**This is the complete transcript of [Warren Buffett's appearances] on CNBC's Squawk Box on Monday, March 9, 2009.**

**Buffett answered questions submitted by CNBC viewers and CNBC.com users.**

**ANNOUNCER**: This is a special presentation of SQUAWK BOX: ASK WARREN BUFFETT. The legendary investor will answer your e-mails, fixing the economy, restoring trust, searching for value. Your chance to connect with the "Oracle of Omaha." Squawk Box begins right now.

**BECKY QUICK**: Good morning, everybody, and welcome to SQUAWK BOX right here on CNBC. I'm Becky Quick along with Joe Kernen. Carl's off today, but Joe, we have a very special guest with us this morning. We are talking about Warren Buffett. He's here with us, and he is here with us for the next three hours. We are very excited to be spending this time. We are here at the Nebraska Furniture Mart. And, Warren, it's great to have you here. Thank you very much for joining us this morning.

**WARREN BUFFETT**: I enjoy everything about it except the hour.

**BECKY**: "Except the hour," and we do appreciate your getting up extra early. We should point out it's 5 AM here in Omaha, so you are quite the trooper for coming out.

**BUFFETT**: Thanks.

**BECKY**: I know we've got the next three hours to spend with you, and, in most instances, I might think, three hours is an incredibly long time, but I have to tell you, given everything with the state of the economy right now, three hours may not be enough time. So, again, we appreciate your time with us today.

**BUFFETT**: Thanks. Mm-hmm.

**BECKY**: Warren, why don't we start off talking right away about the economy? Because that's what people are wondering right now. What's happening with the economy? We hear all the time from people who are very concerned and, frankly, quite frightened about what's happening right now.

**BUFFETT**: Yeah. Well, when we talked in September.

**JOE KERNEN**: Warren, hold on.

**BUFFETT**: Yeah?

**JOE**: I'm sorry to break in. **Merck and Schering-Plough** are merging, Warren.

**BECKY**: Whoa.

**BUFFETT**: Hm.

**BECKY**: All right.

**JOE**: I'm sorry.

**BECKY**: Merck and Schering-Plough merging. We thought we already had enough to talk about with you this morning, Warren, but why don't we start off with some news?

**JOE**: I would never presume to jump in like that on the Oracle; but, I'm sorry, board of directors unanimously approving a definitive merger under which the companies will combine under the name Merck in a stock and cash transaction. Schering-Plough shareholders will receive .5767 shares of Merck and $10.50 in cash for each share of Schering-Plough. Each Merck share will obviously be a--become a share of the combined company. Richard Clark, the chairman, president and CEO of Merck will lead the combined company. This is--this is a real blockbuster and right at 6 AM on a Monday. And I think you'd have to say, Warren, as far as animal spirits, this could be--you know, this may not--this may not solve all of our problems, but it certainly is an endorsement of American business and--in that M&A is alive and well.

**BUFFETT**: Yeah. Animal spirits are always there. The only question is who has the funds to kind of carry out the ideas that the animal spirits come up with? But, particularly in pharma, they have good balance sheets, generally, and they can make deals.

**JOE**: I...

**BECKY**: Are you surprised to see a deal of this size right now, though?

**BUFFETT**: Well, I'm surprised at any deal this size even now, sure. That's true. It's very hard to make deals for companies in most industries.

**JO**E: Guys...

**BECKY**: Joe?

**JOE**: Yeah. Schering-Plough closed at $17.63, and, at current values, this is $23.61 for Schering-Plough for a total of $41.1 billion for this deal. I guess you'd also have to say that the whole Vioxx controversy. We can lay that to rest now for the them to be feeling comfortable enough to acquire Schering-Plough for $41 billion, but...

**BUFFETT**: Yep.

**JOE**: ...this is a pleasant, pleasant ride. And, Warren, you own--you're all over the place with--you own foreign drug companies, you own stakes in--stakes in foreign drug companies and in some domestic companies as well. It's always been one of your favorites.

**BUFFETT**: But we don't own any Schering, that's why you see these tears coming down my face.

**BECKY**: What about Merck? Do you own any Merck either?

**BUFFETT**: No, not any Merck.

**BECKY**: Not in your private account either?

**BUFFETT**: No.

**BECKY**: OK. What is...

**JOE**: What's your biggest holding? You do have some--I know you--what are your foreign drug company that you have stakes in, Warren?

**BUFFETT**: Sanofi and the biggest one is Sanofi-Aventis, and we have J&J domestically.

**JOE**: Right. OK. All right, Beck.

**BECKY**: OK. So, Warren, we're going to talk more about this merger and what this means. I mean, do you expect to see other deals that would come as a result of this?

**BUFFETT**: Well, every deal does tend to brew another deal, I mean.

**BECKY**: Hm.

**BUFFETT**: Particularly with people in the industry. If, you know, if Coca-Cola buys something, Pepsi thinks about something in the same arena.

**BECKY**: Hm.

**BUFFETT**: I've been in enough board meetings to hear that. There's a--there's a lot of--every CEO has, you know, has a little bit of that `all the other kids are doing it,' you know.

**BECKY**: Right. We'll talk a lot more about this, but let's get back to the state of the economy...

**BUFFETT**: Sure.

**BECKY**: ...in general as well. What do you see right now? You spooked a lot of people last week when you talked about how the economy was in tatters and would be there for quite some time.

**BUFFETT**: Yeah. The economy, **ever since we talked in September**, we talked about it being an economic Pearl Harbor and how--what was happening in the financial world would move over to the real world very quickly. It's fallen off a cliff, and not only has the economy slowed down a lot, people have really changed their behavior like nothing I've ever seen. Luxury goods and that sort of thing have just sort of stopped, and that's why

Wal-Mart is doing well and you know, and I won't name the ones that are doing poorly. But there's been a reset in people's minds, and we see that in something like (Berkshire subsidiary) **Geico** where year after year after year we say you can save some money insuring with Geico, and year after year there's been a certain number of people who have said, `You know, I've got this pal, Rotary Joe, and I've been insuring with him and for 100 bucks, why should I shift?' Every week we're just seeing it build and build. More and more people are calling. Our price differentials haven't widened, our advertising isn't that much different, but the American public really has changed their buying habits. On the reverse side, our jewelry stores just get killed in a period like this. And high end gets hurt the most, next down gets hurt the second most, and the lowest people get hurt the least.

**BECKY**: What's happening? What--you knew--you told us a while ago, you told us this was an economic Pearl Harbor about six months ago, but did this happen more quickly or more severely than even you expected?

**BUFFETT**: It certainly happened close to the worst case. I mean, you never know what's going to happen, but I would not have--I would not have thought there could've been a much worse case than what has happened. Although, I will say this, the Fed did some things in September when it happened...

**BECKY**: Mm-hmm.

**BUFFETT**: ...that were vital in keeping the place going. I mean, when the--if they hadn't have insured money market accounts and, in effect, commercial paper, you know, you and I would be meeting at McDonald's this morning.

**BECKY**: Instead.

**BUFFETT**: Yeah. Right.

**BECKY**: So why do you think consumers have gotten as frightened as they have?

**BUFFETT**: Well...

**BECKY**: The fear doesn't like too strong of a word.

**BUFFETT**: No. They're scared, and fear is very contagious.

**BECKY**: Hm.

**BUFFETT**: And I've never seen the consumer or the Americans just generally more fearful than this. And they're also confused. And you can get fearful very quickly, but you don't get confident, you know, in five minutes. You can get fearful in five minutes, but you won't get confident for some time. And government is going to play an enormous factor in how fast it comes back. And if you're confused and fearful, you don't get over being fearful till you aren't confused. I mean, the message has to be very, very clear as to what government will be doing. And I think we've had--and it's the nature of the political process, somewhat, but we've had muddled messages, and the American public does not know what--they feel that they don't know what's going on and their reaction, then, is to absolutely pull back.

**BECKY**: So there've been a lot of fingers of blame that have pointed in a lot of different directions. But you're saying the message from Washington has been confused or...

**BUFFETT**: Well, I think it's the nature of things.

**BECKY**: Right.

**BUFFETT**: I mean, I think people watch 535 members of Congress each give their view of what every player is doing and all of that sort of thing, and I think that, you know, you had a change of administrations and you're dealing with things that people don't understand. I mean, when you first brought up the term SIV or something like that or when you talk about credit default swaps or you talk about--it's--when the public hears that, they just, they think something's wrong and they don't understand it.

**BECKY**: And still, this is the worst-case scenario from what you had imagined. What went wrong? Why did we wind up in that worst-case scenario?

**BUFFETT**: Well, we went wrong originally because we had a belief that--and everybody had the belief. I had it, the government had it, mortgage lenders had it, borrowers had it, media had it, everybody thought house prices could go nothing but up and--or at least they couldn't go down a lot. And once you had that belief--and it was nationwide--it didn't make any difference what you lent on the house because if the guy couldn't pay, you'd sell it at a profit anyway or you wouldn't lose much money. So you had 11 trillion of residential mortgage debt built on this theory that who was borrowing it, what their income was really wasn't that important because the house itself had to go up in price.

And when that tumbled and houses which might've been worth 22 trillion at the peak are worth maybe four or five trillion less, it's a huge amount out of people's net worth. It's the biggest asset most people have. And then secondarily, all of these instruments that were built on it, which people didn't understand too well, started toppling to various degrees in value and then that exposed other things. I mean, it was like, you know, some kid saying, `The emperor has no clothes.' And then after he says that, he said, `On top of that, the emperor doesn't have any underwear either.' You know. I mean, various layers have been--and they interact. When people get scared, they change their buying habits. When they quit buying as much, people lay off. We are in a very, very vicious negative feedback cycle. It will end, but, believe me, I mean, I don't want this to be the last line of the movie, the last line of my annual report that America's best days lie ahead. And we can talk about why that is, but--and that is the final answer.

But how fast we get there depends enormously on not only the wisdom of government policy, but the degree in which it's communicated properly. People--when you have a Pearl Harbor, you have to know the nation is going to be united on December 8th to take care of whatever comes up. And we have little squabbles, otherwise we put them aside and everybody goes to work on defense plans, we start building planes, we start building ships, even though they're not going to be ready tomorrow, people join. The Army doesn't blame the Navy because there were too many ships in Pearl Harbor, and it shouldn't have happened. The Army doesn't say, `Well, it was your fault, so we're not going to send our troops.' None of that sort of thing. We got united, and we really need that now.

