it, you get a big increase in prices.

**BECKY:** Hm. Let's talk a little bit about what we've seen from politics recently. Have you been keeping track of what's been happening with some of these debates, these presidential debates for the Republicans?

**BUFFETT:** Education, Commerce, Energy. I've got it. I practiced in the bathtub this morning. I'm ready.

**BECKY:** So you saw the [flub from \(GOP presidential candidate Rick\) Perry](#), do you—do you think that this takes him out of the race?

**BUFFETT:** No, I don't think so. I don't—listen, I've been on this program, and I've said billions instead of millions, you know, I—people—they're going to—they're going to get involved in tongue twisters from time to time, or short memory lapses and...

**BECKY:** Yeah. We talked about this, too.

**BUFFETT:** Yeah.

**BECKY:** Joe, you mentioned how it's a real human reaction when you see somebody forget and you actually feel bad for them.

**BUFFETT:** Sure, sure.

**BECKY:** You do the same?

**BUFFETT:** I do not change my opinion of Governor Perry by one iota because the guy forgets on national television a third point.

**BECKY:** So what do you think of him?

**BUFFETT:** I don't want him to be president.

**BECKY:** OK. What do you think of the other Republican contenders who are out there? You've got a lot of situations with a lot of different people. Looks like

(Herman) Cain has fallen off a little bit, although he's still hanging in. Gingrich had been picking up...

**BUFFETT:** He's a local product.

**BECKY:** Yeah. And (Newt) Gingrich has been picking up steam.

**BUFFETT:** Yeah.

**BECKY:** But Mitt Romney looks like he is leading the pack by far at this point.

**BUFFETT:** Yeah.

**BECKY:** You think he's going to be...

**BUFFETT:** I think he's likely to be the nominee. I think the primary process and the—even superimposed with all the debates, tends to push the entire field. And it would do the same with Democrats. It pushes them to more extreme positions. I mean, it just has that nature that 'I'm more of a Republican than you are.' And it would do the same with Democrats, and we're seeing that. It's kind of fun to watch. I don't know whether it's necessarily good for the republic.

**BECKY:** Who do you think is the best or the strongest candidate to go up against President Obama?

**BUFFETT:** I think it would probably be Romney.

**BECKY:** I...

**BUFFETT:** I think in the primaries, people tend more to go for extremes. In the general election, they move back to the middle to some degree. And those are the people that turn out. And you need the independents and all of that. And I think, from the Republican standpoint, therefore, Romney would probably be the best choice.

**BECKY:** The [lead story](#) in *The New York Times* today talks about how the special deficit committee from Congress is, at this point, looking like they may be trying to punt and not come up with any solution by the November 23rd deadline. Does that surprise you?

**BUFFETT:** Well, we'll see if the approval—we'll see if the approval of Congress will go in to minus territory. Maybe down to 9 percent or something now. The—well, I would say this. I wouldn't judge it too soon because I think the committee did something very smart in terms of staying private for a long time. If you go up there after the first sessions and plant your feet firmly in cement, it makes it much tougher to negotiate more because you go along. Almost any big important negotiation where people have strong feelings on both sides and that has a deadline, the action takes place very shortly before the deadline. So I would not—I would not rule out them doing something significant. I wouldn't bet on it, but I don't think the fact that they haven't walked out arm-in-arm, you know, singing, should necessarily

discourage you. I've seen labor negotiations, I've seen negotiations on purchases. When things get down to a deadline time, that is when people start making concessions.

**BECKY:** OK. Joe:

**JOE:** All right, thanks. Hey, Warren, back to Romney. I was wondering whether you saw the—one of the lead pieces yesterday in the—in The New York Times about [Romney's career in private equity](#) at Bain Capital. And Andrew and I both...

**BUFFETT:** I did read that.

**JOE:** Yeah. We were both talking about it and, I mean, the specific instance that they mentioned, I didn't even think that cast Romney necessarily in a—in a bad light because eventually that company was sold for like \$7 billion. But his business skill, Warren, in reading that, they said that he was really concerned with not screwing up for the guy, for Bain. And, as it turned out, his due diligence on a lot of those deals was phenomenal. You're a businessman that's done similar things, and I just wonder if you—if you were impressed by the piece or—and also, you've probably had to, you know, in Buffett-owned companies or Berkshire-owned companies, lay off sometimes as part of streamlining a company to make it—make it more profitable.

**BUFFETT:** Sure.

**JOE:** And I wonder if you think that's going to be used in an unfair way when he tries to portray himself as a job creator.

**BUFFETT:** I think a lot of things in the campaign are going to be used in unfair ways.

**JOE:** Yeah.

**BUFFETT:** I mean, that's what they call opposition research. No, we've laid off people in the last year. We've hired a lot of people. In those five companies that set records, we probably hired 10,000 people, but in our housing-related businesses, we've laid off thousands of people. The only part of the story, frankly, that—I mean, I—that I would—that I wouldn't like myself is the degree to which they tried to pull money out all of the time.

**JOE:** Yes.

**BUFFETT:** That's part of it. But as you mentioned, the company was sold for 7 billion later on and...

**JOE:** He was gone. He was gone by—he was in the Salt Lake City Olympics by the time they paid those—Andrew pointed that out to me. He was—right, Andrew? That's...

**BUFFETT:** Yeah.

**ANDREW:** That was the—yeah, the one thing that was unclear about the piece was it seemed like...

**JOE:** He's already gone.

**ANDREW:** It seemed like he had already left at the time they made the payments.

**BUFFETT:** Yeah.

**ANDREW:** Unclear to me is whether he participated in the decision to make those payments or not.

**JOE:** Right.

**BUFFETT:** Many, many businesses can be run a lot better, and my guess is that the—a number of the ones that Bain went in to and that Romney was responsible for, my guess is that he ran them better. And part of—part of running a business better is getting more output for the same people or getting the same output with less people. That's a basic function of capitalism, and I would not quarrel with them at all if he had—was working toward those ends. Like I said, the only thing—I read the whole story, and it was an interesting story, but yeah, I don't like the way private equity firms take on more debt so they can pay out dividends to the owners and sort of keep operating on the edge all the time. But there are plenty of good things done by private equity firms, including, I'm sure, Bain and including, I'm sure, by Romney that—where businesses can be improved. I mean, as I remember, that company was owned by [Baxter](#) and they kind of throw in—threw in the towel.

**JOE:** Right, right. Yeah.

**ANDREW:** Hey, Warren, if you weren't supporting Obama and you were forced to support a Republican candidate, which one would you support?

**BECKY:** Hm.

**BUFFETT:** Well, this will be the kiss of death, but I would—I would say Romney.

**ANDREW:** OK. Worth...

**JOE:** Right?

**ANDREW:** Worth putting out there, I was curious.

**JOE:** All right. I agree.

**BECKY:** That's...

**JOE:** I've got some...

**BECKY:** Yeah.



**JOE:** How much time do we—I'm going to talk to Warren at 7. I got—I got some questions, but I—do we have time now or should we—should I...

**BECKY:** Go ahead, yeah. Go ahead.

**JOE:** ...should I save it? OK. Because I've been thinking about this all weekend, Warren, and that is the Buffett tax and things like that and how we should do this. And I've been trying to figure out, if we were to go to 90 percent marginal rates on ordinary income would that change your 17 percent tax rate that's been so publicized? If just ordinary income went up to 90 percent, would that change yours at all from 17?

**BUFFETT:** I think it would, but it wouldn't—it wouldn't change it dramatically. And I'm not 100—I'd want to make the calculation. It wouldn't—it certainly—if you left dividends and capital gains at 15 percent...

**JOE:** Then it wouldn't.

**BUFFETT:** ...I don't think it would change it, no.

**JOE:** OK.

**BUFFETT:** What would change my rate and what I advocate—what—and what would change my rate is a minimum rate on incomes of a million or an over...

**JOE:** Right.

**BUFFETT:** ...on taxable income, not adjusted gross income, but taxable income.

**JOE:** Because I—I'm trying to figure out how we really do get at people that really have—it would—really millionaires and billionaires. And I'm not even sure that I would consider someone that has income of \$1 million, I'm not sure that they're the ones that are able to take—I don't know many people that make \$1 million that are paying 17 percent in taxes. Most people...

**BUFFETT:** That—I think you're right—I think you're right, Joe. There are quite—I mean, there are quite a few, but they're not a majority.

**JOE:** Right, so...

**BUFFETT:** And anybody that makes—anybody that makes \$1 million playing—or five million making center—playing center field for the Yankees or whatever it may be, they're paying perfectly appropriate rates in my view.

**JOE:** Right, right.

**BUFFETT:** It's guys like—it's guys like me you want.

**JOE:** OK, so—but then I think, all right, so we got to do something maybe with dividends and capital gains. But then we have a whole group of people that think

that the capital formation would be hurt. We had some people last week talking about dividend-paying stocks being a great place to go right now. But if you were to raise the after-tax—or lower the after-tax yield on those, that might hurt things. I mean, there is an argument made by certain people that you got to be careful what you do with capital gains and dividends. So my idea...

**BUFFETT:** That's that...

**JOE:** OK, go ahead.

**BUFFETT:** OK, go ahead.

**JOE:** All right, go ahead. So is that true, too? There is a—there are certain people that say that.

**BUFFETT:** Yeah, well, and somebody that's getting \$100,000 or \$200,000 dividends, if you—if you put a minimum tax on incomes, we'll say, of over a million and then a—maybe a little higher one on incomes of over 10 million, you will not hit the people who makes lots of income from ordinary income.

**JOE:** That's what I mean. Yeah. Why don't...

**BUFFETT:** And you will not hit the—you will not hit the people who get dividends in capital gains that live in Omaha or, you know, live in your hometown. You'll hit—you'll—because those people will not be—they won't be getting \$1 million of dividends or something of the sort.

**JOE:** Right. OK, so...

**BUFFETT:** If they have a 401(k), they won't be paying anything.

**JOE:** If we really want to do it, if we really want to say that the wealth of—wealthy have gotten too wealthy over the past 30 years or whatever, what do you think, Warren, of a wealth tax? And let's take a modest...

**BUFFETT:** Yeah.

**JOE:** ...let's take a modest number. Let's say—I think for someone who makes—who has a net worth of \$100 million. Let's say you have \$100 million. If you were to do 10 percent, I mean that's modest. You could even do 20 percent on \$100 million. And just—if we're going to redistribute, let's just do it and say what we're doing. For a guy like you, I don't know what you got, 50, 60 billion, I mean would you be willing to write a \$12 billion check under a wealth tax and having—in one fell swoop we would take 30 years of perhaps a growing income disparity and just move it right over on the—on the ledger. Is that something that would make sense?

**BUFFETT:** Well, we'll call that the Kernan tax and...

**JOE:** Because it won't affect me.

**BUFFETT:** It's kind of—it's pretty difficult to enforce. But—although there is one good way to enforce it, you might have thought of—you might think about this, Joe. You know, the problem is, is how do you figure out what everybody's worth when they got houses and private businesses and all that sort of thing.

**JOE:** Yeah.

**BUFFETT:** But what you can do is let everybody self-declare, and then for 30 days thereafter anybody can buy all of their assets minus their liabilities for that amount by self-declared. Now, that would be—that would enable you to get an honest figure. But I—and so I think you can call that the Kernan tax corollary.

**JOE:** I wonder what we'd raise...

**BUFFETT:** I think it's pretty...

**JOE:** Do you know what kind of number we're talking about, Warren, that if you took anybody who's got at least 100 million in assets, how many people—are we talking trillions of dollars there?

**BUFFETT:** Well, just on the top 400 you're talking about a trillion and a half, assuming—one and a half trillion assuming that Forbes is correct. Because the [Forbes 400](#) had an aggregate sum based on Forbes of a trillion. I think 523 billion, something like that. So that's your...(unintelligible).

**JOE:** OK, so then we're talking—we're probably talking 3 or \$4 trillion then, so if we did a 10 or a 20 percent wealth tax...

**BUFFETT:** No, you wouldn't be—no.

**JOE:** No?

**BUFFETT:** No, you wouldn't be talking quite that much. But 10 percent of a trillion and a half would be 150 billion.

**JOE:** That's not—even that's not that much. That's not going to help us that much either. That's...

**BUFFETT:** No. Joe, the problem is we're going to have to get 15 percent of GDP that's coming in in revenue up to 19, and we're going to have to get 25 percent spending of GDP down to around 21. And what I've talked about will not solve the revenue side. What anybody's talking about will not, in any one event, solve either the revenue or the expense side. But we should be going in the right direction...

**JOE:** Yeah.

**BUFFETT:** ...and we're going to ask people to sacrifice plenty on promises that have been made to them. So I just say it won't kill us to have a 30 or 35 percent minimum tax on the super-rich.

**JOE:** Right. I'm trying to figure out the best way to—I wish you could do that. I wish we'd get—so you think we could get rid of a lot of deductions and 33 percent. Get rid of all deductions, everybody pays 33 percent no matter what. That would do it? I mean, that would raise some serious dough, wouldn't it?

**BUFFETT:** That would raise a lot of money. I don't know that I would—I still believe in a progressive rate. And I—and I believe that at the—the ultra-rich should pay a rate that's equal to what people think they're paying, which is the highest marginal rate.

**JOE:** But if you had no deductions and it was—it went up in a progressive way like we do now with no deductions, then maybe that would probably be revenue-generating, not revenue neutral.

**BUFFETT:** I think you've got to look at the figures and tell me the numbers that you plan.

**JOE:** All right. All right.

**BECKY:** Warren, what's it feel like to have a tax law or a tax proposal named after you?

**BUFFETT:** Well, it was a boyhood dream. No, I guess I could think of other things. You know, I'd rather have some home run that was hit in Yankee Stadium named after me. You know, 'That was the Buffett home run' or something of the sort. But the tax that I'm talking about hasn't really been named after me. I'm really talking about...

**BECKY:** Right.

**BUFFETT:** ...a minimum...

**JOE:** I don't even know what the tax—I don't even know what it is. I'm still not sure what...

**ANDREW:** I don't think anyone is.

**BUFFETT:** It's a—it's a—it would be a minimum tax on incomes of a million and over, we'll say, of 30 percent...

**JOE:** Right.

**BUFFETT:** ...and counting payroll taxes, and probably on incomes of 10 million and over it would be 35 percent.

**ANDREW:** Yeah.

**BUFFETT:** And anybody that's making that amount from ordinary income wouldn't pay a dime. And it wouldn't change...

**BECKY:** People are already paying that if they're making it from ordinary income.

**JOE:** Right, more than that.

**BUFFETT:** Yeah, and if—and anybody that's getting hundreds of thousands of capital gains that are—or dividends it would not change their rates at all. It's merely to ensure that when you're talking about shared sacrifice that the 400 people at the top who averaged a rate of 19 percent in 2008 that about 80,000 of those, according to the congressional office that made a study out of the 250,000, would pay this minimum tax. Eighty thousand people. that's the number we get in the football stadium at Lincoln on Saturday.