**BECKY**: Do you think that there has not been that to that extent? There's not enough of the united front right now?

**BUFFETT**: Yeah, I think--and I can understand why because, economically--Pearl Harbor itself, you knew exactly what had happened and we wiped out a good bit of the fleet and all of that and people knew in a general way what had to be done and they knew who they had to respond to a leader who was unquestionably the commander and chief. And so you didn't have--start congressional hearings on December 8th, you know, that were going to last for weeks while all of the commanders and the various people were in various ways pilloried or taunted or whatever about `Why in the world did they let this happen?' and the Republicans didn't say, `You Democrats have been in since 1933, and it's all your fault.' None of that. I mean, people said, `We've got to get something done.' And they--and they trusted their leadership to do it and put aside mostly the partisan stuff and the--and we went--and everybody, incidentally, felt we'd win the war, even though we, you know, for the first six months, we were--Corregidor fell and we had the death march of Bataan, all kinds of--there was terrible, terrible news, but we knew that if we stuck together and we followed leadership, we would--we would prevail.

**BECKY**: We're going to have a lot more time to talk about solutions this morning, but in terms of the economy, where do you think it goes from here? What's the best case scenario and the worst case scenario?

**BUFFETT**: Well, it can't turn around on a dime. That doesn't happen. I mean, it--a lot of stuff works this way. When 600,000 more people become unemployed last month, that not only affects those 600,000, it affects them terribly, but it affects everybody else. They get scared about losing their jobs. The percentage of people are scared about losing their jobs in this country is way higher than the actual numbers that are going to lose them, but they're behaving in an entirely different manner. I mean, they are not--they are not going to go into a--even at Costco or Wal-Mart, their jewelry departments are way down, but other departments are up. People, they started saving money. For years we told them to save money, and now they're saving money, and that's a double whammy. So we've had this great economic machine like nothing the world's ever seen, and it started sputtering a little, and we said, `Well, maybe we should kind of slow it down and see what happens.' And it sputters more. And what we may not realize is that there's interaction, that the slower you run the machine at, the more it sputters. So it's a job to get it working again, and it won't happen fast, Becky, I mean--and unemployment will lag at the end, the actual turn around.

**BECKY**: We're already talking about unemployment at 8 percent. Where do you see it headed?

**BUFFETT**: I can't name a number because, frankly, it depends to an extent on the wisdom of government policies. It's going to go higher. It's probably going to go a fair amount higher, but on the other hand, five years from now I can guarantee you that the machine will be running fine, but I'd like to get there a lot faster than five years. And we can.

**BECKY**: And, Joe, did you want to jump in here, too?

**JOE**: I want to--you just said something interesting, Mr. Buffett, and that is it depends on the wisdom of our policies. And I understand, you know, in a time of war everyone rallying behind the commander and chief. But, obviously, there are differences on what the wisdom of our polices should be from here on out. Now, the "loyal opposition" is going to be about, as it's called, will be behind the president, but certainly you could see that if we--if people think there's some wrong-minded policies that are being rushed into law at this point because of the crisis, I mean, that's--it's the loyal opposition's duty to say what they feel, right?

**BUFFETT**: Right. And, Joe, it--if you're in a war, and we really are on an economic war, there's a obligation to the majority to behave in ways that don't go around inflaming the minority. If on December 8th when--maybe it's December 7th, when Roosevelt convened Congress to have a vote on the war, he didn't say, `I'm throwing in about 10 of my pet projects,' and you didn't have congress people putting on 8,000 earmarks onto the declaration of war in 1941.

**BUFFETT**: So I think--I think that the minority has--they really do have an obligation to support things that in general are clearly designed to fight the war in a big way. And I don't think you should--I don't think before D-Day on June--on June 5th you ought to have--or June 1st, maybe, have a congressional hearing and have 535 people give their opinion about where the troops should land and, you know, what the weather should be and how many troops should land and all of that. And I think after June 6th you don't--you don't have another hearing that says, `Gee, if we'd just landed a mile north.'

**JOE**: Yeah, but you might--might not have fixed...

**BUFFETT**: But I say...

**JOE**: You might not--you might not have fixed global warming the day after--the day after D-Day, Warren.

**BUFFETT**: Absolutely. And I think that the--I think that the Republicans have an obligation to regard this as an economic war and to realize you need one leader and, in general, support of that. But I think that the--I think that the Democrats--and I voted for Obama and I strongly support him, and I think he's the right guy--but I think they should not use this--when they're calling for unity on a question this important, they should not use it to roll the Republicans all.

**JOE**: Hm.

**BUFFETT**: I think--I think a lot of things should be--job one is to win the war, job--the economic war, job two is to win the economic war, and job three. And you can't expect people to unite behind you if you're trying to jam a whole bunch of things down their throat. So I would--I would absolutely say for the--for the interim, till we get this one solved, I would not be pushing a lot of things that are--you know are contentious, and I also--I also would do no finger-pointing whatsoever. I would--you know, I would not say, you know, `George'--`the previous administration got us into this.' Forget it. I mean, you know, the Navy made a mistake at Pearl Harbor and had too many ships there. But the idea that we'd spend our time after that, you know, pointing fingers at the Navy, we needed the Navy. So I would--I would--I would--no finger pointing, no vengeance, none of that stuff. Just look forward.

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**BECKY**: We are back with Warren Buffett. We've got a lot of viewer e-mails that have been coming in. We've got thousands of them, so we're going to get to those right away. But, Warren, you had one thing you wanted to clarify?

**BUFFETT**: Well, I was going to mention to Joe that you've heard this comment recently from some Democrats recently that a `crisis is a terrible thing to waste.'

**BECKY**: Yeah.

**BUFFETT**: Now, just rephrase that and since it's, in my view, it's an economic war, and--I don't think anybody on December 7th would have said a `war is a terrible thing to waste, and therefore we're going to try and ram through a whole bunch of things and--but we expect to--expect the other party to unite behind us on the--on the big problem.' It's just a mistake, I think, when you've got one overriding objective, to try and muddle it up with a bunch of other things.

**BECKY**: OK, so that's your point...

**KERNEN**: Great.

**BECKY**: ...is that on both sides people should be coming back in and...

**KERNEN**: Yeah.

**BUFFETT**: Absolutely. We need them. We need them.

**BECKY**: OK. Let's get to some of these viewer e-mails, because we do have a lot of them that have come in. Steve from Minneapolis writes in, and his question is, "Do you believe that the following statement is still true today? `So far as I can discover, paper money systems have always wound up with collapse and economic chaos.'" By the way, that was a statement from **Congressman Howard Buffett**, your father.

**BUFFETT**: Sounds like my dad, yeah.

**BECKY**: Yeah.

**BUFFETT**: I heard that every night at the dinner table for a long time. Well, I would say this. It's going to be a very, very rare paper money that appreciates over time. I mean, the--and we are doing things now that are potentially very inflationary. I mean, that--it's the nature of fighting the war we're in. And, incidentally, when we fought World War II it was very, very inflationary, and we--and we took all kinds of activities to try and minimize that impact. But, you know, if you--if you look at this bill that--and I didn't know Steve was going to ask you that. But, you know, on the back it says, "In God we trust," right?

**BECKY**: Yeah, right.

**BUFFETT**: And on the front it says, `In the Federal Reserve, we trust,' basically.

**BECKY**: Right.

**BUFFETT**: It's a Federal Reserve note. Now, if you go down to the Federal Reserve bank and you say, `I'd like to exchange this for something else,' the nice lady there will say, `Would you--would you like,' what is it? Two 10s or four 5s?

**BECKY**: Right.

**BUFFETT**: I mean, you--it just--it is paper money, and if you keep issuing more of it--and M2 has been growing very rapidly if you go to the Federal Reserve site and see that, and should be in a period like this. But that is inflationary. The more of these you have out compared to the economic activity, the less it's worth.

**BECKY**: All right. Well, let me jump ahead based on that...

**BUFFETT**: I'd better get this off the table before you grab it. Yeah.

**BECKY**: Yeah, before I take it from you. Let's jump ahead. Guys in the control room, this may throw you off a little bit. We're going to go to number 33. This is from Joey in Brooklyn, New York, and I want to ask this question because it plays into what you just talked about. He asks, "Do you think that the inflation of the late 1970s was worse than the inflation we are about to have? Why or why not?"

**BUFFETT**: Well, it--again, it depends on the wisdom of federal policies. But--because what we do with the money supply and different--and how we behave later in relation to what we're creating now will determine the answer to that. It certainly has the potential of being worse. We are going--we are fighting a big war, and there--we're using--we're going to use money to fight it. And the whole world is leveraging down. The only party that can leverage up is the US government. They have the ability to take on anything because they can print money as long as people will do business in US dollars. So it could be--it could be worse. And, you know, in economics there's no free lunch.

**BECKY**: Right.

**BUFFETT**: There still are lunches it's better to have even if you're going to pay later. I mean, it's better than no lunch if--even if you have to pay for the lunch. And we are having--we're--we are going to attempt to have a lunch; to some extent we're going to pay for it later.

**BECKY**: All right. We have more questions from people wondering what all that inflation means. We'll get to that in the next hour, and what that means for the markets and some of their investments. But, meantime, Carmen from New York writes in, he says, "Do you believe that the ratings agencies could have single-handedly prevented the current financial turmoil by refusing to rate the exotic products coming out of Wall Street that they apparently did not understand?"

**BUFFETT**: It would have helped a lot. And--but the rating agencies were populated by people who believed exactly what you and I did, you know, all of the people that come to the Nebraska Furniture Mart and the people that are in Washington and the--you know, when Congress was urging Fannie and Freddie to expand their activities. Everybody believed house prices were not--would never take a real tumble. And that got built into what the rating agencies did as well. But there's no question that if somebody there had taken a stand for some reason, they would have been--they would have been derided for that stand. But if they'd taken a stand, said, `We're going to assume that house prices can fall 25 or 30 percent, and therefore we have to rate this stuff all differently,' it would have--it would have been--they probably would have gone to the other rating agencies and got it anyway. People wouldn't have accepted it. But they did make a--they made a mistake in rating them the way that they did.

**BECKY**: All right. T. Tidwell from Louisville, Kentucky, writes in and wants to know, "What one thing have you resigned yourself to be a `shocking probable truth' in 2009 that investors would certainly be surprised about now?"

**BUFFETT**: Hm.

**BECKY**: That's a tough one.

**BUFFETT**: I wish I knew. I mean, it was--I'd be acting on it now. No, I think most people's expectations about 2009--well, I would say this. I would say to the extent that--I think we already have the policies in place, but to the extent they get communicated better it will help. But the banking system, if properly handled, is not going to--that's not going to be the problem for the economy. Fear that the banking system may be a problem enters into how the economy behaves. But we have a system that can take care of the banks, and most of the banks are in pretty good shape.

**BECKY**: So would the one shocking truth potentially be things wind up being better than people expect?

**BUFFETT**: Well, that...

**BECKY**: Or you wouldn't go that far?

**BUFFETT**: No, I won't go that far.

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**BECKY**: The **front page of the (Wall Street) Journal** today, Warren, says that some of the progress we've made in the credit markets has been backsliding. It's been going away. LIBOR rates have been inching higher once again. Have you seen that as well in the credit markets?

**BUFFETT**: Yeah, I've seen that. It's not like it got a worse of the situation in September, but when people lose confidence, yeah, I don't care whether they're big shots, you know, running big companies, or big banks, or whether they're the guy on the street, they behave exactly the same way. I mean, this goes back to the human--you know, the "Naked Ape" type of thing, reaction. The fear or flight stuff comes in and where they flee is something this government guaranteed. And you've seen it, yeah, and you'll continue to see it. They have--people have to be confident. The system doesn't work without confidence and they are--they're not confident now and they are confused and the government has to speak with real clarity. Government's done a lot of good things in terms of the banking system...

**BECKY**: Mm-hmm.

**BUFFETT**: ...but frankly when you have changes of administration, when you have--when you have 535 members of Congress criticizing maybe various policies and maybe taunting even people, the reaction of the public to that is, you know, `I'm going to go to something this government guaranteed,' and the world won't work if that continues to be the case.

**BECKY**: Well, let's get back to that, though. How could the administration possibly rein in 535 members of Congress, not to mention it's a 24-hour news cycle and we put just about anybody and everybody on to spout their views?

**BUFFETT**: Well, I think that the first--you have to recognize that it is an economic Pearl Harbor. If you don't believe that, then why should members of Congress not, you know, why shouldn't they throw in 8,000 earmarks or do what they've been doing? Congress, and I think I said this six months ago, I mean, they're a patriotic group of people. I don't think maybe they understood fully, some of them, the gravity of the situation and what is required. What is required is a commander in chief that is looked at as being the commander in chief in a time of war and the support that generally he needs and other things that have to be given up. When we get all this solved and go back to yelling at each other, you know, and putting in pet projects and doing all that sort of thing. But for the time being we should put that, as much as we can, aside and then frankly, nobody but the president now will be believable to the American people. I mean, you can't--people have heard--they don't--names like Paulson, Geithner, Bernanke, those--that's just a muddle to them. The only authoritative voice in the United States who says, `This is what we're going to do, this is what we're not going to do,' and very specifically, is the president of the United States.

**BECKY**: Joe ...

**JOE**: Yeah, I--really quickly on that--on that Merck dividend I want to--I said they're going to try. They're committed to maintaining it. I'm hearing from work--or from Merck. They're committed to maintaining that dividend. So it's about 6.7 percent.

I want to get back quickly, Mr. Buffett, we were talking about this article in the Journal. Look at your Berkshire AAA bonds, look at General Electric, which is still AAA. Look at those bonds. Look at Goldman Sachs bonds. The thrust of this piece is that when you're not sure what the government's going to do eventually to fix things, even senior debt holders aren't sure that they'd end up with the assets of the firm. How do you expect this to work itself out? What does the government need to do? You--Mr.--or President Obama needs to speak for the government obviously, but we're not really sure how--you know, what steps are going to be taken in the financial system.

**BUFFETT**: Well, if I've got just a minute, I'll back up a little. In the 19th century you had at least six huge financial panics. They were--and they caused in many cases by people losing confidence in banks. So if somebody lost confidence in a bank in Omaha they got in a line and as soon as somebody got in the line at the First National there was a line at the Second National and so on. We learn time after time--and they called them panics. The reason they called them panics was because if you went to the bank and couldn't get your money out you panicked. And that same situation will continue to exist forever. People, if they've got their money someplace and they get worried about it they want to get it out fast and if they see other people wanting to get it out, they want to do the same thing. So along came the 20th century. We put in the Fed and we thought that would calm down people. But when the '30s came along, we recognized that without faith in the banking system this economy was never going to get well. So we formed the FDIC. Now, this is an interesting group of pages here. This has 3600 banks that the FDIC has assisted. Three thousand six hundred. There's only about 7,000 banks in the United States, another 1400 savings institutions. No depositor of an insured deposit has ever lost a penny since 1934. It was a huge factor in making this economy work to be one of the greatest--well, the greatest economy that's ever existed. Thirty-six hundred times the FDIC has come in. In the last year, they have moved, I think, something close to 8 percent of the deposits in the United States. It hasn't cost the taxpayer one dime, no depositor has lost one dime. Now, what the American people have to be sure of is that when organizations as big as the ones that have been in the news, like a Citigroup...

**BECKY**: Right.

**BUFFETT**: ...where people know the FDIC can't come over and move it to the Second National Bank of Omaha or something overnight, they have to be sure that all deposits, really, all debt liabilities of Citigroup are going be met. There's--and the truth is we're going to do that. People say they're too big to fail, but you really need somebody that's totally authoritative who can say, `Just forget about the problems of ever worrying about having your money or actually a debt instrument of a bank.' It's too important that--to be left ambiguous on that subject. And all of the--the FDIC's raising more money now. But the FDIC will take care of banks. They talk about nationalizing banks, they nationalized for a nanosecond 20 banks this year, roughly 20 last year. They moved it overnight, it's all working fine. Nobody loses a dime. And people have to feel that way about the entire banking system. And if they don't, we will have--you'll have more articles like the one you talked about in the Journal.

**BECKY**: Yesterday, Senator Richard Shelby and Senator John McCain both **made comments on the morning news programs** and said things to the extent that they should let some of these banks fail. "Close them down, get them out of the business. If they're dead they ought to be buried," Shelby was commenting.

**BUFFETT**: Here's 3600. Not all of these got--but overwhelmingly these did die and get buried. And we have had--we had one over the weekend in Georgia, I believe. We had about 20 this year, we had 20 last year. The peak year we had over 500 and the country went on fine because they didn't panic about banks. So there's no question that a bank that's going to go broke should be allowed to go broke. You know, the thing you have to make sure of is that the people that gave their money to that bank--the shareholders can get wiped out. The shareholders have gotten wiped out of thousands of banks over the years. That--but...

**BECKY**: Shelby also said those Citi has also been--has always been a problem child. Can you do that with a bank the size of Citigroup?

**BUFFETT**: Well, Citi is--Citi's probably going to keep shrinking, but in the end nobody should be worried about having their money in Citi. On the other hand, there's really no moral hazard to that. When your stock goes from $50 to $1, I don't think you create way more moral hazard than when it goes from $50 to zero. I mean, you know, we have a system that penalizes enormously the shareholders of banks where the management screw up. But we have to make it very clear, you know, no Fed-speak type stuff or anything. We have to make it very clear that people are not going to lose money. That doesn't say they're not going to fail. We're going--we're going to have--we'll have more pages of this stuff as we go along. It's the nature. But we provided for it.

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**BECKY**: Welcome back to this special edition of SQUAWK BOX. We are live at the Nebraska Furniture Mart with Warren Buffett and we've been getting thousands and thousands of e-mails from our viewers. Warren, we'd like to start with one that echoes a theme we heard again and again. This comes from Terry in San Antonio, Texas, who asks, "Will everything be all right?"

**BUFFETT**: Everything will be all right. We do have the greatest economic machine that man has ever created, I believe. We started with four million people back in 1790 and look where we've come and it wasn't because we were smarter than other people, it wasn't because our land was more fertile or we had more minerals or our climate was more favorable. We had a system that worked. It unleashed the human potential. Didn't work every year, we had six panics in the 19th century, in the 20th century we had the Great Depression and World Wars, all kinds of things. But we have a system, largely free market, rule of law, equality of opportunity, all of those things that cause the potential of humans to get unleashed, and we're far from done. So I think your kids will live better than mine, your grandchildren will live better than your kids. There's no question about that. But the machine gets gummed up from time to time and it's--if you take the bulk of those centuries, probably 15 years were bad years, but we go forward.

**BECKY**: Which brings us to another question. A lot of people have been trying to figure out is this different from what we saw back in the Great Depression? I'm going to jump ahead to one from Dan from Shohola, Pennsylvania, who asks a question very pointedly about this. "How is the market better off today than when we were in the 1929 to 1933 period?"

**BUFFETT**: Well, we certainly--it's different. I mean, there's a lot of similarities between all recessions or in this case depressions or call them panics like they did back in the 19th century, and there's always differences. One key similarity is that there was a paralysis of confidence in banks and--which is silly now because of the FDIC. I mean, we--but if you went back, my dad, on August 15th, 1931, worked at a bank and he went there and it was closed and he had no job and he had his savings--small savings in there. I mean, if you don't trust where you have your money, the world stops. And they recognized that, but it was a little belatedly. They didn't put in deposit insurance until it was started in 1934 in the Glass-Steagall Act. We have a system that's far better organized to deal with that.

The trouble is that a lot of people don't believe in the system. It needs to be clarified. Actually, the head of the New York Fed, **Mr. (William) Dudley**, on Friday, **you can go to their Web site and read it**, he describes it perfectly. But nobody's going to listen to Mr. Dudley very much throughout the United States. The people coming to Furniture Mart today don't know who he is and they're not going to go to his Web site. You really need--you need the president of the United States enunciating it.

**BECKY**: Enunciating it. It seems like Barack Obama talks pretty frequently about what he sees, what he'd like to have happen. What's wrong with the message that he's put out to this point?

**BUFFETT**: Well, I don't think there's anything wrong with the message at all and I think he's--he speak wonderfully, but I think--and I think there should be--there's a necessity that Congress takes the attitude that this is a war and that he is the commander and chief and that--and that a lot of the normal things that go on in Washington are really inappropriate in this setting. But I think--I think basically that it has to be as clear as possibly can be made, and I think only the president can do it, that no one, and, you know, the FDIC limit is $250,000, but I think--I think absolutely that no one should be worried about having their money in a bank in the United States or actually owning their debt.

**BECKY**: OK. You talk about how this was an economic Pearl Harbor. Dan from Spring Lake Heights in New Jersey writes in, he wants to know was our financial system just hours, days away from collapse?

**BUFFETT**: In September, I think it was. If there was a week where 200 billion, as I remember, in the first three days or so poured out of the money market funds, which had about 3 trillion in them, the money was just gushing out when Reserve broke the buck. That meant that the commercial paper market was disappearing. You know, the blood was being drained from the American economic body and we had some very prompt, wise, action. Chairman Bernanke, the Fed, I mean, they stepped in and said the commercial paper market is going to work. That made a huge difference. People came in and said the money market funds, you know, you weren't going to lose money in money market funds. They said the same thing about money market funds we should now say about the whole banking system. And actually, we've said it in various ways. If you read that Federal Reserve New York chairman speech, it says it, but it doesn't say it the way the American people will get it. The president of the United States has to say it very clearly that you just don't have to worry about that.

**BECKY**: Joe?

**JOE**: Yeah, thanks. Returning for one second, Warren, you know, when you speak, the wires just start hitting. I'm going to read two of them to you. One is "Buffett says that the parties need to unite behind Obama." Then the next one is, "Dems should--Buffett says that the Democrats should keep pet projects out of the economic rescue efforts." It just seems like it's nice to say we all need to get along, but we're right back where we started. Who's more at fault here? Is it 50/50?