**JOE:** Why wouldn't you want a St. Louis Cardinal home run? I don't know why you went right to the Yankees? I mean, after the year...

**BUFFETT:** Well, I would want a St.—I would want a St. Louis Cardinal.

**JOE:** OK, well, be more specific. After this year, I mean...

**BUFFETT:** OK. And I get careless when I talk with you sometimes.

**JOE:** I know you do, I make you nervous probably. All right.

**ANDREW:** OK. We're going to slip in a quick break and we're going to come back to Mr. Buffett out in Omaha. If you've got comments or questions about anything you see here on Squawk, shoot us an email at [squawk@cnbc.com](mailto:squawk@cnbc.com). Or follow us on Twitter, our handle, @squawk@cnbc—or [@squawknbc](https://twitter.com/squawknbc), I apologize. And still ahead much more with Warren Buffett live from Omaha. And our Becky's Back Week rolls on.

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**ANDREW:** Let's get back to Becky in Omaha with the "Oracle of Omaha." Becky.

**BECKY:** Hey, thanks, Andrew. You know, we've been talking about a lot of different things, and we've been asking for your questions coming into the Squawk email box and coming to the Squawk Twitter feed, which I'm still trying to learn. I think it's [@squawknbc](https://twitter.com/squawknbc).

But, Warren, we did get some questions that have already been coming in through the weekend on that. And I want to bring you one that comes from @bigskywalker. He asks the question--I'm assuming it's a he, it could be a she. "Why do events like [MF Global](#) continue to happen? And are the penalties too light for the officers and directors?"

**BUFFETT:** Yeah, the penalties are too light. They--they'll always happen. I mean, as long as human beings run institutions, including financial institutions, there will be people that take undue risks, there will sometimes be people that steal, there will be--you know, there will be people that don't understand the risks they're taking. It's just the nature of business. That happens with small businesses, it happens with big

businesses. There should be--and I've written--I put this in the annual report--there should be much more extreme penalties for the CEOs, or the departing CEOs, of companies that are important enough to require society to intervene. The idea that huge institutions fail and the taxpayers have to--their representatives have to rush in and that royal markets and all of that sort of thing. And the CEOs walk away rich is, I think--I think it's--I think it's a terrible thing morally; but, beyond that, I think it encourages bad behavior. You don't have to worry--the moral risk does not come about with the shareholders of you name the institution, whether it's WAMU or Wakovia or Freddie...

**BECKY:** Mm-hmm.

**BUFFETT:** ...or Fannie. They shareholders get creamed, but the managers walk away rich. And there should be strong changes made in my view. I don't think anybody that runs an institution that needs the government to intervene later on for, for society's sake, I don't think any of them should walk away with a dime.

**BECKY:** With the case of MF Global in particular, is this entirely Jon Corzine's fault?

**BUFFETT:** I don't know. I mean somebody made a big bet. I would say this. If you have an institution that has a net worth of a billion and some of that's in furniture and fixtures and some of that's--I looked up their 10K, and they--and you take a position of six billion so that--in a--in a credit that could run into big trouble I--it certainly--you know, that's a risk that shouldn't be taken.

**BECKY:** Why didn't the New York Federal Reserve Bank stop them? I mean, this is a primary broker. This was a primary broker. Why weren't the regulators more on top of this and after what we went through in 2008?

**BUFFETT:** Well, to some extent, they're making the same mistake that regulators have made all over the world about sovereign debt. Sovereign debt is pretty generally regarded as risk-free, and that's why the European banks loaded up on it. They didn't have to count it for capital requirements, and it was a way they could leverage up further without having the leverage rules called into play. And sovereign debt still represents a promise to pay. And if you've got a promise to pay by somebody that doesn't have a printing press, sovereign--you know, you can have problems. And when you've got a printing press, you know, you can pay your debts. If you ever have a printing press, don't give it up, Becky. But if you don't have one, be careful about how much money you borrow. And the regulators in my view were very lax in terms of just regarding all sovereign debt as terrific, even when the spread started widening out.

**BECKY:** Andrew, I know you've got some questions on this. I have some more questions on this topic, too. But I think we're coming up against a hard break, and I think we've got that top of the hour to hit.

**ANDREW:** Yeah.

**BECKY:** I know we have a lot more to talk about with this, too. Plus, today is the day, Warren, that you've got to file your SEC filings to talk about what you've been



buying. I know that you bought about \$7 billion worth of equities last quarter, and we're going to ask you about that when we come back, too.

**BUFFETT:** Yeah, it'll be an interesting answer, and we'll have a little quiz maybe for Joe and Andrew.

**BECKY:** All right. Guys.

**ANDREW:** Hey, thanks, Beck. We are going to slip in that break and we're going to have more with Warren Buffet. Plus, today's top stories, and the latest out of Rome. Squawk Box coming back right after this.

**JOE:** Good morning and welcome back to Squawk Box on CNBC, I'm Joe Kernan along with Andrew Ross Sorkin. Becky is back, but she's in Omaha this morning with the Oracle of Omaha.

**BECKY:** Yes.

**JOE:** Before we get to her and Mr. Buffett, who is going to build a—did you hear, I wasn't listening that closely but he's planning a big tomb or something that's going to employ 20,000.

**ANDREW:** No, he isn't. No, he isn't.

**BUFFETT:** Absolutely.

**JOE:** What? That was like a—that I didn't even see the wires pick up on that at. That is a—that's some interesting infrastructure. But—and you know what it's going to take 30 years to build, and he's going to wait until it's finished.

**ANDREW:** Oh, of course.

**JOE:** Which I like his—I like his style.

**BUFFETT:** Yeah, right.

**JOE:** I like his style. Andrew.

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**JOE:** All right, we are on Buffett watch this morning and Becky Trip made—or Becky Quick made the trip to Omaha she joins us now with Berkshire Hathaway chairman and CEO Warren Buffet. I used to say to Welch that the last in-flight movie he saw on a commercial flight was "[Sound of Music](#)." For Buffett it wasn't even a—it must of—it wasn't even a talkie I don't think, the last one that he saw off.

**BECKY:** Yeah.

**BUFFETT:** I'm going to get even on that now in just a second.

**BECKY:** Whoa, he says he's going to get even with you now, Joe. Look out.

**JOE:** Actually, I've got—should I—are you going to lead, do you want me to? Can I ask him a question, Becky, or do you want to start?

**BECKY:** Yeah, go ahead, jump in.

**JOE:** OK.

**BECKY:** Go ahead jump in, Joe.

**JOE:** I'm going to let you get even with me, too, Warren, but...

**BUFFETT:** OK.

**JOE:** ...I want to talk—and this is Andrew's, I mean, "[Too Big to Fail](#)," great book, and that—everybody associates that with Andrew. But I've got—I've got a—sort of a—my view has evolved and you pointed that out last week. And I have real problems with too big to fail, and I think that the Occupy Wall Street movement, they may not know exactly why they're upset but the notion that you can—I was talking about it over this weekend. If you—let's say that you're a public employee and you went to Las Vegas with tax money, and you were allowed to put as much tax money that you want on blue—on black, or red, or on blackjack. And if you lost it, the taxpayers lost it, and you didn't care, but if you made it you got to keep it. That's basically what too big to fail institutions are able to do, and to leave, you know, to leave with taxpayer money, with the profits. And I see why Occupy Wall Street is—has a problem with that, although I'm not sure that they understand it. Can we have enough regulations for these big institutions to keep them honest, Warren, or do we need to break them up?

**BUFFETT:** Well, I would, I would use this example what happened is that some of these—the people you refer to went to Las Vegas and they didn't go with taxpayer money, they went with shareholder money, and they were making a bunch of bets where heads they won and tails the shareholders lost. And if the shareholders lost all of their money, one of the reasons they could make those bets was because people felt the government would come in to back up those shareholders. But they were losing the shareholders money. As a matter of fact as you know on the banks, on TARP, the government will a profit. Now, they didn't—you know, it didn't have to turn out that way, but it did turn out that way. But the shareholders still lost tons of money.

**JOE:** Right.

**BUFFETT:** And I say the guy who goes to Las Vegas and loses the money should leave broke himself, and—but I don't think—it isn't that everybody got off light.

**JOE:** No.

**BUFFETT:** The owners of the bank got killed.

**JOE:** But you have a vested interest in too big to fail, Warren, I mean you were able to you knew—go, you were able to [buy Goldman Sachs](#), you were able to [buy GE](#), you were able [buy Bank of America](#) recently, so it implied you've almost got a put there with some of your purchases.

**BUFFETT:** No, I'm a shareholder—I'm a shareholder. The shareholders got wiped out at WaMu, Wakovia, Freddie, Fannie, almost at Citi, almost at AIG, going down the line, I mean the—so as a shareholder I'm not protected.

**JOE:** OK.

**BUFFETT:** If I were—if I were the CEO, I might be protected but not as a shareholder.

**JOE:** OK, but it's not fixed yet, is it?

**BUFFETT:** No, there's parts of it that are definitely not fixed, and I've written about that. I think—I think you've got to—you've got to make it so the CEO of an institution that requires society to bail out its institution, that CEO goes away broke and his wife goes away broke.

**JOE:** But we still have...

**BUFFETT:** And the directors pay...

**JOE:** That...

**BUFFETT:** The directors pay a big penalty, too.

**JOE:** That still might not help, though. If they're that big and that systemically important, then they're still going to get bailed out. And you know, that's the problem. All right, I mean, we need to make it so that they're not that systemically important because they're still going to get bailed out at this point.

**BUFFETT:** Well, the ones that—actually if you look at the—if you look at the banks, you know, they have not cost the taxpayer anything.

**JOE:** No, I know.

**BUFFETT:** Now, Freddie and Fannie have cost—Freddie and Fannie have cost the taxpayer plenty.

**JOE:** But, yeah. But it's still—the moral has it that's been built up. Who knows how badly that damages some of the decisions that are being made right now even though we got our money back?

**BUFFETT:** Well, I would say this, when I—when we buy our BofA preferred, we do not expect the government ever to pay off our preferred. We do expect the government to pay off depositors.

**BECKY:** Hm.

**BUFFETT:** But we do not expect the government to pay off our preferred.

**JOE:** OK. Andrew:

**ANDREW:** Hey, Warren one other question, and it—and it evolves from the financial crisis and the too big to fail issue. It goes back to the question about derivatives...

**BUFFETT:** Mm-hmm.

**ANDREW:** ...and their impact on the crisis, but also their role going forward. You've called derivatives weapons of mass destruction. And, as I was looking through the [earnings report from last quarter](#), however, Berkshire lost \$2 billion in part because of derivatives. Is there a way to square that circle for you?

**BUFFETT:** Well, yeah, we have entered in about 200 plus derivative contracts, I have, and I expect we will make money on those. We have the use of substantial amounts of money, and they are—they are very, very small compared to either our assets or our earning power. I mean we could handle any of those, any transaction we have without any, any discomfort whatsoever, and very few of them require any collateral, but even if they did we would have the collateral so we...

**ANDREW:** That's what I was going to ask, do you have to post collateral for the \$2 billion loss in the third quarter...

**BUFFETT:** No.

**ANDREW:** ...do you have to post \$2 billion...

**BUFFETT:** No, no.

**ANDREW:** No? OK.

**BUFFETT:** No, no.

**ANDREW:** And why is that?

**BUFFETT:** No, no we won't—we won't—we won't enter into any contract that we think could cause me to lose five minutes of sleep if the Dow would go down 2,000 points tomorrow.

**BECKY:** Those contracts, though, those derivative contracts are long-term bets that several of the major stock indexes, like the S&P 500, will go up over the course of 10, 12 years.

**BUFFETT:** For the—what the—really they're bets that they won't go down a lot.

**BECKY:** That they won't go down a lot.

**BUFFETT:** Over that time. And we get the whole—we're holding \$4 1/2 billion that we've had the use of now for five years, and we have the use of for another 10 or so years, which we get to make money with, and if we settle the contracts today at the levels of the index, they would be settled for a whole lot less than the liability that we show.

**BECKY:** And...

**BUFFETT:** I'm happy with all the contracts.

**BECKY:** And the earliest contract is it 2018?

**BUFFETT:** 2018.

**BECKY:** 2018.

**BUFFETT:** But that's not the late—I mean, they go out to 2026, I think.

**BECKY:** Is there—do you think there's a chance that the indices could go down from where they are today because the Europe problems are still overhanging in six years?

**BUFFETT:** Oh, sure they can go down, but they can go up, too.

**BECKY:** Right.

**BUFFETT:** Yeah, and if they stay the same, our liability would be quite a bit less than we show on our balance sheet.

**BECKY:** OK. Why don't we talk a little bit more about some of the earnings. You mentioned already the strength of some of those businesses that you've seen and how strong the American economy is as a result. You also spent a lot of time in the last quarter buying equities, \$7 billion.

**BUFFETT:** You noticed.

**BECKY:** Yeah, we did notice.

**BUFFETT:** Yeah.

**BECKY:** A lot of people have been paying attention to this.

**BUFFETT:** Yeah.

**BECKY:** You've got a file with the SEC today...

**BUFFETT:** Tonight, tonight.

**BECKY:** ...tonight to say what you were buying in the last quarter.

**BUFFETT:** Right.

**BECKY:** Can you tell us now what you were buying?

**BUFFETT:** Yeah, but I would like to make interesting. And Joe and Andrew and you are always torturing me with these quizzes that you give. You know, you send Scott Cohn out some place and have him issue some enigmatic word or something, and I'm supposed to figure out where he is in all that. So I would like, you mentioned movies.

**BECKY:** Mm-hmm.

**BUFFETT:** If you remember in "[The Graduate](#)" when Mr. McGuire called Benjamin into the work—into his—at the party very early, and he said, 'Now just one word.'

**BECKY:** Plastics.

**JOE:** Mm.

**BUFFETT:** Plastics.

**ANDREW:** Yeah.

**BUFFETT:** Put his arm around him, "Plastics." So I'm going to say one word, and I want you to figure out where we put all that money and the word is Harold.

**BECKY:** Harold?

**BUFFETT:** Harold. Think about it. Harold.

**ANDREW:** Harold the name or?

**BUFFETT:** That's what Benjamin—Benjamin, Benjamin didn't do...

**BECKY:** Yeah, Harold the name or H-E-R-A-L-D?

**BUFFETT:** Yeah, Harold the name. H-A-R-O-L-D. It's like plastics.

**JOE:** OK, now, OK.

**ANDREW:** Look I'm on Google, so I'm going...

**JOE:** No, no, [Harold and Kumar](#) that's a...

**BUFFETT:** Yeah, now the only thing I—Joe and Andrew, I'm attaching one condition to this. You can't look at the emails that are coming because some of your viewers are going to...