**BUFFETT**: Well...

**JOE**: Did the Dems put too much in or is it just more partisanship from the Republicans?

**BUFFETT**: Well, I have--I have taken a vow not to point fingers at anybody. I have taken a few--I have taken a few swipes in the past. I will just say that patriotic Democrats, patriotic Americans will realize that this is a war and if they didn't realize it immediately, I can understand it. It's not--it's not as dramatic as a physical war where the news comes over and you know you're under attack. But it is--it is virtually as serious and I think that once the degree of that seriousness becomes apparent to both parties, I think they will--I think overwhelmingly they will behave well. But that does mean that the Democrats have to behave just as well as the--you can't ask the Republicans to cooperate in the spirit of this and then at the same time try and steamroll them on a whole bunch of other things. You ought to agree that this is the job to get done and when we get done, that doesn't mean you don't do anything else in government. But in terms of the contentious things, just let them wait until we get the economy working. Because if we don't get the economy working...

**JOE**: Yeah.

**BUFFETT**: ...just forget about the other things.

**JOE**: There's the rub. There's the rub, though, Warren. You know, there's where we need details on what is absolutely essential and what isn't. And that's where the contentiousness comes in, unfortunately. We--can you just go down...

**BUFFETT**: Well...

**JOE**: Can you go down the list of things and say we need this, we don't need this, we need this, we don't need this, we need this and then we can send it to...

**BUFFETT**: Right.

**JOE**: We can send it to Washington so I can say Warren Buffett says this?

**BUFFETT**: We need clarity on the financial system, on exact--on what will be done. And bank--incidentally, regulators hate that. When I ran Salomon (in the 1990s), I told everybody, don't ever say we're too big to fail. I mean, it's like waving about 12 red flags in front of a bull to say that to a regulator. He doesn't want to be told he doesn't have any choice. So it's a--it's a phrase they hate to use. I can understand that. But the answer is, the American banking system, overall, is too big to fail and you have to apply that. And incidentally, we have quasi-banks that have very large liabilities and where they would impact the system dramatically if left alone. It may be unfortunate we have them, it may be that we need corrective legislation so it doesn't come up again, but we have to deal with the situation we have now. And frankly, that was recognized in AIG. I mean, everybody hates, you know, what they had to do in that, but the problems they would've had if they just said, `Well, this isn't a bank and the hell with them, they made their mistakes,' that's crazy. We have to deal with all large quasi-financial institutions as well as all of the banks and people can't be worried about them and we can't have a contagion like we almost had in September. I mean, the world did come almost to a stop in September.

**BECKY**: One person wrote in and this e-mail is one we had prepared for later, but somebody asked about **Glass-Steagall**. Should it be brought back?

**BUFFETT**: Well, I think there--you need legislation. I mean, whether it's exactly Glass-Steagall. Glass-Steagall brought in the FDIC. It was a wonderful thing. We need banks to get back to banking. I mean, we have learned that handing these people, you know, exotic instruments and all kinds of ability to do things off balance sheet and this desire to improve your earnings a little every quarter, you can't run a financial institution and show nice, smooth growth and earnings. One way or another, you're going to cheat. And there was a lot of that that went on and we need--we need banks to get back to banking. But we need to get through this situation. We should not be giving lectures to people. And incidentally, the one thing that's very important now is banks--and this may come as a surprise to you. Banking has never been better in one sense. I mean, the banks are getting their money very cheaply, deposits are coming in, spreads have never been wider, all the new business they're doing is terrific. They will earn their way out of it, in most cases, overwhelming number of cases. And they should not be spooked by the idea they're going to have to issue tons of stock at some very low price under the circumstances where the very actions of--that that may be coming keep pushing down the price. So that's spooking, you know, people in the banking business. But the banks can earn their way out of this. I mean, the average cost of funds for Wells Fargo, for example, the fourth quarter last year, was 1.44 percent. I can earn money with money at 1.44 percent. I mean, it's cheap. It's abundant and the spreads are terrific.

**BECKY**: But Warren, you say that as a way of reassuring shareholders, people who should be looking at the financial system, people who are worried about it. But how do you say that without stoking populist anger, that the banks are making money hand over fist? Why should we keep helping them out?

**BUFFETT**: Yeah. Well, the ship builders made money during World War II. I mean, you know, I--nobody went around saying Henry Kaiser's making too much money because he's turning out all these ships, or Curtiss-Wright's making too much money because they're turning out plane. They did put in excess profits taxes and all that thing. That was fine. But the focus was on what do we need to do? And if that's kept in mind and Joe asked me about these comments, I am--I am going to take no shots at anybody. It just isn't important. The important thing is we do the right thing going forward.

**BECKY**: All right. Let's hold that thought, and Joe, we'll be back in just a moment with more.

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**BECKY**: We do have thousands of e-mails that have been coming in, Warren, so we're going to ask you some of these e-mails just right off the bat. There have been a lot of concerns about what's happened with the stock market. We've also heard about some major scams, and that has shaken people's confidence. One investor wrote in--his name is Bruce, he's from Cincinnati, Ohio--and he says, "How do we know that you are not another **Bernie Madoff**?"

**BUFFETT**: Well, **that's a good question**. I would say this. I--it is a problem with investment advisers. I mean, it--there are going to be a certain number of crooks in the world. And sometimes they're smooth talking, and the best ones are the ones that kind of don't look like crooks. So I would say I'm saving up for my big score, if I'm doing it, because I've been doing this for a long, long time. I haven't run off yet, you know, to South America. But it is a problem who you put your trust in.

**BECKY**: Yeah. And on a serious note, there are people who look at the stock market and wonder how do they know the whole thing's not a Ponzi scheme?

**BUFFETT**: Well, the whole thing's not a Ponzi scheme.

**BECKY**: What--how do they know who to trust?

**BUFFETT**: We're talking about, you know--we're talking about American businesses that employ, just the ones on the stock market, tens and tens and tens of millions of people. They're real companies. **Nebraska Furniture Mart** will do 400 million in business this year. Owning--you've got a choice in this world. You can own some real estate directly, you can own a farm directly, you can own apartment house, you can have your money in a savings account, you can have your money in government bonds, you can have it in American business. American business has been a very, very good place overall. People have made mistakes on individual stocks. But in the 20th century, the Dow went from 66 to 11,000, you know, 400. And we had all kinds of problems during that period. Business works overall. It doesn't work every day or every week or every month, and sometimes it really gets gummed up. And then you need government invention sometimes to get the machines back working smoothly. But the machine works.

**JOE**: Warren...

**BUFFETT**: And equities, over time, are the way to do it.

**JOE**: Warren, do you think that--you made a couple of points just now, and one, I think, is that you can't catch--regulations can't necessarily catch every one of these guys. And I just thought it was funny, because you said that the guy would be very smooth talking and he won't look like a crook. And I was looking at you, thinking, `Wow, you're very smooth and you don't look like'--and I was thinking, `Wow, he said'--but no, you see what I'm saying? You can't use--you can't use regulations...

**BUFFETT**: No.

**JOE**: ...necessarily. And do you worry that in this environment that, once again, we're going to overshoot?

**BUFFETT**: Well, I think that's--we're going to overshoot in some ways. But we need--we need to shoot anyway.

**JOE**: Yeah.

**BUFFETT**: And, you know, and my partner Charlie Munger says we will get conned some day by a guy that goes to work on the bus and carries a little lunch sack. We'll never--the guy with the suede shoes and all that will not take us. But crooks do come in different--in different forms and, you know, you're protected with CPIC if you've got your securities with a brokerage firm, up to an extent. I think that for the duration you ought to be--I think you ought to be protected for all deposits at all banks. I mean, I just think that's a move to take, just like we needed to do it for $2500 in 1934. We can't have people worried basically about banks. And we--and--but, you know, overwhelmingly people are honest, but you should guard against the one that's--that isn't. I mean, you should--you should--you should have your own possession of your own security. I mean, that's one good way to do it.

**JOE**: Mm-hmm.

**BUFFETT**: I still--I still have a safety deposit box with my securities in it. There's only one or two securities, just a few securities in it. But we'll always have crooks.

**BECKY**: You know, Warren, right now the Dow is sitting just above 6600, 6626. Five months ago you wrote **an opinion piece for The New York Times** where you told people--or least the headline said, "Buy American. I Am."

**BUFFETT**: Yeah.

**BECKY**: People now look at that and think, OK, market's come down significantly since then. Do you wish that you'd held off on writing that op-ed?

(Graphic on screen)

The New York Times: The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the

> general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary. So... I've been buying American stocks.

**BUFFETT**: Well, I wish I could pick the bottom, but I didn't write the headline.

**BECKY**: Yeah.

**BUFFETT**: I'm responsible for everything but the headlines. And within the body of that article I said things are--I started off saying things are a mess and they're going to get worse in the economy and all of that. But I did say--and I said I can't predict the stock market. I don't know the bottom. I mean, if I knew the bottom, you know, I wouldn't have to look up 10-Ks and do all that stuff, I'd just buy the S&P 500 at the bottoms. So I have no idea what the stock market's going to do tomorrow or next week or next month or next year. And I actually said it twice in the article, and the editor said, `You're not supposed to say things twice.' I said, `I want to say this twice.' But what I did say, and I'd say it absolutely today, is that you will--over a 10-year period you will do considerably better owning a group of equities and don't--not just one stock, but a group of equities than you will either owning short-term Treasuries and rolling them, in which case you get virtually nothing, or owning a 10-year Treasury that gets a few percent.

> (Graphic on screen)
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> The New York Times: A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month--or a year--from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over. -- Warren Buffett Op-Ed Oct. 17, 2008

**BUFFETT**: I mean, equities will do better than that. I don't know whether they'll do better than that over a year. And I didn't know then, and that's been proven. But that's not my game. And, overall, equities are going to do far better than US government bonds at these prices. The US government bond is guaranteed to lose purchasing power. I mean, it--there's no way we follow the policies we're following without money becoming worth less over time. That's been true of governments every place, you know, forever. So I stand by the article; I just wish I'd run it a few months later.

**BECKY**: Well, they're--a very smart person asked me, they said you knew that the economy was going to get worse.

**BUFFETT**: Sure.

**BECKY**: So why did you make the major investments you made in a **General Electric**, in a **Goldman Sachs** at the time that you did instead of waiting? Why buy then?

**BUFFETT**: Well, both--in those cases, I got 10 percent preferred that I don't think I could get now. So, I mean, actually--I don't think Goldman would issue me a 10 percent preferred now. Although they--if they did and there were warrants attached, the warrants would be cheaper. But that was a time when both of those companies wanted money immediately and we could structure a preferred that was attractive. But the fact that business is going to get worse does not mean you should wait to buy stocks. I mean, if...