**JOE:** No, I'm not. But Harold and Kumar, they're making the sequel, what studio is that? Are you—are you investing in a movie studio? Is that what you're talking about?

**ANDREW:** No.

**BUFFETT:** Now, just think about it. Harold just think about it, OK.

**JOE:** Harold.

**BECKY:** Harold and Kumar that's...

**BUFFETT:** And I will—we'll talk, I'll give you a little time on this one, but billions...

**ANDREW:** Oh, boy.

**BUFFETT:** ...and billions of dollars are riding on this, so, now.

**BECKY:** Seriously?

**BUFFETT:** Yeah.

**JOE:** All right, I'm looking this up.

**BECKY:** Billions and billions of dollars that you invested in the last quarter, and the clue is Harold.

**BUFFETT:** Write it.

**ANDREW:** I'm looking at.

**BUFFETT:** Not plastics. Is it any...

**BECKY:** I think.

**BUFFETT:** ...how much older do you think Mrs. Robinson actually was, [Anne Bancroft](#), than [Dustin Hoffman](#).

**JOE:** Oh, I know that. It's six years.

**BECKY:** I know the answer, too, she was like 35 right?

**JOE:** Thirty-seven, I think.

**ANDREW:** Oh.

**BECKY:** Or was she, 37?

**BUFFETT:** She was—she was six years older than he was.

**JOE:** He was 31, yeah.

**BECKY:** Dustin Hoffman.

**BUFFETT:** But not—but if you looked in that hotel room, you thought there were more numbers than that.

**BECKY:** Yeah.

**BUFFETT:** I actually started laughing uncontrollably during that to the point where my family practically led me out of the theater.

**BECKY:** Wait a second, back to Harold, can you give us another clue?

**BUFFETT:** I've given you multiple clues.

**BECKY:** Harold?

**JOE:** I can't imagine you'd buy into a movie company, Warren, would you? Is that [Lionsgate](#) who's doing that?

**BECKY:** I.

**ANDREW:** I'm looking here.

**BECKY:** I always think of consumer products. Is it—is it...

**BUFFETT:** Well, we can talk about something else while you think about it. Or whatever you'd like to do.

**BECKY:** Oh, no.

**ANDREW:** OK, give us, give us a little bit of time, Warren.

**BECKY:** Will you really tell us if we guess it?

**BUFFETT:** Oh, I'll tell you.

**ANDREW:** We're literally...

**BUFFETT:** I'll bet—I'll bet...

**ANDREW:** We're working the computers here.

**BECKY:** You'll tell us.

**BUFFETT:** Oh, I'm going to tell you.

**ANDREW:** Hold on, hold on. Does it have anything to—no.

**BUFFETT:** But I'm—but I'm sitting here with three people with IQs of least 450 in aggregate.

**ANDREW:** Is this?

**BUFFETT:** I won't, I won't give you a—I won't give you the subdivision how I...

**BECKY:** The breakdown.

**BUFFETT:** I won't give you the breakdown, no.

**ANDREW:** Is it Southwestern Energy?

**BECKY:** Are you using Google to look up Harold?

**ANDREW:** Yes, I am. I am. Is that—is that an OK guess?

**BUFFETT:** No.

**ANDREW:** No, OK, OK, I'm trying.

**BECKY:** Can you give us another hint?

**BUFFETT:** I've given you a lot—I've given you multiple hints.

**BECKY:** What's the other hint?

**ANDREW:** Multiple? You gave us one and I got.

**JOE:** Multiple? You gave us Harold.

**BUFFETT:** And that you have to figure out, too.

**BECKY:** Is it...

**ANDREW:** I don't.

**JOE:** Mm.

**BECKY:** Harold and the Graduate is that the other hint?

**ANDREW:** Does "The Graduate" have anything to do with it?

**JOE:** What about Time Warner?

**BUFFETT:** It sort of—sort of indirectly.

**BECKY:** Time Warner, Joeses?

**JOE:** You don't—you wouldn't buy—you wouldn't buy Time Warner stock, would you?

**ANDREW:** Where are you getting Harold from with Time Warner?

**JOE:** Because it's a Time Warner—it's a Warner Brothers, Harold and Kumar.

**BECKY:** Oh Harold and Kumar is a—is a Warner Brothers movie. That's a good guess.

**JOE:** As soon as he said it is, all I know about Harold is Harold and Kumar.

**ANDREW:** McGraw Hill?

**BECKY:** Ah.

**BUFFETT:** Nope.

**ANDREW:** OK, we're going to think about it during the break.

**BECKY:** All right.

**BUFFETT:** Are you ready for it?

**BECKY:** Are you going to tell us?

**BUFFETT:** I'll tell you if you like.

**JOE:** OK. After the break, after the break.

**ANDREW:** Hold on, why don't you tell us after the break?

**BECKY:** After the break, OK, all right we're going to keep this going around. Can we look at the viewer email over the—over the break?

**BUFFETT:** OK, you can you look at the viewer email over the break. I'll bet somebody sent it in already.

**BECKY:** OK. We're going to keep working away at this. We've got a quick two minute break to try and figure this out. When we come back, you'll tell us?

**BUFFETT:** Yeah.

**BECKY:** All right, when we come back, go ahead, send us your guesses on this to <mailto:squawk@cnbc.com> or you can tweet us [@squawkcncb](https://twitter.com/squawkcncb). Hopefully, we'll figure this out before the end of the break. But when we come back, we'll get the answer from Warren Buffet. Stick around we've got plenty more to come this morning. Squawk Box will be right back.

**BECKY:** All right. Welcome back, everybody. This is Squawk Box, and we're speaking with Berkshire Hathaway chairman and CEO Warren Buffett this morning. And he just gave us the best tease we've probably ever had in the history of Squawk Box. We said that he would tell us what he's been buying over the last quarter when we came back from the break.

**JOE:** I have no audio.

**BECKY:** You don't hear, Joe? I hear you. But...

**JOE:** OK, now I've got it.

**BECKY:** ...we've been trying to figure it out. Tell us again—tell us again your...

**JOE:** How do you spell...

**BECKY:** ...clue?

**JOE:** How do you spell Harold?

**BUFFETT:** Harold...

**JOE:** How do you spell Harold?

**BUFFETT:** Harold was spelled H-A-R-O-L-D.

**JOE:** So it's not Macy's.

**BECKY:** All right, there was—there was a tweet that came in—oh, that's good. [Herald Square from Macy's](#). There was a tweet that came in guessing that maybe it's Halliburton because the ticker...

**JOE:** Right.

**BECKY:** ...symbol is HAL.

**BUFFETT:** Well, it's—that's a good guess, and it actually may be going in the right direction, but it's not correct.

**BECKY:** Oil and services?

**JOE:** Well, then it's not [Harold Hamm](#)? It doesn't have anything to do with Harold Hamm, does it?

**BUFFETT:** No, he's a friend of mine, but...

**JOE:** It doesn't have anything to do with him.

**BECKY:** All right, tell...

**BUFFETT:** Have you given me your best shot, Joe?

**JOE:** No, I'm still thinking. I don't want to give up yet.

**ANDREW:** I think we're going to have to give up.

**BUFFETT:** Well, keep thinking.

**ANDREW:** Oh, come on, let's just...

**JOE:** I'm going to hurt myself.

**BECKY:** Give us one more hint.

**ANDREW:** One more hint. Come on, Warren.

**BUFFETT:** No, I've—the next hint would give it away, so I'll just tell myself.

**JOE:** OK, then tell us. OK, I'm ready.

**ANDREW:** OK, so tell us. We'll—we're OK.

**BUFFETT:** OK, well, what I would have told you is that we have bought about—and it extends over more than the three months, but it's all been this year, but it was more in the third quarter than in the earlier two quarters. We bought about \$10.7 billion worth of one stock, and there were several clues in what I said to you. First of all, I referenced a movie. Harold is somebody that's known as the abbreviation—or the common shortening of that is Hal. Now, if you think about movies...

**ANDREW:** Oh, wait...

**BUFFETT:** ...with Hal...

**ANDREW:** Oh, I know this.

**BUFFETT:** ...if you go back to "2001..."

**ANDREW:** 2001.

**BUFFETT:** ...A Space Odyssey"...

**BECKY:** I know this!

**BUFFETT:** ...2001...

**BECKY:** Yeah, yeah.

**BUFFETT:** ...Hal was the computer, right?

**BECKY:** IBM. It's...

**BUFFETT:** And [Hal](#), if you take H plus one letter is I, A plus one letter is B, and L plus one letter is M.

**JOE:** Yeah. IBM.

**BUFFETT:** IBM.

**BECKY:** You—wait, you bought over \$10 billion in IBM?

**BUFFETT:** That's correct. But I also told you multiple times, 'Think about it.' And if you remember, "Think" was the slogan of IBM for decades. And every desk of an IBM...

**JOE:** Ah, jeez. That's too—that's too many—too many dots. Go from Harold to shorten it to Hal, add a letter to get the IBM. That's—oh, boy!

**BUFFETT:** Well, but that was—"Space Odyssey 2001" was—or "2001 Space"—was—they referenced many times in that, in writing about it, that Hal was thought...

**ANDREW:** Right. You're right.

**BUFFETT:** ...to be IBM.

**ANDREW:** You're right.

**BECKY:** Wait. Wait a second, IBM is a tech company, and you don't buy tech companies. Why have you been buying IBM?

**BUFFETT:** Well, I didn't buy railroad companies for a long time either. I—it's interesting. I have probably—I've had two interesting incidents in my life connected with IBM, but I've probably read the annual report of IBM every year for 50 years. And this year it came in on a Saturday, and I read it. And I got a different slant on it, which I then proceeded to do some checking out of. But I just—I read it through a different lens.

**JOE:** What's the different lens? What's the different slant?

**BUFFETT:** Well, just like—just like I did with—just like I did with the railroads. And incidentally, the company laid it out extremely well. I don't think there's any company that's—that I can think of, big company, that's done a better job of laying out where they're going to go and then having gone there. They have laid out a road map and I should have paid more attention to it five years ago where they were going to go in five years ending in 2010. Now they've laid out another road map for 2015. They've done an incredible job. First, [Lou Gerstner](#), when he came in, he saved the company from bankruptcy. I read his book a second time, actually, after I read the annual report. You know, "[Who Said Elephants Can't Dance?](#)" I read it when it first came out and then I went back and reread it. And then we went around to all of our companies to see how their IT departments functioned and why they



made the decisions they made. And I just came away with a different view of the position that IBM holds within IT departments and why they hold it and the stickiness and a whole bunch of things. And also, I read very carefully what Sam Palmisano...

**JOE:** Palmisano.

**BECKY:** Palmisano.

**BUFFETT:** ...[Palmisano](#), yes, has said about where they're going to be and he's delivered big time on his—on his—on his first venture along those lines.

**JOE:** Incredible.

**BUFFETT:** But anyway, we...

**JOE:** And...

**BUFFETT:** ...bought about 64 million shares and it cost us about \$10.6 or 7 billion.

**JOE:** Have you spent time with Sam?

**BECKY:** What does that mean, yeah?

**JOE:** (Unintelligible)

**BECKY:** What—how much—how much of the—how much of the company do you own?

**BUFFETT:** We own about 5 1/2 percent of the company.

**BECKY:** OK.

**JOE:** (Unintelligible)

**BUFFETT:** The other thing I would say about IBM, too, is that a few years back, they had 240 million options outstanding. Now they probably are down to about 30 million. They treat their stock with reverence which I find is unusual among big companies. Or they really—they are thinking about the shareholder.

**BECKY:** We...

**JOE:** But you're buying this, Warren, you're buying this on a high, which is really—most people think you got to buy things when they're down. They look at 52-week high and lows, say, oh, I'm not going to buy it, it's on a high, but stocks that are on highs hit new highs. I don't know how many Dow components are at all-time highs, but IBM is one, maybe McDonald's.

**BUFFETT:** No.

**JOE:** But you're buying this after it's really broken out the new highs this year, new all-time highs.

**BUFFETT:** We bought—we bought railroads on highs, too.

**JOE:** Yeah? They sent it—you know, stocks at new lows that, you know, can hit new lows where they...

**BUFFETT:** Right. I bought—I bought control of—I bought control of GEICO at its all-time high.

**JOE:** Yeah? Well, Warren...

**BECKY:** Yeah, we're looking...

**JOE:** ...have you talked to Sam or to—or to Ginni, the new CEO?

**BUFFETT:** No, I never talked to Sam. I've never talked to Sam. I've got this—I competed with IBM 50 years ago, believe it or not. I was chairman of a company, had, and I testified for IBM in 1980 when the government was attacking about on the antitrust situation. But I've never—I have not talked to Sam or now Ginni.

**JOE:** And you have a view on the...

**BECKY:** Wait a second. The company's finding out right now that you own 5 percent of the company by...

**BUFFETT:** Yeah, 5 1/5, yeah, yeah.

**BECKY:** ...5 1/2 percent by you talking about this right now?

**BUFFETT:** Yeah, right, right. I have not talked to the company.

**JOE:** And do you have a view...

**BECKY:** We've been watching the stock and it's been—it's been jumping on this. It's up about 1 percent right now. I've seen it up as much as 1.5 percent. Would you continue to buy more?

**BUFFETT:** Yeah. No, I wouldn't be talking about it if we weren't pretty much done. I set out to buy about \$10 billion worth and we bought a little more than that. We started in March. I got the annual report I think very early in March and then I did some work and then we started—we bought a little in the first quarter and more in the second and third quarter.

**BECKY:** I...

**BUFFETT:** And we—and we bought some in the fourth quarter. We bought some in the—our report that we will file tonight will not show the whole 64 million. Probably show 57 million or something like that because we bought some in October.

**BECKY:** Because you bought more since this quarter. So, how do you keep that hidden that you're buying that much stock over that long of a period of time?

**BUFFETT:** I avoid talking to you.

**BECKY:** No, really, how do you—how do you hide that?

**BUFFETT:** Well, it's important to us that we do. And what's very interesting is here in a—what is it, seven-month period or something like that, eight months, maybe, we buy 5 1/2 percent of the company. At the same time, the company bought pretty much an equal amount. So here you have 11 percent of a huge company change hands and all kinds of people who've owned IBM forever. I mean, it's an old—it's an old company, it's a big company, it's amazing to me how much turnover there is in stocks, which means that, you know, investment has kind of gone by the boards and people just basically look at stocks as things to speculate in. But if you can buy 11 percent of a wonderful company in eight months or have that much trade just the two buyers without—of course, who knows how much we affected the price. We try not to affect the price. We usually buy a given percentage of what trades every day.

**BECKY:** You—this is the second time in the last several months that you've told us about a purchase you've made of a company you've been the reading annual reports for years.

**BUFFETT:** Right.

**BECKY:** Bank of America was the first.

**BUFFETT:** Right. I read those for 50 years.

**BECKY:** Read those for 50 years and you're looking at companies a little differently. You never really bought tech stocks before. You had always said you don't understand technology stocks.

**BUFFETT:** Right.

**BECKY:** Does this mean that this is a new era and you're going to be looking at a lot of tech stocks and I guess chief among them, would you consider Microsoft?

**BUFFETT:** I—well, Microsoft is a special case because Microsoft is off bounds to us because of my friendship with Bill and if we spent seven months buying Microsoft stock and during that period they announced a repurchase or increase of the dividend or an acquisition, people would say you've been getting inside information from Bill. So I have told Todd and Ted and I apply it myself that we do not ever buy a share of Microsoft. I think Microsoft is attractive but that—but we will never buy Microsoft. It—people would just assume I knew something and I don't, but they

would assume it and they would assume Bill talked to me and he wouldn't have. But there's no sense putting yourself in that position.

**BECKY:** But...

**BUFFETT:** I can say I've never met Sam but I can't say I've never met Bill.

**BECKY:** But does this change the rules of the game that you would actually look at technology stocks now?

**BUFFETT:** I look at everything but most things I decide I can't figure out their future.

**JOE:** Warren...

**BUFFETT:** Their economic future.

**JOE:** This is more of a...

**BUFFETT:** And I decided...

**JOE:** Do you look at this more of a—almost as a service company now rather than a hardware/software company, though?

**BUFFETT:** Yeah. It...

**JOE:** It's almost not...

**BUFFETT:** It is...

**JOE:** It's not high-tech anymore, almost.

**BUFFETT:** Yeah, it's a—it's a company that helps IT departments do their job better.

**JOE:** Yeah.

**BUFFETT:** And if you think about it, I don't want to push the analogy too far because it could be pushed too far. But, you know, we work with a given auditor, we work with a given law firm. That doesn't mean we're happy every minute of every day about everything they do but it is a big deal for a big company to change auditors, change law firms. The IT departments, I—you know, we've got dozens and dozens of IT departments at Berkshire. I don't know how they run. I mean, but we went around and asked them and you find out that there's—they very much get working hand in glove with suppliers. And that doesn't—that doesn't mean things won't change but it does mean that there's a lot of continuity to it. And then I think as you go around the world, IBM, in the most recent quarter, reported double-digit gains in 40 countries. Now, I would imagine if you're in some country around the world and you're developing your IT department, you're probably going to feel more comfortable with IBM than with many companies.

**JOE:** Well...

**BUFFETT:** I said I competed with IBM 50 years ago.

**BECKY:** Yeah.

**BUFFETT:** We actually started—I was chairman of the board, believe it or not, of a tech company one time, and computers used to use zillions of tab cards and IBM in 1956 or '7 signed a consent decree and they had to get rid of half the capacity. So two friends of mine, one was a lawyer and one was an insurance agent, read the newspaper and they went into the tab card business and I went in with them. And we did a terrific job and built a nice little company. But every time we went into a place to sell them our tab cards at a lower price and with better delivery than IBM, the purchasing agent would say, nobody's ever gotten fired from buying—by buying from IBM. I mean, we probably heard that about a thousand times. That's not as strong now, but I imagine as you go around the world that there are—there's a fair amount of presumption in many places that if you're with IBM, that you stick with them, and that if you haven't been with anybody, you're developing things, that you certainly give them a fair shot at the business. And I think they've done a terrific job of developing that. And if you read their reports—if you read what they wrote five years ago they were going to do and the next five years, they've done it, you know, and now they tell you what they're going to do in the next five years, and as I say, they have this terrific reverence for the shareholder, which I think is very, very important.

And I want to give full credit, incidentally, to Lou Gerstner because when he came in, I was a friend of Tom Murphy's and Jim Burke's, and they were on the search committee to find a solution when IBM was almost broke in 1992, and everybody thought they were going pretty far afield when they went to Lou Gerstner. And look what...

**JOE:** I know, a McKinsey guy. That's like the most successful McKinsey guy in history, I think.

**BUFFETT:** It...

**JOE:** I try to think of one other one and I can't. Leo Mullin, I can't think of...

**BUFFETT:** Well, you don't have to think of—you don't have to think of another one, Joe. And if you read his book, you know, "Who Said Elephants Can't Dance?" it's a great management book. Like I said, I read it twice.

**JOE:** I would think, Warren, that HP is in a similar sort of situation in terms of being a service company, and if once you're in with HP you might stay with them. Oracle is trying to do the same. Would this open up your eyes and the potential of looking—I think Becky was trying to get out that whether this is actually going to be where you start to embrace technology more, or is IBM that unique vs. because there's...

**BUFFETT:** Well...

**JOE:** ...three major alliances with these guys trying to service all the IT needs and even Dell or something. But IBM is unique, you think?

**BUFFETT:** Sure. Well, it isn't that but it's—if you compare it to HP or—I wasn't smart enough to do it when Lou first came in. In other words, I—everybody says they're going to do it. I was smart enough, if you want to call that, we'll find out whether it's smart or not, but to recognize that after it's been done, and then way too late. I was—it was the same way with the railroads. I mean, I—something I should have spotted years earlier, you know, finally be—just hit me between the eyes and it was there.

**ANDREW:** What was it that you read that...

**BUFFETT:** But I had this...

**ANDREW:** What was it when you're reading the report? I mean, most investors who are trying to invest like you, they're reading annual—what is it in the report that you said, ah, I missed it?

**BUFFETT:** Well, it was—it was a lot of interesting facts and you know, I recommend you read the report, you know. And I didn't look at the pictures and I'm not sure there were any pictures. I kind of like that, too. But there were—there were lots of things in that report but the truth is, there were probably lots of things in the report a year earlier or two years earlier that you say, why didn't I spot it then? And I think it was Keynes or somebody that said that the problem is not the new ideas, it's escaping from old ones. And, you know, I've had that many times in my life and I plead guilty to it.

**BECKY:** You know, IBM is another Dow component, too, and you've been making some major purchases of Dow components. Is this another indication of the change in the investing style? You've got so much cash on hand, you have to look for big, big purchases and that means looking at big, big companies.

**BUFFETT:** Well, but it also means that some great big strong American companies look very cheap compared to investment alternatives. I mean, in the end, you know, you're sitting with money in your pocket. Do you leave it in your pocket, you get zero on, do you put it in a money market fund, you still get zero on it, do you buy 10-year Treasuries and get 2 percent, or do you buy American businesses that are earning very good money, that have high returns on equity, have high returns on incremental capital, are buying in their stock at a rapid rate so that your ownership in the business increases significantly? I love all those things. Now, you measure one vs. the other. But in the end, you have—you know, you do something. Doing nothing is doing something.

**BECKY:** You have been buying a lot of stock and you made that point. I think [you told Charlie Rose](#) earlier this year, September, a day in early September you bought more than you had at any day to that point.

**BUFFETT:** Yeah. I think I bought \$200 million worth that day. That was practically all IBM, maybe a little Wells Fargo.

**BECKY:** Are you still buying equities like that? If it's—you said you're about done with IBM but are you still buying other stocks like that?

**BUFFETT:** We bought—we bought another stock last week.

**BECKY:** A new one?

**BUFFETT:** Not a new one last week.

**BECKY:** You added to a position of another stock last week?

**BUFFETT:** Right, right.

**JOE:** All right, what's a clue?

**BECKY:** A stock we know about?

**JOE:** What's the clue?

**BUFFETT:** Well, I...

**JOE:** (Unintelligible)

**BUFFETT:** I've given you one. I mean...

**JOE:** (Unintelligible)

**BUFFETT:** No, it'll show up in our—we bought more Wells Fargo just month after month, year after year. I mean, it's a good business and I like the price and, you know, doesn't mean it's going to go up or—I—the stocks I'm talking about have got just as much chance of going down tomorrow as up tomorrow. But we like the businesses over a five or 10 years stretch.

**JOE:** Warren, it's...

**BECKY:** And...

**JOE:** ...interesting with IBM—sorry, Beck—it's interesting with IBM how many times I've read that their top-line growth, they haven't had any for 10 years, and the only way they get earnings per share to go up, they're buying back stock so they're reducing the number of shares outstanding. So EPS goes up and it's all financial sleight of hand. They've moved some facilities offshore so they've got a lower tax rate. Every time they beat expectations or had higher earnings, I always saw the analysts say, yeah, but it was because there's fewer shares outstanding and because of a lower tax rate. It was—and it's amazing that after all that, here we are with you at this very bullish case.

**BUFFETT:** Yeah. And, Joe, there's nothing wrong with fewer shares outstanding.



**JOE:** No.

**BUFFETT:** If they get it down to where there's 64 million shares outstanding, I'll be very happy.

**JOE:** Yeah, and you got a 3 percent yield. That's 50 percent higher than you got on the 10 year plus upside with the stock. I see it. But that was a—that was a crummy clue, Harold. If you had given us HAL, I'm still—not one emailer got it, by the way. But if I—if I—if I had thought HAL, I think I would have gotten it. I'm hurt that I didn't, you know, because we talk about that movie all the time.

**BUFFETT:** I was going to say, did you see the movie?

**JOE:** Oh, of course.

**BUFFETT:** Did you—yeah.

**JOE:** When [Watson was on "Jeopardy!"](#) I made all kinds of comments...

**ANDREW:** Right.

**JOE:** ...about how this evil Watson is eventually going to be like "[Terminator](#)." It's going to take over—and IBM got mad because I was saying that Watson is going to be the rise of the machines from HAL. And we play HAL sound and all this stuff. So I'm a little—I take it a little personally that I was unable to come up with that.

**BUFFETT:** Yeah, but you'll zing me some other way, don't worry.

**BECKY:** You know, Warren, you said that you've been buying big American companies and that's the place to go. There was a report recently from some European analysts saying come to Europe, we've got some great deals over here, too. Have you been looking abroad and at Europe specifically?

**BUFFETT:** Sure. I look around the world but we have to look at big things by there—just because to move the needle at Berkshire we need big investments. But I think there's some very attractive stocks that are outside the United States. But I happened to like IBM and Wells better in the third quarter when we were buying them. But there are attractive stocks outside the United States. We all—you know, this is a matter of record. But we own and bought a little, because they announced it, Tesco, for example.

**BECKY:** Right.

**BUFFETT:** But there's lots—there are a lot of attractive stocks. I can't think of a lot of attractive bonds and I certainly can't think of a lot of attractive currencies to stick in my pocket.

**BECKY:** All right. Wow, you want to tell us any more or is that all you...

**BUFFETT:** No, I...

**JOE:** I want another clue.

**BECKY:** Wow.

**JOE:** I want another clue.

**BUFFETT:** I shouldn't get up this early in the morning.

**BECKY:** Yeah, no. We like the—we like the quiz, we like the games.

**JOE:** I want another clue.

**BECKY:** And we want—we want to feel smart instead of having to be told this stuff.

**JOE:** Yeah.

**BECKY:** I think we have to take a break very quickly.

**ANDREW:** Yup.

**JOE:** I don't think Watson would have gotten it, Becky, I really don't. I think you could have plugged this into Watson and there wasn't enough. Harold—Harry—Harold could be Harry. It's not necessarily HAL even. I mean, this is—I'm—I don't know.

**BECKY:** We're trying to make ourselves feel better for not figuring it out.

**BUFFETT:** I will tell you one very smart thing that [Thomas Watson Sr.](#) said. I knew [Thomas Watson Jr.](#) just a little bit. Tom Watson Sr., this applies to stocks. He said, "I'm no genius but I'm smart in spots and I stay around those spots." And that's terrific advice.

**JOE:** That is good.

**ANDREW:** OK. We are going to slip in a break. Coming up, we've got plenty more with Warren Buffett. And check out the lineup for the rest of the week. Tomorrow, we've got Larry Fink of BlackRock. Wednesday, we've got Boone Pickens, Donald Trump and Steve Forbes. Thursday, Fed president James Bullard. Friday, Steven Ross, the CEO of related companies and Richard LeFrak. A big week to come right here on Squawk Box. We're coming right back.

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**ANDREW:** Welcome back to Squawk Box. Joining us now for a look at the economic outlook and the considerable uncertainty around next year is senior economics reporter Steve Liesman, the professor.

**STEVE LIESMAN** reporting: You're demoted again? What...

**ANDREW:** Demoted from where?

**LIESMAN:** From what?

**JOE:** Chief economist.

**LIESMAN:** Oh, chief economist, chief economist.

**ANDREW:** We'll upgrade or downgrade.

**JOE:** Senior economic reporter.

**LIESMAN:** Do you guys know what the smart money's buying right now?

**ANDREW:** I heard IBM.

**LIESMAN:** No. Johnson Controls.

**ANDREW:** Johnson Controls.

**LIESMAN:** Think about why.

**ANDREW:** For...

**JOE:** For our...

**LIESMAN:** Think about why, think about why. Amid all the—do you want to...

**ANDREW:** Is this like you're trying to...

**LIESMAN:** It's a clue, it's a clue.

**JOE:** You're not Buffett. You're not Warren Buffett.

**ANDREW:** It's a quiz like Buffett.

**LIESMAN:** I know. But...

**JOE:** Who's buying...

**LIESMAN:** But just—Warren, do you—is Warren there? Warren, do you know why people would be buying Johnson Controls?

**ANDREW:** Who's buying Johnson Controls?

**JOE:** How do you know people are buying it?

**LIESMAN:** I'm just joking around here.

**JOE:** Oh.

**LIESMAN:** But if there's a clue in there.

**BECKY:** Are we serious?

**LIESMAN:** There's a clue.

**BUFFETT:** That's the one we sold half of a while back.

**BECKY:** Oh, wait, we're back on air.

**LIESMAN:** Oh, OK. JCN.

**ANDREW:** Nobody...

**LIESMAN:** HAL, two letters added to HAL.

**JOE:** No, not the—OK, but the symbol's JCI, dude.

**LIESMAN:** That—JCN, I thought.

**JOE:** No.

**LIESMAN:** Oh. JCN.

**JOE:** You know what, I should have known better than to let you go off on this with your economics joke.

**LIESMAN:** That's what I looked up, JCN was Johnson Controls.

**JOE:** No, it's JCI. Go ahead.

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**LIESMAN:** And if I could ask Warren a question, Warren, how do you process all this uncertainty? You've got this forecast out there and it could go down to zero or it could be 2. Do you ignore all that uncertainty or is it something that you process it and make investment decisions on?