**JOE**: But, Warren, I...

**BUFFETT**: It doesn't--it doesn't--go ahead, Joe. I'm sorry.

**JOE**: I was thinking about, you know, you did and that was the attractiveness, I guess, the 10 percent yield. But I think a lot of your long-term--your long-term holdings--for example, American Express you can now pick up almost for single digits.

**BUFFETT**: Right.

**JOE**: Wells Fargo, one of your favorites, is single digits, 8.60. Goldman Sachs, you liked it, you said it's going to be around; GE, you like it, you say it's going to be--I can't remember, maybe 100 years or it's going to be a great company. That's at $7. It would seem to me that maybe by the end of this quarter we're going to hear that you were buying a lot of these things.

**BUFFETT**: Well, I'm glad you know, Joe, because...

**JOE**: But if you liked them--if you like these things and you've held American Express for $50 or whatever for a long time, that would give us a lot of confidence if you saw it at 10 and decided I'm going to--I'm going to buy a lot more here and just lower my average price.

**BUFFETT**: Yeah. American Express is a special case, Joe, because it's a--it has become a bank holding company. And if you own over--we own over 10 percent of American Express. If you own over 10 percent of it--if you own over 9.9 something percent of a bank holding company, you need the permission, I believe, of the Federal Reserve to buy another share. So they--they're becoming a bank holding company I believe. As I understand the law, it precludes us buying another share of that because we are at that percentage already.

(Graphic on screen)
Berkshire Hathaway Investment
As of 12/31/08
Am. Express 151,610,700 shares
Coca-Cola Co. 200,000,000 shares
ConocoPhillips 84,896,273 shares
Kraft Foods 130,272,500 shares
Source: Berkshire Hathaway Annual Report

**JOE**: But...

**BUFFETT**: But I would--American Express, for example, you know, it's very clear that American Express' losses in 2009 on their receivables will be, you know, considerably higher than last year. And their earnings will suffer to some degree accordingly. But that doesn't mean that American Express isn't a hell of a buy at $10. American Express is going to be around forever. They've got the cream of cardholders. Unfortunately, they have some cardholders that aren't the cream, too.

**JOE**: But you're not--you're not a 10 percent in GE, I don't think, yet.

**BUFFETT**: No. No, I--and--no. And we--but we bought the preferred of GE. You know, we--there are things I like to buy, but I also want to be absolutely sure--I mean, my job is to be sure that Berkshire does not need the help of anybody in getting through the toughest of times. So we keep a lot of cash. But I don't like to keep more cash than's necessary, but I regard necessary as always way more than other people regard as necessary because I always think in terms of worst cases.

**BECKY**: In the past, you've said $10 billion you like to keep around. Is that still there?

**BUFFETT**: Well, $10 billion is an absolute minimum. So if I'm going--I'm going to say $10 billion is a minimum, I always have to have quite a bit more than that to be sure that I don't go below that. Because we could have a hurricane tomorrow or something of the sort in our insurance business or, you know, who knows? So I leave--I leave a cushion above that.

**BECKY**: Is the cushion bigger than it used to be, or is...

**BUFFETT**: No.

**BECKY**: ...this the same as always?

**BUFFETT**: The cushion--what is--what has changed is that we will do less cat insure--catastrophe insurance business this year than we would have done in a year when we had way--even way more cash. I look in--you know, I look, I say to myself if there's a 9.0 earthquake in Los Angeles or San Francisco or the Pacific Northwest or something, I want to be prepared to have a lot of money afterwards. And, you know, it--I have to err on the side of caution. But that doesn't mean I go into a cave either. And when we got the chance to buy, we did the Wrigley deal, we did GE, we did--we did--we did Goldman, a lot of money went out then. In fact, when we did the GE deal I actually simultaneously made a deal with a base price on selling a couple billion dollars' worth of J&J. I didn't want to sell J&J. I mean, I like J&J. But I just, you know, I didn't--I didn't want to--I didn't want to commit that much money without having a couple billion coming in at the same time. And that's my job, though, is to be--I don't want--we can't depend on anybody.

**BECKY**: There's a question that came in from Kevin in Tifton, Georgia. He says, "I keep **hearing people like Doug Kass** say that your style of buy and hold investing is dead. Do you think that's true?"

**BUFFETT**: Well, it depends what you buy and hold. It's--if you buy the right businesses at the right price--you know, we own 70 businesses. We own See's Candy.

**BECKY**: Right.

**BUFFETT**: So we have bought and hold See's Candy since 1972. It's a very good business. Now, does that mean that if it's stock was quoted every day I couldn't have danced in and out with 100 shares or 500 shares? But if you're in the right business--Coca-Cola, 1886 or something like that, you know. Per capita's probably gone up of their products virtually every year. So, if we own a good business--if some another guy can buy one stock today, sell another--sell it tomorrow, buy another stock--if you--he may be able to make more money doing that than I can do with buy and hold. All I know is if I buy the right businesses, I'll do very well.

**BECKY**: OK, let's get to some more questions right now. Joe's right, we have had thousands that have been coming in, Warren, so we'd like to get you back to one from Adam in Springfield, Virginia. He writes and he wants to know, "If you could take back one investment you've made in the last year, what would it be and why?"

**BUFFETT**: Well, there'd be quite a few in terms--well, **I mentioned in the annual report** that, you know, I bought ConocoPhillips when oil was selling well above 100, and I was wrong about oil and therefore that made me wrong about that stock big time. I bought a couple of--smaller, but I bought a couple stocks in the--stocks in a couple banks in Ireland. I did not do my homework sufficiently on that, and I was just dead wrong. So I make plenty of mistakes. The interesting thing is--and I'll make plenty more mistakes, too. That's part of the game. You just got to make sure that the right things overcome the wrong ones.

**BECKY**: We're trying to focus this hour on your investment strategy. And Doug Kass of Seabreeze Partners has written in in the past, he's been critical of your investment style recently, and he had a question for you as well. He says, "Mr. Buffett, your long-held investment philosophy has been importantly based on one, successfully identifying companies whose business franchises were protected by moats, and two, holding--a holding period of forever. So do you think the moats of your financial holdings have been flooded, and in light of a business world that's now changing more rapidly than the past, do you plan to alter your holding period of forever to a lesser period of time?"

**BUFFETT**: Yeah, well, I--in terms of our businesses, the ones we buy, like See's Candy or those, we really do plan to hold them forever. I mean, our stocks we plan to hold a very long time. Washington Post stock we've held since 1973, I believe, and Coke's been long time. But overall I like to buy them with the idea of owning forever. And the quotes don't make much difference. I own three things outside stocks. I own--I own--I own a quarter of the baseball team here in town. I don't get a quote on it every day. I've had it 15 years. I own a farm near here, bought it 20 years--I don't get a quote on it every day. I look to the performance of the asset.

Now, if I looked at the performance of Wells Fargo, we'll say, I see that, you know, in a couple years--and management doesn't have anything to do with what I'm saying here. I--these are not from them. But I would expect $40 billion a year pre-provision income. And under normal conditions I would expect maybe 10 to $12 billion a year of losses. I mean, you lose money in banking. You just try not to lose too much. So, you know, you get to very interesting figures. I mean, the spreads are enormous on what they're doing. They're getting the money at bargain rates. So I--if there were no quote on Wells Fargo and I just owned it like I own my farm, I would look at the way the business is developing, and I would say, you know, it's--`These are a couple of tough years for losses in the banking business, but you expect a couple tough years every now and then.' And that the earning power is never--is going to be greater by far than it's ever been when you get all through with it. The only worry in that is the government will force you to sell shares at some terribly low price. And I hope they're wise enough not to do that. That would--that's what--that's what's spooking the banking market to a big extent.

**BECKY**: You worry about that, too.

**BUFFETT**: Yeah, sure.

**BECKY**: That's why you'd like some clarity out of Washington on what they're planning to do...

**BUFFETT**: I--that's one of the reasons. I particular--I think clarity is a good thing for the whole country on a--on a lot of--any issue to do with people's money, clarity's important. People want to be clear about their money. But I would say that if--if we own US Bancorp, which we do, or Wells Fargo, their prospects three years out have been better than ever.

**BECKY**: Mm-hmm.

**BUFFETT**: And if they weren't quoted, you know, people would feel fine owning the business and I think they would say that, you know, they're going to lose more--way more money than usual that--maybe this year and the next year, but they've built the provisions and all that sort of thing. They're going to come out fine unless they have to issue a ton more shares.

**BECKY**: But the back and forth in the administration right now has been which plan to follow. There's been a lot of confusion. There was this idea that the TARP money was going to be used to take the toxic assets off of their hands.

**BUFFETT**: Sure.

**BECKY**: There was the idea that maybe they should just be buying shares outright. There's the idea of nationalization out there. What's the right answer?

**BUFFETT**: The right answer--the right answer for me is the president to clarify things as only he can, because you have heard so many different things. And, you know, they're doing their best to communicate, but the person that the people of the United States gave their trust to not that long ago was Barack Obama. He speaks very well. He has--he is the commander in chief on this, and it has to be clarified. Like I say, the head of the New York Fed gave a talk, explained a lot of it, but nobody's going to pay that much attention to what he says. You need the president of the United States to make it very clear. Because if people aren't clear, they're going to be confused. And if they're going to be confused, they are going to be scared stiff. And that has to end.

**BECKY**: Does that--you make it sound almost like it doesn't matter what he says, as long as he picks one of those.

**BUFFETT**: Well, it matters...

**BECKY**: That's--you've got to--you've got to be leaning one direction.

**BUFFETT**: It matters somewhat. But we know that the Battle of Midway was the, you know, the important battle, you know, or that, you know, in terms of when the Philippines fell, all the--I mean, you've got to--you've got to assume that you need a commander in chief. They'll be intelligent, they've got the interests of the country at heart. And then you can't expect to agree with them on every point. And if you don't, you still get behind the effort.

**BECKY**: Joe.

**JOE**: Hey, Warren, you're talking about some of the investments maybe you regret. This wasn't made last year, but your what was it, a sale of puts, a long-term bet on the S&P that I think you have to mark at least a little bit to market once in a while, and it's up in the billions now. Do you regret that? Is that going to work out in the future? How long do you have now, where does the S&P have to end up?

**BUFFETT**: Well, the S&P has to end up 15 or 20 years from the time we did the deals at the price at which we did them. Although, if the S&P actually ends up, you know, 15 percent below or so, we still break even and we've had the use of the money for 15 or 20 years. So we're holding about $4.8 billion. The first one comes due in the latter part of 2019. And obviously I would rather put those positions on now than having put them on a few years ago. But if you--if you gave me the choice of not having the positions at all, and not being able to put them on or sticking with the positions we have, I would stick with the positions we have. I think--I think we will--the odds are good we will make money. And the thing I know for sure is we'll hold almost $5 billion for between 15 and 20 years in conjunction with it.