**BUFFETT:** The world's always uncertain. The world was uncertain on December 6th, 1941, we just didn't know it. The world was uncertain on October 18th, 1987, you know, we just didn't know it. The world was uncertain on September 10th, 2001, we just didn't know it. The world—there's always uncertainty. Now the question is, what do you do with your money? And if you—the one thing is if you leave it in your pocket, it'll become worth less—not worthless—worth less over time. That's certain—that's almost certain. You can put it in bonds and then you can get a certain 2 percent for 10 years and that's almost certain to be less than the decline and the purchasing power. You can put it in farms and the farms will probably keep growing

corn and soybeans and they'll grow it whether, you know, whether Italy has trouble tomorrow or not. It's very interesting to me, if you own a farm and somebody said, you know, Italy's got problems. Do you sell your farm tomorrow?

**BECKY:** Hm.

**BUFFETT:** If you own a good business locally in Omaha and somebody says Italy's got problems tomorrow, do you sell your—do you sell your business? Do you sell your apartment house? No. But for some reason, people think if they own wonderful businesses indirectly through stocks, they've got to make a decision every five minutes. So I do not think if Ben Bernanke comes up and whispers to me that he's going to do X, Y or Z tomorrow, I'm not going to change my view about what businesses I want to own. I want—I'm going to own those businesses for years just like I would own a farm or an apartment house and they'll be all kinds of events and there'll be all kinds of uncertainties and in the end, what will really count is how that business or farm or apartment house does over the years.

**BECKY:** Hm.

**BUFFETT:** And I can't time the buying and selling of it.

**BECKY:** All right.

**JOE:** You know, I had to, Liesman, you know, I had to go all the way out to S, I had to go 10 spaces to add one letter before I got an actual symbol.

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**LIESMAN:** Can I just ask Warren another question?

**JOE:** We've got to go.

**LIESMAN:** We've got to go. Just one quick question, Warren, about at some point, the uncertainty fades away and the banks have to be something that's of interest to you. Is there—is there a point in time where you might—you might take a bigger stake in some of these banks out there? I know you did B of A.

**BUFFETT:** Yeah, well, I've bought Wells Fargo in the last quarter and the quarter before that and the quarter before that. And I also bought it about 20 years ago, so I—if I find a good business, if I own privately a good McDonald's stand, I own 40 percent of it and somebody wanted to sell me 10 percent more at an attractive price, I'd buy 10 percent more and I wouldn't worry about the news headlines that day. I'm going to own these businesses five or 10 or 20 years from now and they'll be all kinds of good news and all kinds of bad news, but the good businesses, they do wonders for you over time.

**BECKY:** All right. We're going to continue this conversation with Berkshire Hathaway chairman and CEO Warren Buffett. We'll have much more Squawk Box.

**JOE:** OK. More with Warren. I'm going to just ask one thing and then I'm going to let you ask some more things.

**ANDREW:** Go for it.

**JOE:** Is that cool? All right. So, Warren, I'm thinking back to the pipeline and to infrastructure in general. And I'm trying to figure out how you—what you feel about infrastructure because the way you answer that question about the pipeline in that, well, you know, they talk about jobs here, they talk about jobs there. See, to me, that seems like just crucial infrastructure that if we're going to do something, that would be great, to bring oil in from our friendly to the north, it helps with our relations with Canada, we're not going to get off carbon any time soon, so it made a lot of sense to me. I'm wondering, because of your answer to that, do you think other infrastructure projects are sort of the same? Because that seems like one we could actually use. Building trains, you know, building high-speed rail between cities where people don't even want to go or some of these other ideas, Solyndra, I don't know, that type of infrastructure seems even less—makes less economic sense than the pipeline did.

**BUFFETT:** Yeah. We will—we will spend at BNSF 3.7 billion this year on the railroad and a lot of this what you'd call infrastructure, in fact. And that's by a large margin more than we've ever spent. One thing you'll get a kick out of, you talk about infrastructure, we actually had to build six bridges in connection with the—because of the floods that took place here. The floods were really tough this year, particularly on our railroad. And Matt Rose who runs BNSF, knowing how Charlie kind of grimaces whenever he hears about capital expenditures, he has named one of those bridges in Iowa the Charles T. Munger Bridge. We've even got a plaque put up there. So Charlie now has a bridge named after him. I don't have a bridge named after me yet.

**JOE:** Well, how much—well, how much of a role—it's amazing that it's so—a private company's building all that infrastructure. But what's the role of the government in terms of stimulus and the jobs plan? What's the role there for infrastructure? If you didn't think the pipeline makes sense, what makes sense for the government to be involved?

**BUFFETT:** I'm not saying the pipeline doesn't—I just don't know—I don't know the weight of the two arguments. I don't know that much about soil. I—it's just a subject that I...

**JOE:** Oh, OK.

**BUFFETT:** ...you know, like a whole lot of things that I don't know much about. But certainly, in terms of stimulus, infrastructure is a very, very logical place to spend real money. I mean, if you decide you're going to run a government deficit and large one and to act as a stimulus and you've got the kind of needs we have in this country in terms of all kinds of infrastructure...

**JOE:** Yeah.

**BUFFETT:** ...that's basically a good idea. Now I will say this. We [bought the entire BNSF equity](#), we paid about 33 billion for, about maybe 10 billion of debt. So call it

a \$43 billion total purchase. For that we got 32,000 miles of track, we got 6,000 locomotives, we got 13,000 bridges, all kinds of things. I think in California and now the number's up to 90 billion or something like that for 800 and some miles of track. So you can do the math.

**ANDREW:** Hey, Warren, just a—just to change topics real quick. While you've been on the broadcast, [Bank of America just announced](#) this morning that it sold 10.4 billion shares of China Construction Bank for a pre-tax profit of \$2.9 billion. You're an investor in the preferred shares, of course. I'm curious what you think of about the future of the company and also, more importantly, investors who watch you and watch you make these investments in preferred shares, should they be following you into the common shares?

**BUFFETT:** Not necessarily. Go back to the sale of the Chinese stock. [Brian Moynihan](#), I think, is doing a terrific job in going back to basics. Bank of America, you know, went off in a hundred different directions and a couple of them, such as Countrywide, are going to be ungodly expensive before they get all through with it. That's got nothing to do with the present management and Brian has the job of cleaning up some of the problems of the past. Not that the Chinese bank itself was a problem, but in terms of getting the capital in line with the total assets, he does have a problem that needs working on and he's been working on it. And one way to do it is to sell extraneous assets. To bring down the liabilities to some degree, you can bring up the capital, but you can also bring down the liabilities. He's been doing both. He is following a very logical path. He can't do it all in a week or a month or even a year. I mean, the legacy problems that he got handed are significant and they're not, in many cases, they're not capable of immediate resolution. But he is doing the things quite promptly that he can do things about promptly—where he can do things promptly. I think he's making a lot of good decisions.

**BECKY:** The Wall Street Journal criticized him in an [article last week](#) for flip-flopping on a lot of these issues, for decided to pull back on the ATM fees, the \$5 ATM fees, for deciding to go ahead and buy shares after saying they wouldn't...

**BUFFETT:** To issue shares.

**BECKY:** Or to issue shares after saying they would not issue additional shares. They said in the end it was the right decision, but he should've gotten to those decisions more quickly.

**BUFFETT:** Well, he's had a dynamic problem. I know when I went into Solomon, I found out a lot of things in the third month I didn't know in the first month. And when you have problems to clean up, when American Express had problems in the 1960s to clean up, when GEICO had problems in the 1970s to clean up, when Solomon had problems in the 1990s to clean up, usually the problems are bigger and more longer-lasting than you think, but they also are solvable. And it takes time, it takes a lot of effort, it takes—it takes a lot of grief, you know. But if you have a wonderful underlying business, which the B of A does, which GEICO did, which American Express did, you know, you'll get them resolved.

**ANDREW:** Right.



**BUFFETT:** If you have somebody there who puts their nose to the grindstone and does it.

**ANDREW:** Hey, Warren...

**BUFFETT:** In terms of the—go ahead.

**ANDREW:** Well, Warren, I just wanted to go back quickly to the preferred vs. common issuant and you said something very interesting, which is that when you make an investment in preferred shares, it doesn't necessarily mean that shareholders should rush to go buy the common. Is that right? And I ask it only because so many people who do give you these tremendous deals do it in part to quote unquote "rent the Buffett name." I know that when you...

**BUFFETT:** Now they...

**ANDREW:** I know that when you invested in Bank of America, my mother said, 'Can you believe Warren Buffett just invested in Bank of America? Maybe I should buy shares.' And I said, 'Mom, you don't understand. He's buying a different share than you would be buying.'

**BUFFETT:** Yeah, but I'm buying a different share in several ways, though, too, than she buys in that I was buying something for \$5 billion, where we had no—where we contractually we're not allowed to resell it for five years. So in the sense, we were putting money in where we couldn't change our mind next week or hope that it bounced up or anything like that. We were putting money in saying that in five years, we think this is plenty good. And that is a real vote of confidence. I mean, it's not a vote of confidence to go out and buy, you know, to buy 100 shares of XYZ and sell it the next day. But when you put \$5 billion in and you can't take it out, you can't touch it for five years, I think that is a valid vote of confidence. It doesn't mean that the common is a buy or a sell or a hold or, you know, anything else, but it does mean that we felt very strongly that the B of A was going to do get rid of its legacy problems over time and it'll take plenty of time and that the underlying deposit franchise and business they have is a terrific business.

**BECKY:** OK.

**ANDREW:** Great.

**BUFFETT:** And that the right fellow is running it to get that job done.

**ANDREW:** Thanks, Warren. We are going to slip in another break. As we head into the final hour of Squawk for this Monday morning, a lot more with Warren Buffett. That's coming up after the break.

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**JOE:** Welcome back. Squawk Box here on CNBC—where's Warren?—first in business—we should just have him in a four box. He's a—he's such a part of—I'm Joe

Kernen along with Andrew—oh, there he is—along with Andrew Ross Sorkin—there we go. Becky Quick is in Omaha with Warren Buffett.

**BECKY:** Mm-hmm.

**JOE:** We're going to get back to Warren in just a minute.

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**JOE:** Anyway, let's get to Becky. And we probably should talk to Warren at some point, whenever you want, Becky, about China.

**BECKY:** Yeah.

**JOE:** I read, I can't remember where it was, over the weekend—it was either in the weekend Wall Street Journal or The Times that there is—you can't help it, with the social media, 1.3 billion people are finding out more and more about property rights and freedom, and they're trying to figure out ways to censor a lot of this. I saw Gary Locke was over there. He's like a welcoming hero. He comes in there and people—they've—you know, when Huntsman was there, no one did anything.

**ANDREW:** Right.

**JOE:** But there's crowds showing up to see Gary Locke, and now the government is issuing all these press reports about 'This guy,' you know, 'he's a fake. He isn't—he is Chinese, but don't think that this is the way we should be.' And it's causing a lot of angst among the Chinese leadership that an American who is, you know, a couple of generations removed from China, is being so—sort of the adulation he's getting. So I don't know, we got to talk to Warren about whether that's really imploding at some point.

**BECKY:** Yeah, well, forget about all that. No, just kidding. Now that we've brought it up, why don't we go ahead and start on that? We've got some other stuff to talk to him about, too, and we'll recap some of the ground we've already covered over the last two hours. But Joe brings up a great point, Warren. When you start looking at what happened with the Arab Spring and you look at China and the country, the way it's been run to this point and the way it's very likely going to change, what do—what do you think? You've spent a lot of time in China recently, too.

**BUFFETT:** Yeah, well, I—I'm no great expert on it. I—they—they're going to have tensions within China just like we have tensions within this country. We—you know, our income disparities and the widening income disparity may cause a lot of tensions in the United States. Who knows? But China and the United States are going to be the two big factors in the world over the—over decades to come. And they'll be unhappy with some things we do when we tell them they can't buy Unical or something of the sort, and we'll be unhappy with things they do. There's things in our society that took us centuries, really, to get straightened out. I mean, you know, the 19th Amendment passed what, in 1920 or something like that.

**BECKY:** Hm.

**BUFFETT:** You know, blacks were three-fifths of a person. I mean, we—it took us a lot of time to work out things, and a civil war even in one case. So don't expect the progress of any huge society to be, you know, totally without some bumps here and there. But China and the United States, over time, will largely get along. We largely have the same interests. We both have nuclear bombs...

**BECKY:** Hm.

**BUFFETT:** ...so it's not in our interest to start getting really furious with each other. And there will be tensions. They'll—we'll want to play the game our way, and they'll want to play the game their way, and we'll both have to give in some cases.

**BECKY:** You know, [I've been to China with you](#) and with Boone Pickens in the past, and common threads for an American businessman going overseas, going to China is that, wow, it's a lot easier to get things done here.

**BUFFETT:** That's for sure.

**BECKY:** You can get through regulation quickly. The central planning is a big boost if you're trying to get something done very quickly. If that starts to be affected or impacted by the changes that are taking place in China, is China a less attractive investment area?

**BUFFETT:** Well, they will have more difficulty with that as they go along. But they do have—when they want to get something done and you get the government and business and labor all on the same page ready to do it, you'll build over there things in the period that would take us three or four times as long. And we've built factories over there and seen it happen.

So, as people get wealthy here, you know, they start casting their eyes about, and they don't get more satisfied. Sometimes they get more dissatisfied. That's happened in the United States. Right now we have six times the GDP per capita, in real terms, as when I was born. Now, I don't know whether people are happier now or more discontent or what than they were in 1930. But people have a way of adjusting very quickly to things becoming better, and then any little tiny adjustment downward they can get quite unhappy about. So they—they'll have—they'll have plenty of strains in their society, we'll have plenty of strains in our society.

**BECKY:** We should mention while we're talking about China that BYD shares—you may not have seen this yet, but they were up about 26 percent today on news that the Chinese government is making it a little easier for some of these new fuel vehicles that are out there.

**BUFFETT:** I didn't know that. Hm.

**BECKY:** Obviously, the BYD has been a very volatile investment, has been up and down and all over the place. Is it a good investment without the government pushing for some of these new-fuel economy—or new fuel vehicles?

**BUFFETT:** Well, Charlie's the expert on that, my partner Charlie Munger. But he would—I think he would answer that it would be—it would depend on how successful they are in perfecting certain technologies that he—that they're working very hard on. And he thinks that the—Wang Chuanfu, who runs that, is a—is a combination of Edison and Ford and who knows who else. And I—and the fellow has done remarkable things, so there's some—there are probably more remarkable things to be done, and there may be some remarkable things that can't be done, I don't know.

**BECKY:** Mm-hmm.

**BUFFETT:** But he—Charlie feels he's a very good bet.

**BECKY:** Joe, did you want to follow up on the China angle with that, too?

**JOE:** Oh, I mean, I—there's a couple of answers Warren gives I find a little bit unsatisfying, but I understand what he's saying. I don't know if I'd ever compare the income disparity issues that are front and center in this country with sort of what the Chinese people have to live with on a daily basis, Warren. It seems—but then again, they—it's a totally different culture. It's very—it's impossible for me to really—I've never been there, so I can't put myself in that place. Maybe it is a big a deal—as big a deal. I was thinking, you know, Tiananmen Square and bullets and total censorship and no property rights and 1/10th, maybe, the GDP per capita that we have, I—there's no way that I could ever say that our problems were in any way as bad as what some of the average Chinese have to put up with. That was what I was thinking, Warren, when you said that.

**BUFFETT:** Yeah, well, and I...(unintelligible).

**JOE:** I mean, I—seems to really minimize—I mean, sooner or later they're going to have a much bigger—want to have a much bigger say in their own lives than—I mean, we've got our problems, but I just can't imagine you'd say that it's similar to what—our income disparity's equivalent to the absolute human rights disaster in China right now.

**BUFFETT:** No, but we had our own human rights disasters. I mean...

**JOE:** Oh, I remember. I know.

**BUFFETT:** Yeah.

**JOE:** I know. But we're talking about now.

**BUFFETT:** Yeah. Yeah, and they're—and—well, no, but I—but I would say they're really—they're really coming off 40 years, essentially, of a real history. I mean, for centuries they were stuck in the same place...

**JOE:** Right.

**BUFFETT:** ...and they are 40 years—they're 40 years into the life of what I would consider the present Chinese country. And 40 years into our country, you know, we had slavery, we—you know.

**JOE:** Right.

**BUFFETT:** We had a—we had a—so I wouldn't expect them to accomplish...

**JOE:** Right.

**BUFFETT:** ...in 40 years what it's taken us 200 years to accomplish.

**JOE:** But they're—but they're—it's being thrust upon them by technology. It—and they—you know, we—back during the Civil War we probably had—how long did it take to get news, you know, travel a couple of hundred miles? I mean, look the way—look what they're dealing with, right? They got 1.2 billion people that are coming right into the 21st century, boom, like that. And I just wonder whether that's a bigger problem for them to try to—to try to manage. But like I said, I think a lot of—a lot of people are happy with the pace of the progress already over there. And it is staggering how—I mean, you can't grow much faster than 10 percent a year.

**BUFFETT:** No, no. And we were—you know, we were 70 years into our country before we tackled a very big problem, and we tackled it in a very tough way. I—no, I—listen, all countries keep evolving, and I think we've evolved in—obviously in the right way over the years. But it took us a long time to do it in many—in many areas.

**BECKY:** Mm-hmm.

**BUFFETT:** Yeah, I changed my...

**JOE:** But if the Arab—if something like the Arab Spring ever did get started, though, I just don't know—but, you know, whether they—there's so many local, I guess, political officials there that are sort of—have a vested interest. I mean, one of—in that Gary Locke piece, I was amazed. The Chinese people were amazed that he would take a normal car, that he would wait in line to do something.

**BECKY:** Hm.

**JOE:** These bureaucrats in China are riding around in limos, their kids have Ferraris. I mean, there is still a lot of things that the Chinese people are—for Gary Locke to look like almost a—you know, a paragon of where they'd like to be someday, I mean, that shows that—you know, the entrenched political system over there has still got—I mean, there's going to be a day of reckoning.

**BUFFETT:** Yeah, well, there was a day of reckoning in—you know, in the South during the civil rights movement, you know, in the '60s, too, and that was 170 years after we started. And there was Bull Connor and—you know, and...

**JOE:** So where are you—where are you dating China's—I mean, they were—you know, they were a civilization long before we were.

**BUFFETT:** Yeah, but...

**JOE:** I mean, you know, you're giving them the benefit of—what, you're—Mao is when they started?

**BUFFETT:** Yeah, I—they were stuck. It's fascinating. I mean, they were as smart as we were, and they worked as hard and they went no place for centuries while this country, you know, went from nothing to 25 percent of the world GDP. Yeah, but we had a wonderful, wonderful system. There were flaws in it...

**JOE:** Right.

**BUFFETT:** ...but there—it was a wonderful system. It was a market system and equality of opportunity, rule of law, all these things we aspired to. And our aspirations led us into reality over time.

**JOE:** We...

**BUFFETT:** But they really—the starting point with them is about 35 or 40 years ago.

**JOE:** Right.

**BUFFETT:** Before that they were basically a feudal society going no place.

**JOE:** This Niall Ferguson. I don't know if you got that book yet, "Civilization." But we just had him on talking about this, that for 500 years these crummy little Western countries just led the world when they should have killed us over in...

**BUFFETT:** Yeah. Right.

**JOE:** But now they've down—they've downloaded all of our killer apps, science.

**BUFFETT:** That's exactly right.

**JOE:** They had all the things that we've done. And now they're going to kick our butts and—because they've downloaded all...

**BUFFETT:** Well, they—no, I...

**JOE:** No?

**BUFFETT:** I believe the first part of that but not the second part, yeah.

**JOE:** All right, wait, they're—Niall says the only way we can hope to compete is that the one thing that they haven't downloaded, and that's property rights and the rule of law, that that comes back to haunt them. And then on a—on a relative basis we'll still be able to do OK. But they've got some—with the other five they have downloaded, they're going to be a formidable force for the next 50 years, you'd think.

**BECKY:** Yeah.

**JOE:** What's up, Andrew?

**ANDREW:** No, hey, Warren, just on this economic inequality bit—now you're looking at me funny, Joe—I know I was curious...

**JOE:** Oh, you always say that, that I'm looking...

**ANDREW:** No, what I was curious about was actually if you had a view and whether you were a supporter, ultimately, of the [Occupy Wall Street](#) folks. I think I saw that your son said that he was a supporter of the movement.

**BUFFETT:** Yeah.

**ANDREW:** I should tell you, by the way, I went down and reported down in Zuccotti Park and asked somebody what they thought of the Buffett rule, and they asked me, 'Who is Warren Buffett?' So I...

**BUFFETT:** Yeah. Well, they probably got a point there. No, I don't—it—that's not a huge factor. I mean, that—I don't even know, you know—I don't think anybody knows precisely what their major points would be or the leadership would be. That isn't what is going to change things. What—but it is a fact that in the last 25 years the Forbes 400 list has had its net worth increase nine for one, nine for one. In the last 15 years, it's increased over three for one. That is not happening with the American people generally, and it's happening during a time when those same rich people have had their tax rates go down, down, down. And I think that when we're talking to 312 million Americans about shared sacrifice and taking away things we promised to them—because we're going to have to do that. We're going to have to bring our expenditures down to 21 percent or so of GDP, and that's going to require a lot of sacrifice around the country, a lot of breaking of promises we've made. And I say that it's time for the ultra-rich to share in that sacrifice to some degree. They won't even feel it. I mean, you change the Social Security rule somewhat and millions of people will feel it and they'll really feel it. You change the Medicare rules and millions of people will feel it. You get a minimum tax of 30 or 35 percent on incomes of a million or 10 million or over, truth is those people won't even feel it. But at least the American people, as a whole, will feel somehow that the ultra-rich have been asked to participate to a small degree in this overall sacrifice that we're all going to be asked to participate in.

**BECKY:** Isn't that what Occupy Wall Street is all about, though, this feeling that there's a growing bridge between the haves and the have-nots?

**BUFFETT:** There—that's one of—that's certainly part of the feeling. But it's very hard to tell...

**BECKY:** Yeah.

**BUFFETT:** ...because I never really heard anybody speak out and say, 'These are the'—with the civil rights movement, I knew what it was all about.



**BECKY:** Yeah.

**BUFFETT:** I'm not sure I know precisely what this...

**BECKY:** I guess there's not a leadership of Occupy Wall Street in the same sense.

**BUFFETT:** Yeah.

**BECKY:** There's just this feeling of discontent.

**BUFFETT:** Yeah, well, I think the American people feel, generally—well, in fact, 76 percent of that in the—in the [recent Wall Street Journal/NBC poll](#), 76 percent feel that it's wrong, what has happened in terms of the tilt in many ways, including the tax law toward the rich.

**BECKY:** Let's talk some more about what was found in that NBC/Wall Street Journal poll. Also, only 19 percent of those surveyed said that they think the country's headed in the right direction.

**BUFFETT:** Uh-huh.

**BECKY:** And 47 percent—or I think it was 40 percent of them said that they think things are going to get worse.

**BUFFETT:** Yeah.

**BECKY:** The worst is yet to come. And what does that tell you about the American people's sense of what's happening in the economy vs. what you tell us you're seeing in your companies?

**BUFFETT:** It's really fascinating, Becky, because it—that same poll—if you go back to October of 2008, when it was clear that—you know, we talked about on this—on this program that what was happening in the fashion world was going to hit into the business world huge. At that time, more people thought things were going to get better in six months than worse, in October 2008. Now they think things are going to get worse in the next six months. What has really happened in the last two years, and I'm seeing it in every bit of data I look at, is that the economy has generally kept moving forward. Business after business, you know, Dairy Queens to jet airplanes, it gets better. Except housing is in a depression. Now, you take housing and put it in a depression, not a recession, a depression, and that has a big impact and it—and it has a big psychological impact because everybody—you know, 66 percent of people live in their own homes, you know, and the person next door does if they don't. And then, you know, throw that on top of the unemployment figures...

**BECKY:** Yeah.

**BUFFETT:** ...which I think are just disproportionately affected by what's going on in construction, and you can see why people—and then throw in what's happening in Washington, and people are discouraged. They'll get over it. I mean, that is not a

permanent condition. But what you're saying does accurately reflect, I think, what the present mood is.

**BECKY:** You had told us earlier this year that you thought maybe we'd see a turn in housing by the end of this year.

**BUFFETT:** Right.

**BECKY:** You're now saying it's not necessarily there just yet.

**BUFFETT:** It isn't there yet.

**BECKY:** So...

**BUFFETT:** Yeah, I was wrong.

**BECKY:** ...when do you see the turn at this point? Is it something that happens before a year from now when we're—when we're looking at a presidential election?

**BUFFETT:** Well, certainly the president hopes so. Yeah. It's—you know every day it's going in the right direction. When it turns, you know, I—obviously I thought you would see the turn by the end of this year, and you haven't. In a sense that's good. I mean, you would not want some artificial program in place that was causing extra housing starts now. That—it would just delay the solution. We don't—the nice thing about it is we're not Japan. We're not Italy.

**BECKY:** Mm-hmm.

**BUFFETT:** I mean, Italy has no population growth. We are a country where households are formed daily in significant numbers. There was a slowdown in 2009 because of the first impact of the recession, but households are getting formed every day faster than houses are being constructed. That solves itself. Now, it doesn't solve itself as fast as people would like...

**BECKY:** Mm-hmm.

**BUFFETT:** ...but it does solve itself. And the economy, which is good in many areas, will be very good when that—when that imbalance is worked off.

**BECKY:** OK, we're going to talk more about that. And Joe will also get back to the breaking news of this morning. Warren Buffett sharing with us earlier what he's been buying...

**JOE:** Yeah.

**BECKY:** ...not only over the last quarter, but earlier this year. We can talk more about that when we come back, too.

**JOE:** Great. OK, we'll do that, Beck. Thanks. Coming up, more from The Oracle.

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**ANDREW:** Let's get back to Becky who is in Omaha with the Oracle of Omaha. Becky:

**BECKY:** Hey, Andrew, thanks very much. We've been live with Warren Buffett all morning long. We've covered a lot of ground, but one bit of breaking news he gave us this morning is talking about what he's been purchasing over the last quarter and even before that. When the earnings came out, we knew that he had been spending a lot of money on equities and this morning Warren Buffett shared with us what exactly he's been spending, what the big part of that purchase has been. IBM, Big Blue, that's an investment that Buffet's been making and making it very handily. Up to this point he has invested just over \$10 billion, 10 point...

**BUFFETT:** I'm not sure exactly. About probably 10.5, 10.6, something like that.

**BECKY:** All right, \$10.5 or 10.6 billion. He now owns about 5 1/2 percent of the shares outstanding of IBM. And, by the way, this is news not only for our viewers but also for IBM. You have never spoken with IBM about the idea that you've been coming into that stock?

**BUFFETT:** I haven't talked to any—anybody at IBM whatsoever, or written to them or anything.

**BECKY:** So you say at this point you're about done, that you've bought what you want to buy at this point?

**BUFFETT:** I wouldn't be talking otherwise.

**BECKY:** OK.

**BUFFETT:** That doesn't mean I want it to go up, though, because we do better if it goes down because they are repurchasing stock all of the time. And if they're going to spend \$50 billion, some number that they announce in the next five years buying it, the cheaper they buy it the greater our interest goes up. Very simple. If you're a buyer of stocks, you want those stocks to go down. In fact, if I—if we had enough money coming in and IBM went down we might buy more.

**BECKY:** For those who have just been joining us over the last few minutes who didn't see in the last hour what you talked about, why don't you explain why you bought in to IBM because this is an unusual purchase. It's something that will come as a surprise.

**BUFFETT:** Well, I've been reading the annual reports for 50 years, I competed with them 50 years ago. I—but the 2010 report came in on a Saturday, I read it as I always do and instead of reading it through the old ones of glasses lens I read it through a new glasses lens and then I set out to learn more about it. They laid out some very specific things they expected to accomplish. I really compliment the management on that. I don't know of any large company that really has been as specific about what they intend to do and how they intend to do it as IBM. And they did that five years ago when they did it and they've done it since. So they...

**BECKY:** What are—what are some of the specifics?

**BUFFETT:** Well, they give you a road map and they spend—you can read dozens and dozens of pagers on—they explain it. You can go to their website and learn about it. But then I went out and—or people in the office did before me, and we looked at our own IT operations through many of our companies. We got lots and lots of companies. I don't—I don't know anything about the IT operations. But basically I was interested in learning how they came to the decisions they did, the stickiness, you know, what they might be doing three years from now or five years from now. And when I got all through I felt that IBM had a very good business and I felt that they had this terrific reverence for shareholders. They tell the—they're honest with their shareholders. They tell their shareholders what they expect...

**BECKY:** Mm-hmm.

**BUFFETT:** ...to accomplish. They expect to be held to it. They repurchase shares on a big scale. They do not use those repurchased shares. They go out and issue the same number of shares. They've taken down their overhang by 200 million shares. Now the base is a billion 180. They've done all kinds of things right.

**BECKY:** Andrew, I head you have a question, too?

**JOE:** Yeah, Andrew, go ahead.

**ANDREW:** Hey, Warren, I'm having a little bit of trouble with the IFB, but what is the average price that you paid for those IBM shares?