**JOE**: Hm.

**BUFFETT**: So I like...

**JOE**: Those are derivatives. You don't like derivatives, but you used them in that case, right?

**BUFFETT**: I--well, we've used derivatives for many, many years. I don't think derivatives are evil, per se, I think they are dangerous. I've always said they're dangerous. I said they were financial weapons of mass destruction. But uranium is dangerous, and I just went through a nuclear electric plant about two weeks ago. Cars are dangerous.

**JOE**: Yeah.

**BUFFETT**: But I mean, every American wants to have one. You know, the--a lot of things can be dangerous, but generally we regulate how they're used. I mean, there was a--there was some guard up there with a machine gun on me, you know, when I was at the nuclear plant the other day. So we use lots of things daily that are dangerous, but we generally pay some attention to how they're used.

**JOE**: Hm.

**BUFFETT**: We tell the cars how fast they can go.

**JOE**: Yeah, yeah. Good. Well...

**BECKY**: David--go ahead, Joe.

**JOE**: Well, hopefully, Beck, we'll have a chance to talk about, you know, AIG and what we need to do...

**BECKY**: Mm-hmm.

**JOE**: ...because to be able to, you know, to write that many insurance contracts, Warren, and not put up any collateral, that's got to be something that regulators at this point, right? I mean, that is--that's why we're in this mess right now.

**BUFFETT**: I wrote--I wrote Congressman Dingell in 1981 about it, when they--you know, these are--they are dangerous.

**BECKY**: About AIG, or about derivatives in general?

**BUFFETT**: Oh, they were--it was--well, it was actually about trading the S&P 500 and what--the dangers you get into when you allow people to leverage up like crazy, which derivatives allow you to do. We put margin requirements in in the United States after 1929. We said that '29 was a terrible crash, it was partly brought on by the stock market and that was partly brought on by the fact that people were buying stocks with very little down payments. So the United States Congress said to the Fed, `You regulate this thing.' That's been 75 years ago. They still regulate it, but derivatives enable people entirely to get around margin regulations. They made them meaningless. And so we leveraged up the system and we are now feeling the pain and the spread out of the pain to people who had nothing to do with it from the deleveraging the system. And it's massive. So we do need--we need something new.

**BECKY**: Part of the reason AIG was able to do that was because its high credit rating at that point.

**BUFFETT**: Absolutely. Yeah.

**BECKY**: You're not suggesting necessarily they change the rules on how much people have to put down based on their credit ratings, right? Because you benefit from your AAA credit rating.

**BUFFETT**: Yeah. Although we benefit less these days than before. But AIG had this AIG financial products. I--when I bought Gen Re, they had something called GenRe financial products.

**BECKY**: Right.

**BUFFETT**: They had 23,800 contracts. Hell, I, you know, I couldn't understand 22,000 of them, probably. I spent--and I know I couldn't get my mind around it. You--that--and people recorded profit every--you know, that section made a profit every year, supposedly, and the guy that ran it made a lot of money and everything. You know, it probably would have busted the company if they--if they'd kept it around. Anything where you use the credit of a great institution to go out and start doing all kinds of things that--enormous leverage gets you in trouble. Citigroup could do SIVs because everybody trusted Citigroup, you know, and nobody knew that, you know, all this stuff was off balance sheet. It was a way of getting around capital requirements. You have to watch people that had all big sums of money.

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**JOE**: Let's get back to Becky Quick who's live in Omaha this morning with the legendary investor Warren Buffett. Becky ...

**BECKY**: You know, Joe, one of the other big stories of the morning is what's been happening with the Big Three in Detroit. A lot of questions there and President Obama's car czars are meeting there today to try and get a handle on whether or not they're going to be loaning more money to GM and to Chrysler. There were some comments made over the weekend, Warren. Senator McCain, again, on the Sunday morning talk shows, talked a little bit about GM and his opinion was to let GM go bankrupt. This is a huge question. What would you do if you were in President Obama's shoes right now with GM?

**BUFFETT**: Can I use a lifeline? Phone a friend...

**BECKY**: Phone a friend at this point?

**BUFFETT**: ...that's a tough one. I mean, that is very tough.

**BECKY**: Yeah.

**BUFFETT**: But you have this situation where we have 250 million cars and light trucks on the road. Year after year we produce maybe 15 million or something like that because there's a lifetime to the 250 million, sort of a normal cycle. But we got down last month, you know, a little over nine million. So you are in a terrible, terrible, terrible period for the--for the carmakers every place. GM has a lot of--or the auto industry, the domestic auto industry has a lot of legacy costs. They did some dumb things in the past because they had a business model in mind that doesn't exist anymore. The union bargained for those things, you know, they feel entitled to them, they made a deal, you know, and they've got hundreds of thousands of retirees dependent on it and all sorts of things. So you need a new business model somewhat. You also need a recovery. It isn't just the business model. And I would say net I would come down on--if they modify the business model to adapt to the reality of a 13 million car a year and we'll do better than that in the future in some years. If they adapt, have a business model that works with that I would get them through this period. I would not expect to have a business model that works at nine million units because it isn't going to work at nine million. On the other hand, we are going to sell 13, 14, 15 million units a year sometime in the future.

**BECKY**: But you think you can get that business model, one that works without going into bankruptcy?

**BUFFETT**: That's the tough thing, and that's the challenge of the administration, the management and the unions working together. And I understand--the present managements didn't get us into this situation. There's no use getting mad at, you know, at the people now running the Big Three. There's no use getting mad at the union. They bargained for what they've got and, you know, these people, they counted on it. It won't work going forward and there have to be modifications made and people at all levels have to have a stake in that if--they should--they should try to accomplish it outside of bankruptcy. I mean, the American people do not need, you know, America's sort of hometown industry going into bankruptcy now. But I--they need a--they need a new business plan. It shouldn't have to be a business plan that works at nine or 10 or even 11 million units. It has to be a business plan that works at 13 million. We'll get back to that. It's the same thing as in housing, Becky.

**BECKY**: Mm-hmm.

**BUFFETT**: You know, we have a million and a half too many houses around now, you know. You own--you have household formation over here creating demand for houses, and you have people building houses. For a while we were building a million and three-quarters or something like that and household formation was a million three, and two-thirds of the people that form houses want to live in their own house so maybe you had demand for a million, and guess what happened? We had too many houses. Now we've got the housing construction down to 500,000 new permits or something like that. We're using up the million and a half units. But we have to work our way out of it and we have to work our way out of the car situation.

**BECKY**: Well, you bring--you bring up the housing situation. And Bob from Seattle, Washington, wrote in. He's got a question where he says, "Do you believe that the American economy of the last 10 to 15 years has been a house of cards? Won't the cries for more lending and more borrowing just rebuild that same house?"

**BUFFETT**: It was--it was not a house of cards, but it was an economy that was benefiting from leverage--leveraging up.

**BECKY**: Right.

**BUFFETT**: And when you leverage up, it's very pleasant. I mean, you can build more houses than people are buying, you know, and--or the natural demand is for and you'll get people speculating in them and you'll get people lying in order to get into houses they can't afford. And so the percentage of people besides the American households that lived in their own house went a little bit and it went up a little bit because those people really didn't have the income to do it. Now it has to go down. But it was not a house of cards at all. I mean, we have an economy that really works. We're in a store where a woman walked out of Russia, you know, 90 years ago almost and she came to the United States, saved $500--it took her 16 years to do it--this is the largest home furnishing store in the United States, it does $400 million. Nobody walked out of the United States to go to Russia and ended up with a $400 million store with $500. This woman couldn't read or write, but she worked within the American system. She gave better--people better deals, she worked harder than anybody else, she was smart and she built an enormous success that employs thousands of people. America works, and America was--has been working the last 10 years, but we just did some very dumb things in terms of leveraging up.

**BECKY**: You're talking about Rose Blumkin who built the Nebraska Furniture Market.

**BUFFETT**: Yeah, market--yeah. Nobody walks out of the United States to go to Russia.

**BECKY**: Let's talk a little bit about the housing industry itself. There are people who say this entire crisis started because of the housing industry.

**BUFFETT**: I agree.

**BECKY**: David Paterson, the governor of New York, **wrote an opinion piece** in The Wall Street Journal over the weekend, and he said, "The mortgage plan that the president has proposed is the right one." Do you agree with that?

**BUFFETT**: Well, I don't even know all the details, but I would say that the administration ought to be willing to listen to very prompt suggestions on ways to make it a little bit better. But--and I don't know that he even needs it, but I'm just saying they ought to be open-minded about that. But they ought to have a plan. And the idea that it benefits some people that maybe shouldn't be benefited, you know, to me that's, again, like after Pearl Harbor saying it was the Navy's fault so the Army and the Marines and all aren't going to join in and help, and the American people shouldn't do it because the Navy should stew in their own juice or something like that. We need to get the housing situation straightened out. Now the biggest--the big problem is we've got about a million and a half too many houses sitting around now. And the vacancy rate is up a couple percentage points on that and 2 percent of 80 million homes is a million six or something like that. We have to work through that. And we will work through it, but we'll work through it--we can't--we can't create a lot more households. We can't tell the 14 year olds to all get married and start having children so we can have more households.

So we got to--got to sort of work with the normal demographics here. But we will have a million three hundred thousand households for them. Nine hundred thousand of those will want to move into their own houses netting everything out and we'll have some housing destroyed. So we can sop up the demand. We're lucky we have population growth. When Japan gets--got in trouble, they didn't have population growth. We have population growth. There's going to be demand, there's going to be more houses in the United State five years from now than now. There'll be more in 10 years than five years. So we can sop it up. But we can't do it in a week or a month or a year. It just doesn't happen. We--and I think that having a mortgage plan somehow gets payments for those who can make them down to a reasonable percentage of their income, which is where it should have been in the first place, is not crazy. I mean, we have an interest in solving that particular problem. And we shouldn't finger-point.

**BECKY**: Does that mean we're not the next Japan? We're not talking about 20 years of a stagnant market?

**BUFFETT**: Not 20 years at all, no.

**BECKY**: Are we talking about 10 years? What...

**BUFFETT**: Well, it just--it depends. Frankly, the best thing that could happen--I'm in the brick business, I'm been in the carpet business, I'm in all these businesses which are getting hurt by the lack of new construction. But the lack of new construction is an important ingredient to this. If you've got too many houses and you've got a certain growth and demand--if demand is going to grow by X per year, and if you...(unintelligible)...the next houses you're going to--you're going to improve the situation and we--you got a choice. You can either--you can either blow up a billion and a half houses or you can create few houses than natural demand sops up. And I would say that, you know, you can work your way out of it in a couple of years probably, two to three years.

**BECKY**: Two to three years, which is very different than what...

**BUFFETT**: Don't--well, it just depends how many are constructed. We really...

**BECKY**: Yeah.

**BUFFETT**: ...the new housing starts have really gone down. I think the last figure's around 500,000 or something like that annual. And that makes a big difference. That didn't happen for a while. I mean, it was--they had to slow down the machine.