**BUFFETT:** Hundred and seventy roughly.

**ANDREW:** Hundred and seventy?

**BUFFETT:** Maybe just a touch under.

**ANDREW:** So it's trading at about 189—189 bucks now. So that's actually—and you started buying, you said, in April?

**BUFFETT:** March.

**ANDREW:** March. OK.

**JOE:** OK.

**ANDREW:** We had a couple—we had a couple of viewers write in to find out that answer.

**BUFFETT:** It takes—it takes a...

**JOE:** Mm-hmm.

**ANDREW:** So there are people who are...

**BUFFETT:** It takes—it takes a long time to buy a lot of stock.

**BECKY:** Yeah. What do you think about the new CEO, Virginia Rometty?

**BUFFETT:** Well, I don't know her but I've—but I've read things she's said and they are batting a thousand in the last two CEOs they've come up with. So I've got no—and she's been—she's explained these plans that they have for the next five years. I have no reason to be anything other than positive.

**BECKY:** OK. Why don't we switch gears and talk a little bit about some of the other news that we've been focusing around the Capitol. Jack Abramoff, the disgraced lobbyist, is [out with a new book](#), and he talks about how people on Capitol Hill, specifically congressional staffers, have been trading based on inside information that they know. Now it's not inside information that the SEC would necessarily crack down on, but do you think it's right that congressional staffers be trading on stocks when they know that there are investigations from some of their committees that are going into some of those companies?

**BUFFETT:** No, obviously it's wrong. I mean, I saw two different "60 Minute" programs.

**BECKY:** Right.

**BUFFETT:** [One last night](#) that was on this trading. It focused more actually on people in Congress themselves on that one. Abramoff was—I mean, when I saw him a week or so ago he was talking about the incredible power of lobbyists. And, of course, that gets into this whole question of why the rich have low taxes. I mean, you know, if there's a class war, you know, we're the ones that are waging it, the rich. And our soldiers are the—are the lobbyists. And the poor have a bunch of little toy soldiers and we've got these guys that have got the ins with the staffers and all that sort of thing.

**BECKY:** Administration after administration has promised that they would crack down on the lobbyists and lobbyists seem to be as powerful as ever.

**BUFFETT:** That's right. It serves the interests of the people on both sides.

**BECKY:** So what can be done?

**BUFFETT:** People have to get outraged enough that they hold congressional feet to the fire. But this system works for the people involved. It works for the—it works for the wealthy, it works for the special interests, it works for people in Congress and it works for the lobbyists. And it may not work for my cleaning lady, but, you know, what can she do about it?

**BECKY:** I guess one argument could be that if we actually saw a tax code that didn't have the exemptions that we have now that you'd be looking at a much better

situation because the lobbyists are the ones who push for these exemptions and they're pushing on behalf of the powerful corporations and people.

**BUFFETT:** They're powerful and often rich. But powerful people. Sometimes they're powerful because they control a lot of votes, too.

**BECKY:** Right.

**BUFFETT:** I mean, it doesn't have to be money. But it often is money.

**BECKY:** So is that an argument for a tax code that is stripped down the way Simpson and Bowles laid out?

**BUFFETT:** Well, it—you can go back to what, you know, Kemp-Roth and all of that, too that we were working on. But it—I think what happened with Simpson-Bowles was an absolute tragedy. I mean, here are two extremely high-grade people, they have somewhat different ideas about government. But they're smart, they're decent, they've got good senses of humor, too. They're good at working with people. They work like the devil for 10 months or something like that. They compromise, they bring in people as far apart as Durbin and Coburn to get them to sign on and then they're totally ignored. I think that's a travesty.

**BECKY:** Why are we starting over with a new congressional committee?

**BUFFETT:** Well, because we ignored the last one. You know, Congress basically has said put us in a position where something so unpleasant happens that it'll force us to do something we don't want to do. And the sequester is supposedly that. Now they talk about getting rid of the sequester if it—if action doesn't take place. People are sick of it. And it—it's pretty transparent what takes place. And democracy is messy, though. We will get to the—we will get to the answers eventually. We will not be spending 25 percent of GDP and raising 15 percent of GDP 10 years from now. We'll get there somehow.

But going back to the lobbyist question, you know, everybody in the country is trying to figure out how to have somebody else pay for it. But some of them are better equipped to fight that fight than others and they're the people with money that care and that hire lobbyists.

**BECKY:** Do we get to that point? You say eventually we'll get to a position where we figure it out and we're not spending 25 percent and bringing in 15 percent of GDP in revenue. Do we get to that position on our own or does it take a crisis like we've seen in Greece or Italy to make the United States government sit up and actually pay attention?

**BUFFETT:** It probably takes a general feeling in Congress, and maybe in the administration that they've got more to lose by sticking with the old system if nothing happens and stalemate than they have of finally getting something done. In other words, it takes a feeling that incumbents are going to get turned out unless they get some action.

**BECKY:** We're not there yet.

**BUFFETT:** I don't know. We may be—we may be getting close. I think that's what incumbents are worried about now.

**BECKY:** OK.

**JOE:** Hey, Warren...

**BECKY:** All right.

**JOE:** ...listening—I don't know whether we got to take a break—we got to take a break? We don't have to take a break—we do? All right. All right, if we have to, we have to. But, all right, then I'll hold my thought. But it has to do with what you were just talking about. When we come back with more Warren Buffett we will continue this conversation. SQUAWK will be right back.

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**JOE:** Let's get back to Becky and Warren in Omaha. Here's what I was thinking, Warren. Or let's say that we raise revenues, let's say that we do the Buffett tax. I'm getting the feeling, and I don't know, you can answer for me, that you're not necessarily talking about using the increased revenue to expand the size and scope of government to include more social programs or more of a safety net. Would you use most of the increased revenue to pay down the deficit that we're already running? Or are you actually looking at becoming more like Europe in terms of a welfare state and a social safety net?

**BUFFETT:** Oh, no. We need to reduce the deficit and I probably am for doing it. I don't think the difference between 8 or 9 percent GDP stimulus and 4 percent is that dramatic at this point. Most of the economy is recovering and the other is a matter of time and not stimulus in my view. But no, I—spending's going to have to come down. We are a very, very, very rich family. We have \$120,000 of GDP per household in this country. It's fabulous. It's, like I said, it was six times when I was born. But even a rich family can promise too much. I mean, in the end you deal with finite resources and it's easy to promise and you can overpromise and we've overpromised. And that's why I feel terrible, frankly, that for people that will find promises modified and/or broken and I—and I also feel that it's terrible to have a situation like that exist when the rich are paying the lowest tax rates that they've paid in my lifetime. I was paying higher tax rates back in the '50s and '60s when I had very small income. So I—we are not—we're not paying down anything. We may be reducing the size of the deficit. And, incidentally, we can run a 2, 2 1/2 percent of GDP deficit indefinitely and not have GDP go up as a percentage—I mean not have—not have the debt go up as a percentage of GDP. We've done it. We've done it for the last 50 years since World War II. But the numbers we're running now are not sustainable over time. And the only way to change something that's not sustainable is to change it.

**JOE:** All right, but I mean the 15, 25 you talked about if we go—even if we met at 20, 20 you're talking about...



**BUFFETT:** We don't have to meet. Yeah, we don't have to meet, Joe.

**JOE:** Yeah. Right.

**BUFFETT:** It can be—it can—it can be 18 1/2, 20 1/2, 18 1/2, even 21.

**JOE:** But it's coming down from 25, Warren. I mean, you're—whatever you're talking...

**BUFFETT:** Right.

**JOE:** ...about you are talking about so that's why a lot of people that say, 'look, we're just spending too much' and maybe, you know, both sides do have a point, that it is a spending problem first and foremost that's going to have to come down no matter what.

**BUFFETT:** It's not only a spending problem, it's a promise problem.

**JOE:** Right.

**BECKY:** I mean...

**JOE:** Right.

**BECKY:** Right.

**BUFFETT:** Yeah. But it's—but it's—but it's an income problem, too.

**JOE:** It is, but...

**BUFFETT:** Yeah.

**JOE:** ...you know, you've got—but then you come back to...

**BUFFETT:** It's an important income.

**JOE:** Yeah.

**BUFFETT:** It's an important income problem, but there's no question you've got to go up three or three and a half points on the—on the income side and you've got to come down four points or so on the expenditure side and you've got to modify the promises or you'll never get it done on the expenditure side.

**BECKY:** The Republicans, though, have said that the way they can come about doing this is that, A, we're in a recession that we've been coming out of and eventually as the economy improves that will bring the revenue numbers back up. And B, that if you cut back on some of the taxes that it would actually increase the economy even further. Do you think that that's the case?

**BUFFETT:** Well, they—it's very interesting. They say if you increase taxes that will hurt the economy, but they say you can cut expenditures without hurting the economy. In other words, they say if you reduce the deficit one way it doesn't hurt, and if you reduce the deficit the other way that you got...

**JOE:** But—but they're both destimulative. Which—it's probably not a great idea to do both, Warren. In other words, cutting spending and raising taxes are both destimulative. I mean, where would your priority be?

**BUFFETT:** It depends.

**JOE:** I mean...

**BUFFETT:** It depends who you raise them on. It depends who you raise them on.

**JOE:** Right, right, right.

**BUFFETT:** I mean, if you—I've got 6 or \$7 million in my pocket right now...

**BECKY:** Really?

**BUFFETT:** ...just from last—just from last...

**JOE:** Wow.

**BUFFETT:** She got more interested.

**JOE:** Wow.

**BUFFETT:** Just from last year...

**JOE:** The baby...

**ANDREW:** Right.

**BUFFETT:** ...just from last year in terms of what the Republicans saved me, you know. And I could have paid 34 percent just as easily as 17 percent. The government would have 6 or 7 million more and I had six or seven million less. It wouldn't change one thing I'd be doing.

**JOE:** Right.

**BUFFETT:** Our corporations are awash in cash. You know, we have spent...

**JOE:** Just...

**BUFFETT:** ...as I said, we spent 10 billion on IBM, we spent 5 billion on B of A, we spent 7 1/2 billion on capital expenditures, a record this year.

**JOE:** So you do think—do you think corporations are undertaxed in this country, Warren?

**BUFFETT:** I do not think tax rates are too high on corporations. No, not at all.

**JOE:** So you would—everybody says bring it down.

**BECKY:** What about the bigger argument?

**JOE:** Yeah, everybody says bring down the corporate taxes.

**BUFFETT:** Yeah, well, listen, I mean, Berkshire would love to have it brought down. I mean, if you bring us down 10 points and we make billions more. But...

**ANDREW:** Well, what was your tax—your tax rate was 5 percent or something at Berkshire, wasn't it?

**BUFFETT:** No, no, no, no, no.

**JOE:** What was it? What was it?

**BUFFETT:** No. Our—it'll—our accounting tax rate will be probably 32 or 3, something like that.

**JOE:** What does that mean, accounting tax?

**BUFFETT:** We don't—well, I mean, I mean, if you look at—if you go back to the back of our annual report and it shows the tax rate calculated. But that allows—that allows for deferred taxes. But our tax rate is...

**ANDREW:** So the—the effect...

**BUFFETT:** Our tax rate is probably—it's—if you take the S&P 500, our tax rate would probably be about 7 points higher.

**ANDREW:** So Warren, just to...

**BECKY:** Then the average across the S&P 500?

**BUFFETT:** Yeah.

**ANDREW:** Just to clarify...

**BUFFETT:** Right.

**ANDREW:** ...the effective rate you're saying is about 33?

**BUFFETT:** Something like that. If you got our annual report there, you can look it up in the back.

**ANDREW:** OK. We'll take a look. By the way, just to switch gears because we've got a number of viewers who've asked the question, you talk about what you loaded up on and bought, including IBM, is there anything you've sold in the last quarter?

**BUFFETT:** Not much. We've—yeah. We may have trimmed a little here and there, but we've had no massive selling of any kind. I like buying better.

**BECKY:** You know, you go back to the corporate tax rate, though, and for the people who are saying you ought to lower that corporate tax rate, even Simpson-Bowles talked about doing that, but getting rid of a lot of the deductions.

**BUFFETT:** You...

**BECKY:** It's the same situation. If you can make sure that people are actually paying that rate, is that an effective way of doing it?

**BUFFETT:** Well, I—obviously...

**BECKY:** Reducing it, so let's say, 25 percent.

**BUFFETT:** Yeah. We can come up with a much fairer corporate tax arrangement than we have now. I mean, there's no question about that. But generally speaking, the proposals are you can take the rate down and make it revenue neutral by knocking out all those special things. I have nothing against that. That would—that would benefit Berkshire, frankly, but I will tell you, if it's going to be revenue neutral, it means just as many people are going to have their taxes increased as decreased and the ones that are going to have them increased are going to be flooding the Capitol with lobbyists. I—if it's going to be revenue neutral, I will—you know, that means billions and billions and billions more are going to come from some companies because we're going to pay less at Berkshire.

**BECKY:** Right.

**BUFFETT:** That's—that will be hard to pass. And that's why you don't really see much happen on that front.

**BECKY:** But again, the...

**BUFFETT:** It would be a desirable—it would be a desirable outcome, but I've got a—I've got a dog in that fight. I mean, that—anything that brings down the rate and gets rid of most of the loopholes, we benefit from.

**BECKY:** But that argument is the one that's being put forth. Do you think it's possible to get not only a corporate tax rate, but a personal tax rate that gets rid of a lot of those deductions and manages to still bring in revenue? Is that possible in the Washington of today?

**BUFFETT:** I think it's very tough. I think the people who find—if something's revenue neutral, I think the people who find their taxes going up are going to complain and spend a whole lot more money fighting it than the people on the other

side. It may not be impossible, but I'm just saying that that's the reality of sort of the functioning of Washington.

**BECKY:** But we have simplified the tax code in the past.

**BUFFETT:** We have.

**BECKY:** The last time was back in the '80s.

**BUFFETT:** Right.

**BECKY:** Is it possible to do that again?

**BUFFETT:** It's possible.

**BECKY:** But you don't sound hopeful.

**BUFFETT:** Well, I'm not real hopeful, no.

**BECKY:** Hm.

**BUFFETT:** But for one thing, it needs to raise more revenue, which makes it even more difficult.

**BECKY:** Right.

**BUFFETT:** All right. Joe, I think we need to slip in another quick break here, but when we come back we do have more to discuss with Warren.

**JOE:** Excellent. OK. Great. Coming up, we have more from Warren Buffett. Don't miss Squawk Box tomorrow. Becky's back week continues with Mario Gabelli and BlackRock's Larry Fink.