**BECKY**: Joe, I'm sorry, did you want to a question in here?

**JOE**: Yeah, I want to go back to something Warren said quickly, Becky, and that was that--and we don't hear this enough--that in the past 10 years, Warren, you said that things basically did work in the economy. That the free-market economy--we seem to look back now and think that over the past 10 years that every step we made was a misstep that led to this crisis where we are right now. And I know you weren't a big fan of the Bush tax cuts, but you can't throw out the baby with the bathwater, can you, in terms of--maybe there needed to be more regulation, but overall why are we in this mess right now?

**BUFFETT**: Well, we're--the biggest reason we're in the mess, you know, is we did leverage up the country and we essentially made a huge bet on housing, but that led to all kinds of other instruments. And--but net over the 10 years a lot of things were--happened that were right and over the next 10 years a lot of things will happen that are right. The--this machine is gummed up right now and it's gummed up by a lack of confidence and that makes people scared and, I mean, it feeds back and forth and it's a vicious cycle.

**JOE**: Did...

**BUFFETT**: That will be broken--that will be broken. I'll guarantee it'll be broken, Joe. I think it'll just be broken...

**JOE**: Doesn't...

**BUFFETT**: ...sooner if...

**JOE**: Doesn't the freedom inherent in a free market give you enough rope to hang yourself a lot of times? And maybe we can look at it that way? I mean, how do we make sure that greed--greed has been involved with every bubble that we've had over the past 500 years and we've had a lot of them. And if...

**BUFFETT**: Yes.

**JOE**: ...you're in a free market, you're going to have enough rope to hang yourself, no?

**BUFFETT**: Yeah. Well, you--yeah, you want me to have enough free rope to hang myself, you just don't want me to have enough rope to hang the whole country. And...

**JOE**: Right.

**BUFFETT**: ...we'll always--I mean, failure is part of the American system. But you don't want to create conditions where failure becomes--of such large institutions becomes contagious, produces fear, all of those sort of things. But that'll happen occasionally. There's no question about it. Free markets overshoot, they do some things that are wrong. They work better than anything else, but they have to--in certain arenas they have to be looked at because there are areas where people--where what you--what you do that's stupid can be contagious throughout an economy.

**JOE**: Hm.

**BUFFETT**: You don't--you don't--you don't want--I have no desire to leave the market system at all. But you do need government and you particularly need government at a time like this.

**BECKY**: That's right, we do. We also have questions from lots and lots of viewers so we'd like to get back to some of those e-mails. They've been coming in all morning long. And Warren, I'd like to start with one right now from Tom in Vero Beach, Florida. His question is, "Given that Berkshire Hathaway primarily buys stocks, if you felt the Dow was going to slide to 2,000 would you state your thoughts publicly, or would you feel an obligation to keep those thoughts private?"

**BUFFETT**: I would never have a feeling that the Dow is going to go to 2,000 or 12,000 or 4300 or 20,200. I don't--I know over time it will go higher. I mean, American business will be worth more over time. The dollar will be worth less. They'll be retained earnings that build up values. There will be more people in this country and they'll have more buying power. Stocks will be worth more over time. I have no idea where they'll go in between. For all I know, that farm I bought, you know, 20 years ago, it may have bobbed around 8, you know, $1800 an acre, 1200, I don't even know anything about that. I just know that the farm, over time, will produce 120 bushels of corn, you know, per acre, etc. So I've never tried to predict stock prices.

**BECKY**: You know, it was interesting. I made a comment earlier that the Dow was at 6626 and when I did, you made a comment about it, too.

**BUFFETT**: Yeah. When it was at 6626, at the start of 19--the last century, 1900, it was at 66. So it's gone up 100 for one. And we had the Great Depression, two world wars, the flu epidemic, the nuclear bomb, the cold war. I mean, you name it. At least 15 years in that 100 years looked terrible and five or six of them looked, you know, almost disastrous. And in the end, this system works extremely well. And--but it doesn't work well every day or every week or every month and there are times when government needs to be a very big factor to make sure it starts getting back on the tracks. But it will work. I will guarantee you that the Dow will be a lot higher. I'll have no idea about the numbers or anything else, 10 or 20 years from now. I have no idea. You know, 2,000, 8,000, they're all numbers.

**BECKY**: A lot of viewers wrote in and had specific questions about your investments. David wrote in and says, "You've committed financing for Dow Chemical's acquisition of Rohm and Haas Company. What are your thought on the upcoming lawsuit and whether or not the deal should continue to move forward?"

**BUFFETT**: Yeah. Well, I can't comment on that. The lawsuit will either happen or it won't happen. I guess they're going to decide pretty soon on that. I mean, any deal that was made last summer, you know, like they say in golf, every putt makes someone happy. But all of the sellers are happy and all of the buyers are unhappy. And you know, the deal would not be at the same terms now and incidentally, we committed to buy $3 billion worth of preferred. That is not a good commitment. I mean, it's good in the sense that we're going to do it, as I've told the CEO of Dow, I said, you know, our 3 billion will be there if Ben Bernanke runs off to South America with Paris Hilton. I mean, they'll have the money. I mean, but the--was that--is that a smart deal today? No. No. But conditions have changed and conditions change for Dow and Rohm and Haas in a huge way. And what looked like a deal that was--they liked at Dow and that it could be financed reasonably well and the Kuwaitis were going to enter into a partnership with Dow, all kinds of things. But the world has changed like nobody ever believed it would and so obviously, it's not only, you know, not only not a good deal now, I mean, it may not be a doable deal now. Our commitment, which was--looked smart at the time, looks dumb at the present time. But that's the way the world is.

**BECKY**: OK. One of the changes in the world has been what we've seen in the treasury markets and K. Hart writes in and says, "If the much talked about bubble in the Treasury market burst, would money market accounts, which are exposed to Treasuries, be adversely affected?"

**BUFFETT**: No. The--you'll always--you'll get your dollar back, it just won't buy as much and if we get enough dollars out there and you can go to a Web site and look at what is happening with M1 and M2, they don't talk about it anymore, but the--we are going--we are doing things that are going to put a lot of inflationary pressure on at some later date and we're going to do more things like that and that's the right thing to do, actually. I wish we didn't have to do it, but it's the right thing to do and--but in economics, you can never just do one thing. I mean, if you do something, it has consequences and that's why they always say you never get a free lunch. But it's better to have the lunch we're having now even if we pay later than have no lunch at all.

**BECKY**: All right. Brian from Santa Rosa, California, writes in. He says, "I'm a 33-year-old lawyer who has never taken a business class in my life. Nevertheless, am I crazy to think that many, if not most, blue chip stocks at current valuations represent the opportunity of a lifetime?"

**BUFFETT**: Well, I don't know if I would say the opportunity of a lifetime, but I would say that most people who buy companies, believe they're well capitalized. You don't want to buy somebody that's leveraged to the hilt in this situation because they may not to get to play out their hand.

**BECKY**: Mm-hmm.

**BUFFETT**: But if you buy a cross section of good equities, generally well-capitalized companies, you'll make money over 10 or 20 years. I haven't the faintest idea where you'll be in 10 months, but it really doesn't make any difference. When I bought that farm, I have not gotten a quote on it yet. I bought a quarter of interest in the Omaha Royals, I've never got a quote on it. I look at the attendance figures, I look at see if the billboards have ads on them and all that sort of thing, but I took to the performance of the Omaha Royals or the farm to determine whether I made a decent investment. That's the way people really ought to look at stocks. They have a hard time doing it because they get these quotes thrown at them every day. Forget the quotes. Look at the business.

**BECKY**: Although right now a lot of people are facing--focusing on those quotes.

**BUFFETT**: Sure.

**BECKY**: Richard from New York City writes in. He says, "In the annual report for 2008, you say that `Now our book value far understates Berkshire's intrinsic value.'" He wants to know, "would you care to be more specific how `far understates' should be interpreted?" For example, do you mean 30 percent?

**BUFFETT**: Do we have a number? Yeah. Well, the answer is I won't give you a number, but I will tell you, for example, that here's See's Candy that we bought in 1972 and we paid $25 million for it.

**BECKY**: Mm-hmm.

**BUFFETT**: It's worth a lot more than 25 million. But in terms of knowing numbers on different businesses, you know, Geico's worth far more than we paid for it, but others aren't worth far more. On balance, book value does understate intrinsic value, but I--who knows how much?

**BECKY**: OK. Harold from Williamsville, New York, writes in. He says, "You said recently that Treasury Bonds and cash equivalents are going to have very bad times in the not too distant future. Does that imply that you like gold and silver and the equities underlying them?"

**BUFFETT**: No. It applies I like good businesses.

**BECKY**: Mm-hmm.

**BUFFETT**: You know, if the dollar becomes way--worth way less, we will sell See's Candy for more money. I mean, it won't be more real dollars, but we--if somebody's willing to give up 15 minutes of their labor or half to buy a pound of this or to buy six cans of this, they'll do the same thing and it won't make any difference whether shark's teeth are being used for money, basically. So the best--well, the best assets you can have during inflation is your abilities. I mean, because if you're the best doctor in town or the best lawyer in town or the best broadcaster in town or whatever it may be, you will always command a certain percentage of the resources of society. So your own talents are the most important thing. But if you don't have any talent like I do, you try to buy into other people's talents. And you know, this is the best candy. This is the best soft drink, as far as I'm concerned, and it will be that way 10 years from now. And whatever the value currency is, we'll get our share in that--in terms of that value at that time.

**BECKY**: You mentioned before when we were talking about the mortgage plan that it may help some people that it shouldn't.

**BUFFETT**: Of course.

**BECKY**: But that's something we need to suck up and understand at this point. But it does lead to other people who have questions about whether they're being penalized for doing the right thing. In fact, Bob and Lani in Rapid City, South Dakota, write in. They say, "We are conservative South Dakotans. We are now saving more, but the government wants us to spend more. Are you `short' or `long' on our strategy to `pay all your personal bills promptly and always live within your means'?"

**BUFFETT**: Well, I've always followed that myself, so I'm with them 100 percent on that. But in terms of 100 percent, I mean, you don't want to get behind the eight ball. I mean, if you are, you've got to work your way out, but it's always better. You know, Ben Franklin wrote that, you know, hundreds of years ago, the--you know, earn a dollar, spend 99 cents, result happiness, you know. Earn 99 cents, spend a dollar, result misery. And--but in terms of the inequities, if I were a--had been a client of Bernie Madoff's and fortunately I never heard of him, but let's say I was a client of Bernie Madoff's. I'm in the middle of Lake Michigan with him. We're in a boat together. Bernie's at the other end. I've just lost all my net worth. I see this hole spring up at his end of the boat. Am I supposed to cheer? No. I mean, in the end, you know, I want to save Bernie, too. I mean, not because I really want to save him, but I--you know, there is no way to divorce myself from what's happening on the other end of the boat. And this thing is covering--going to cover the whole boat. There's no question about it. So the people who have behaved well are going to find themselves taking care, to some extent, of the people who didn't behave well.