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**ANDREW:** Let's get back to Becky and Warren Buffett now in Omaha. But before you guys kick it off, I have a quick question for Warren, which is this: A couple of weeks ago Rajat Gupta the Goldman's—former Goldman Sachs board member was charged criminally with tipping off Raj Rajaratnam on what was your investment in Goldman Sachs. And I was curious A, if you knew anything about it either directly or indirectly; and B, your sort of larger view on the fact that a board member at a firm like Goldman Sachs, which you do believe in, potentially might've been tipping off and giving information to others.

**BUFFETT:** Well, I think that unfortunately people do that and when they do, I hope they get caught and when they get caught, I hope they get prosecuted. It—you know, the system has a lot of temptations in it and people succumb to temptations and the only way that you reduce that kind of activity is you look very hard to find it and then you do something about it when you do find it.

**BECKY:** Mm-hmm.

**ANDREW:** I was also curious, real quick, if I could, an update on the David Sokol situation. Has there been any movement, have you heard back? I know at the time, last time we talked about this back in May, you had not heard from the government. Has the government moved on this or talked to you about it all?

**BUFFETT:** The only time, in June, the SEC, it wasn't—it wasn't formal or informal and it was not a deposition, no court reporter, anything like that. But they asked me to—well, they asked me a lot of questions and—which I gave them the answer to and so I know nothing about what's—what they're doing beyond the fact that they wanted to ascertain certain facts from Berkshire and from me as to what had taken place.

**ANDREW:** You...

**BUFFETT:** And we cooperated—we cooperated 100 percent. Like I say, it was—it was not a—it was not a—there was no court reporter, nothing like that.

**JOE:** Just seeing NetJets...

**BECKY:** No...

**JOE:** Seeing NetJets—sorry, Beck, seeing NetJets again, just reminds me of the—you—are you on the record saying that you think it's a bad idea to—for—to get rid of any type of tax breaks for corporate jets, Warren? I mean, you do have a horse in that game, too.

**BUFFETT:** Yeah. Well, I can say this, we have a—I have a couple of personal NetJets contracts. I get no tax breaks whatsoever. I don't get depreciation, I don't get deduction of the expenses, I don't get anything.

**JOE:** Yeah.

**BUFFETT:** And if I have a loss when I sell my interest in the plane, I don't get a—I don't get to deduct the loss or anything of the sort. It's just a personal expenditure. You know, there's 100 percent bonus depreciation that exists this year on really all sorts of assets. I mean, what we're—what we're spending money for on our utility, what we're spending money for on our railroad. And that—I assume that applies to—well, I know it applies to corporate aircraft or any kind of—any kind of aircraft used for business purposes. But I don't—I don't think—I really—in terms of Berkshire, we have a whatever depreciation schedule was allowed and we bought ours when there was normal depreciation, our interest in NetJet and like I say I get no deductions whatsoever on my own personal.

**JOE:** Yeah. Yeah.

**BECKY:** Now Warren, you've talked about—oh.

**JOE:** No, go ahead.

**BECKY:** You talked about how you—you OK, Joe?

**JOE:** Yeah, I'm OK. OK. The last time he flew a commercial, still, he never did answer that. He never referenced...

**BUFFETT:** The last time I flew commercial?

**BECKY:** Flew a commercial jet.

**BUFFETT:** It was a long, long time ago. It won't happen again.

**JOE:** What was the—what was the in-flight—that's what I said, the in-flight movie? The in-flight movie was Charlie Chaplin. It had just come out. It was still in theaters.

**BUFFETT:** Joe, I tell you, if—once you—once you've flown NetJets, going back to commercial is like going back to holding hands.

**JOE:** Don't rub—don't rub it in.

**BECKY:** Yeah, I know. I tweeted about my experience getting here yesterday. I won't repeat it on air. But Warren, you've talked an awful lot about how you're optimistic about this country and where it's headed and you've been putting your money where your mouth is by buying American stocks, but what we've seen with the beginnings of earnings season or with the last earnings season are some pretty concerning notes. When you look at what GM came out with, it talked about the European slowdown and how that's going to be affecting them. Macy's came out and gave guidance that was a little lower than the Street had been expecting for the fourth quarter. And those are things that rippled through the stock market. I know there's a lot of concern out there about the slowdown and what it could mean. What...

**BUFFETT:** I don't have the faintest idea what the stock market's going to do and I would say this, in the last 75 years, Macy's has probably been disappointed with their sales at least 25 or 50 times and General Motors has seen a slowdown 20 times. It really doesn't make sense in my view to pay attention to that. I mean, the luckiest person in the world, in the history of the world, is the baby that's being born in the United States today.

**BECKY:** Hm.

**BUFFETT:** So your Kyle is a very, very—you know, that doesn't mean some of them won't be born with bad health or anything, but overall, there's never been a better time to be born than today and there's never been a better place to be born than the United States. And we will have all kinds of problems. We've always had them. Macy's has always had, you know, bad quarters. General Motors...

**BECKY:** It wasn't even a bad quarter, though. I was just saying that the numbers could be a little below what the Street was expecting.

**BUFFETT:** Yeah.



**BECKY:** So I guess the question is, are the expectations getting ahead of where we really are?

**BUFFETT:** Well, I—my—I don't think mine are. I mean, what I see is I see an economy where most of the economy has been recovering quite steadily, although the public opinion hasn't been as steady, but quite steadily for a couple of years now. We should thank Bernanke and Paulson and President Bush and President Obama and Tim Geithner for doing a lot of things that helped us get out of what could've been a terrible, terrible mess. It was a mess.

**BECKY:** Hm.

**BUFFETT:** But we really were right at the abyss and we had—we had a government that did the right things. Maybe they did some wrong things earlier, maybe they didn't do it perfectly.

**BECKY:** Mm-hmm.

**BUFFETT:** But I give them great credit and this country's best days lie ahead, believe me.

**BECKY:** I know that this is not something you pay attention to on a daily basis or even a weekly or a monthly basis, but the market volatility has increased and you talked a little earlier about how there's always uncertainty out there. But that uncertainty seems to be something that is resonating with the public and with investors right now. Do you see an end to that uncertainty or is this a slightly different period where we're very worried about the headline risk coming out of Europe?

**BUFFETT:** I wouldn't worry about the headline risk unless I was on leverage.

**BECKY:** Yeah.

**BUFFETT:** I mean, if I own a good business privately, am I worried about what the headlines are tomorrow if I've got the best—if I've got the best restaurant in town? If I've got the best dry-cleaning establishment in town? The best auto repair shop in town? I'm not worried about the headlines tomorrow, I'm worried about taking care of my customer.

**BECKY:** Hm.

**BUFFETT:** And it's the same with big companies. So I don't know what the stock market's going to do and nobody else does, either. I mean, but forget about it. I don't know what farm prices are going to do tomorrow, either, but I know a good farm run by an honest tenant farmer and that there'll be improvements in agriculture, so just own good assets run by decent and honest people and if you can own all of them, you can own all of your own business is wonderful, you own a little piece of it, it's wonderful, but don't pay any—volatility is good for you.

**BECKY:** Hm.

**BUFFETT:** I mean, if farm prices would vary from X to 3X in a given year, I'd make a lot of money in farming. I just buy when people were depressed. They don't move that much. Stocks overreact all the time and that's why a guy can keep his senses about him can get very rich.

**BECKY:** You've been doing this for a long time. You're 81 years old now and Whitney...

**BUFFETT:** You've noticed.

**BECKY:** Yeah, I did notice. Whitney Tilson came out with a report, I don't know, maybe it was a month or two ago, and said that he thinks there's an 80 percent chance that you'll still be the chairman and CEO of Berkshire in five years and a 50 percent chance that you'll still be doing this 10 years from now.

**BUFFETT:** I think he's right about the 80 percent chance. I'll have to go look at the figures, but I'm in, you know, I'm in very good health, I love what I do and I'll go gaga someday and they'll yank me out of here.

**BECKY:** But you feel good and you think that that's a reasonable 80 percent chance that you'll be doing this five years from now?

**BUFFETT:** Yeah, if I'm lucky, sure.

**BECKY:** [Joe Paterno](#) is somebody else who's been doing his job a very long time.

**BUFFETT:** Don't bring him up.

**BECKY:** Well, there was some newspaper reports, I think the AP wrote a story about how, you know, you're one of the few people who's been doing things almost as long as he did. He had a longer tenure than you did and Nebraska beat Penn State over this weekend.

**BUFFETT:** That's right.

**BECKY:** Did you watch the game?

**BUFFETT:** Sure. I enjoyed the game.

**BECKY:** But it does say something about long tenure.

**BUFFETT:** Age gets to you at some point.

**BECKY:** Yeah.

**BUFFETT:** It gets to different people at different points. I mean, we've had managers that we've had to terminate, you know, in their low 70s.

**BECKY:** Mm-hmm.

**BUFFETT:** And others were better in their 70s than they were in their 40s or 50s. It varies enormously and—but obviously, age takes its toll.

**BECKY:** Right.

**BUFFETT:** And the question is when it—when it becomes noticeable and as I've told people, I said, you know, my three kids are supposed to come in as a group and say, you know, you're going gaga, dad. I tell them if only one comes in, they're out of the will, so they have to come in as a group.

**BECKY:** You brought in new managers to manage some money and that has raised some questions about things, too. You brought in Ted Seides and Todd who was there before, but we haven't talked to you since you brought in Ted.

**BUFFETT:** [Ted Weschler](#), yeah. Right.

**BECKY:** Ted—sorry, Ted Weschler.

**BUFFETT:** Yeah, yeah.

**BECKY:** And that has people wondering are you looking at people to be running these management or is this just part of building up your bench?

**BUFFETT:** Well, three or four years ago we said that we were going to build up a management team that would—in investments, that would succeed me and hopefully even be helpful to the CEO in acquisitions and on that sort of thing. And it wasn't any hurry to do it. On the other hand, we had to get about it.

**BECKY:** Mm-hmm.

**BUFFETT:** And fortunately, I—we found two guys that are—that are home runs. And I feel terrific about that. That job is done. That doesn't mean we won't add a third, but that job is done. And they will handle—in fact, you'll see some of their purchase—you'll see some of [Todd's purchases in the third quarter](#). Any time there's a \$200 million purchase or something like that, that's very likely to be Todd or Ted, that's not me because I look at bigger things. But those fellows have the capability of running the whole portfolio.

**BECKY:** Mm-hmm.

**BUFFETT:** And they're getting a piece of it to run now.

**BECKY:** I feel bad for Rick Perry. Ted Weschler. I'm coming up with things. Guys, we only have a couple of minutes left, so if you have any one-offs that you want to get back to Warren.

**ANDREW:** Great. Warren, I had a question and Becky touched on it earlier, this idea of the volatility in the market. We have Larry Fink coming on the broadcast tomorrow, he owns iShares and is a big supporter of the ETF business.

**BECKY:** Mm-hmm.

**ANDREW:** Do you think that ETFs are ultimately creating some of this volatility? Are they good or bad for the market?

**BUFFETT:** Well, I don't know about them specifically, but I would think anything that causes people to think they can trade actively in stocks and do better than if they sat on their rear is a terrible mistake. American business has done wonderful, wonderfully for investors over the years, yet many investors have managed to turn in bad performances. You can say to yourself if the Dow started the 20th century at 66 and is now at 12,000, how could anybody lose money? But people do lose money. But they lose money by trying to jump in and out of this and that and think that, you know, they should buy this stock because the earnings are going to surprise on the upside or some crazy thing like that. If they just buy good businesses, they'll do fine. Just like if they bought good farms 30 years ago they do fine or good apartment houses 30 years ago, they do fine. So volatility is your friend, not your enemy. It—as long as it creates cheap prices from time to time and it does.

**ANDREW:** All right.

**BUFFETT:** So it—the investing game is simpler than it looks, you know, and if people would read "The Intelligent Investor" in chapter 8, they'd do fine.

**ANDREW:** Right. One of the other issues that may be creating volatility, people talk about it, is credit default swaps and what role they've played, for example, in Europe with some of the bonds there. And I'm curious, do you believe that credit default swaps should exist? They should be outlawed? What should happen to them?

**BUFFETT:** Well, they can be a very destructive instrument. I mean, if you think about it, you can't go out and insure my house against fire because you do not have an insurable interest, as they call it in the trade. Because once you insure my house against fire and you may decide that, you know, that maybe dropping a few matches around my lawn might be a good idea. And credit default swaps, if you don't own underlying debt and you buy a credit default swap, you have an interest in that place getting into trouble.

**BECKY:** Yeah.

**BUFFETT:** And when a lot of people have an interest in a place getting in trouble, they may start putting out misleading statements about it. I mean, if you had a bank—if you were short the stock of a bank, you might hire—and there wasn't any FDIC, you might go out and hire 100 movie extras to stand in front of that bank.

**BECKY:** Mm-hmm.

**BUFFETT:** And in effect, you would create your own reality. Now buying credit default swaps and talking about them and causing the price of credit default swaps to go up creates its own reality to some degree. So I think that they are potentially a very anti-social instrument.

**BECKY:** Hm. You know we are down to just the last minute or two of time and I know that you have the SEC filings for Berkshire that will come out tonight. You've already told us that IBM is the big purchase that will be revealed in those. Are there other big surprises we might see in those filings?

**JOE:** One last chance, Warren, come on. Give us something, one.

**BUFFETT:** There won't be surprises. I've mentioned that we increased our Wells some and you'll probably see a few purchases that Todd—Ted has not gone to work for us yet, but he will be coming in January.

**BECKY:** OK.

**BUFFETT:** You'll see a few purchases that Todd has made. And incidentally, he doesn't—he doesn't check with me before making those purchases. He has a block of money and he can do—he can be doing things while we sit here and it's entirely his book.

**BECKY:** All right. Will you find out what they are when you get back to the office?

**BUFFETT:** No, no, I—sometimes I find out...

**BECKY:** Or do you find out when the SEC filings come in?

**BUFFETT:** I might find out a month later. That's the way it was with Lou Simpson, too, when he worked for us.

**BECKY:** OK.

**ANDREW:** OK.

**BECKY:** Well, Warren, we want to thank you very much for being with us for this program. It's been great talking to you.

**BUFFETT:** Thanks for having me.

**JOE:** Thank you, Warren.

**ANDREW:** Thank you.

**JOE:** Thanks for the brick.

**BUFFETT:** Thanks.

**JOE:** Thanks for the brick, too.

**ANDREW:** A big special thanks to Mr. Buffett.

**BUFFETT:** Yeah. I'll send you another one. Just give me the size.

# Warren Buffett Watch

Keeping Track of America's Billionaire Next Door



**JOE:** Yeah.

**ANDREW:** Becky, safe travels back. We'll see you tomorrow.

**BECKY:** Thanks, guys.

**ANDREW:** Make sure you join us tomorrow, SQUAWK ON THE STREET is coming up right now.

**JOE:** See you, Becky.

**BECKY:** Bye, guys.

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