**BECKY**: Right.

**BUFFETT**: And in Pearl Harbor, the Army, you know, undoubtedly was not as responsible for those boats being in the harbor there all exposed to an attack and kind of sleeping through it as the Navy. But does that mean the Army holds back? No. You've got to be in there.

**JOE**: Hey, hey, Warren, Becky's really, you know, she's nice and deferential to you and everything. I just want to let you know that there are times she gets really mad because she's been one of the people that have paid her mortgage and she always points out she's never bought new bedroom furniture because she...

**BECKY**: Oh, stop already.

**JOE**: And you're in a furniture store! You and Warren are...

**BUFFETT**: We're not going to last--we've locked the doors, Joe.

**JOE**: You can...

**BUFFETT**: We've locked the doors, Joe. She is not getting out of here until we clean her out.

**JOE**: Becky, tell Warren you're mad that you've done all the right things and all these other people are going to get bailed out.

**BECKY**: Oh. I'm not nearly as mad as is as many times you've complained for me. But yes.

**BUFFETT**: There's nothing wrong with being mad, Joe. It's just you can't--there's times when you're made about something that you've got to overcome the emotion because...

**JOE**: Give her a deal on a new bedroom set and then we won't have to hear it anymore. You're in a furniture store.

**BUFFETT**: We give deals to everybody, even including guys named Joe Kernen.

**JOE**: All right.

**BUFFETT**: We'll open an account for you.

**JOE**: All right. Thank you.

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**BECKY**: Good morning, everybody and welcome back to SQUAWK BOX right here on CNBC. I'm Becky Quick along with Joe Kernen. Carl is off today. This morning we are live in Omaha at the Nebraska Furniture Mart with a very special guest. Of course, we're talking about Warren Buffett. He has been answering our questions and your e-mails as well. We've received thousands of e-mails and there is still time to get yours in right now, so viewers you can go ahead and write in at AskWarren@CNBC.com.

We also have this morning some major news, $41 billion merger between Merck and Schering-Plough. Joe is going to have more on those details in just a few minutes, tell you exactly what's happening with that. But meantime, let's get back to Mr. Buffett. This hour we're going to be trying to look to solutions. What should President Obama and Congress be doing right now, how does the president's budget play into the nation's economic recovery? These are all some major questions and fortunately we have someone with a lot of brainpower here today to try and answer some of those. So let's get straight to it.

Mr. Buffett, again, I know we've talked about some solutions through the course of the morning, but this is a time when Americans are frightened about what's happening out there. There are a lot of different solutions being batted around and people just wonder what is the best way to go.

**BUFFETT**: Well, I think they--they're going to have to hear that from the president of the United States. I think there's--six months ago when we talked about it it's an economic Pearl Harbor. And I think that you need a commander in chief at that point. I think that people are confused and scared and they won't quit being scared until--and it doesn't go away fast. It comes on fast, but it doesn't go away fast. Until the confusion is cleared up. But the biggest thing they need clarity on now, I think, is the bank just as they needed it in the early '30s when we put in the FDIC, just as they needed it after the panics of the 19th century when we put in the Federal Reserve. People have to trust banks. And incidentally they should trust banks, but it should be made very, very, very clear that not just the $250,000, but--FDIC limit--but that anybody that has their money in an American bank or anybody that has the debt of American bank it's going to work out. That doesn't mean banks won't fail. The FDIC will keep taking over banks as they--they've taken over 3600 banks, or savings institutions, since it was set up. Nobody's lost a dime, never cost the government a dime.

**BECKY**: Mm-hmm.

**BUFFETT**: So we need clarity on that point. And they can't hear it from Treasury officials or that sort of thing. People need to--at this point they're scared enough so they need to hear it from the American president.

**BECKY**: I feel like I have heard that from the president, that we will stand behind the banking system and it will be here. What can he say more specifically than that?

**BUFFETT**: I'm not sure he said it quite that way, and it--incidentally, when it's said, it shouldn't be said, you know, about these guys are all a bunch of bums, but we're going to make sure you--and basically, it's a message that has to come out very clearly. And you know, in the end whether Citigroup ends up being worth $1 a share--it was worth $50 a share some time back--the shareholders, their money may be gone. You know, I mean, there is no moral hazard when you go from 50 to $1, believe me, to being creative. So that--you don't need to worry about that. And the government really doesn't need to put in more money, they just have to say it's good and then if it fails, it fails and then they do what they've done with other failed institutions, they place the deposits elsewhere. I mean, you had Wachovia, I think it was maybe the fifth largest bank at the time in the country. The next morning it was Wells Fargo. Nobody lost a dime in that. You had WAMU and the next morning it was JPMorgan. So we have transferred 8 percent of the assets--deposits successfully, or thereabouts in the last year. So it--but the message has to be--people should not--can't be worried about banks. And they--and a lot of them are.

**BECKY**: We've gotten mixed messages on what's going to be done with TARP money. A lot of mixed messages. Why do you think that's happened lately? Is it just that it's too difficult of a problem to fix? Is it that there's too many cooks in the kitchen? What's going on?

**BUFFETT**: Yeah, well there's too many cooks in the kitchen. I mean, if this really is economic Pearl Harbor, you know, Roosevelt on December 8th should not have called in--started holding hearings for three weeks and had 535 members of Congress each giving their own views and in a certain number of cases posing for their local cameras or anything. Now, incidentally, I don't think that Congress would do that if they realized that this was the economic equivalent of Pearl Harbor. I mean, they're patriotic. But you can't have 535 people planning war strategy and criticizing people and finger-pointing and all of that. If you do, you destroy confidence. I mean, people--the American public partly is scared because they see all these different actions going on and they don't--confuse the players and people are criticizing every activity that comes along. I don't think that's very useful in a time of war.

**BECKY**: Congress might shoot back that this is American taxpayers' money and it's my job to protect the interests of the people who voted me into office.

**BUFFETT**: Yeah, and it was American--you know, American taxpayers who were paying for the landing at D-Day, too, but we did not hold congressional hearings for a couple of weeks before that with everybody debating where we should land and how many troops we should send in and what day we should come. And nor did we have in the two weeks after people saying too many people died and you know, we should have sent in more troops or less troops or we should have waited a week to leave. You know, basically, Congress has responsibility, I mean the Constitution defines it, but they ought to realize that there are times when a commander in chief really has to be able to speak with a good bit of both parties behind him. At the same time, when you demand--when you really need that it means that essentially the majority party can't push around a minority party. So you can't use that as an excuse to push through all kinds of things and then expect unity, or substantial unity from both parties in supporting you in the really important war, and this is an important war.

**JOE**: Hey.

**BECKY**: Joe?

**JOE**: Thanks, Beck. Warren, you remember when you made those buys of Goldman and GE, you said that you--it was contingent really on TARP, on the original perception of what we thought TARP was, and that was to get some of these toxic assets off the books. We never--we never did that. We're still waiting. And when the president said, `You're going to hear about some details from Secretary Geithner,' and then our hopes were dashed when we didn't hear any details, that's really--a lot of people point to that day as where we started a renewed downturn. Would you urge the president to really focus with

Secretary Geithner on this plan, on the toxic asset plan on some type of private/public partnership to get rid of those? That's what people are waiting for and not seeing.

**BUFFETT**: Yeah, the interesting thing is that the toxic assets, if they're priced at market, are probably the best assets the banks has, because those toxic assets presently are being priced based on unleveraged buyers buying a fairly speculative asset. So the returns from this market value are probably better than almost anything else, assuming they've got a market-to-market value, you know, they have the best prospects for return going forward of anything the banks own. The problems of the banks are overwhelmingly not toxic assets, you know. They may have been one or two at the top banks, but they are not going to do in--if you take those 20 banks that are subject to the stresses, they're not going to do those banks in. Those banks have the earning power which has never been better on new business going out of this to build capital positions even if they pay low dividends which they're starting to do now.

**JOE**: Hm.

**BUFFETT**: Toxic assets really are not the problem they were. Now, when I said it was contingent--I didn't remember being exactly contingent on TARP, but it was contingent on the government jumping in.

**JOE**: Right.

**BUFFETT**: The government needed to act big time in September, I will tell you that.

**JOE**: So...

**BUFFETT**: And they did act big time.

**JOE**: So you are OK with the shift to providing the banks with capital as opposed to the original intention of the TARP for actually getting the toxic assets off the books?

**BUFFETT**: Yeah, and interestingly enough, they don't need to supply the banks, in my view, with lots of capital. They need to let almost all of--I mean, the right prescription with most of the banks is just let them pay very little in the way of dividends and build up capital for awhile, and they will build up a lot of capital. The government has needed to say--what the government needs to say is nobody's going to lose a dime by having their deposits in these banks. They're going to make lots of money with the deposits.

**JOE**: Hm.

**BUFFETT**: The spreads have never been wider. This is a great time to be in banking, you know, if you just get past the past and they are getting past the past. I mean, right now every time a loan is made to somebody to buy a house--and we're making, you know, making millions of loans--four and a half million houses will change hands this year out of a total stock of less than 80 million. So those people are making good mortgages. You want those assets on your books and you get a great spread in putting them on now. So it's a great time to be in banking, but you do have to get past this past. But the toxic assets, in my view, you know, if they've been written down to market, I'd rather buy those assets from the bank than any other assets they've got.

**JOE**: Hm. OK...

**BECKY**: Goes to Joe's point about the private...

**JOE**: ...hey, Beck...

**BECKY**: Huh?

**JOE**: Hey, Beck, I want to run something by both of you real quickly. The McDonald's same-store sales we've been waiting for globally, Beck, because this is very interesting. Increased 1.4 percent, which sounds like below recent numbers that McDonald's has been able to post.

**BECKY**: Mm-hmm.

**JOE:** You know what February 2008 was? It was a leap year.

**BECKY**: What?

**JOE**: It was a leap year and that extra day in February of 2008 accounted for 4 percentage points. So if you factor that in...

**BECKY**: Wow.

**JOE**: ...you add them back in it would be 5.4 percent. So the actual number of 1.4 is actually above the consensus, which was .4. US was up 2.8, which was above the consensus of down .6. Europe was down .2. That's actually above the consensus of down .4. So across the board, except for Asia Pacific and Middle East and Africa, that was a little bit below. That was up .7 percent vs. the estimate of up 3.8. But just at first blush, that 1.4 looks like not as good as what McDonald's has been able to post. But in one day--one day is a 4 percentage point difference. See, it would be like being--you're having your birthday. It's like how many presents you get.

**BUFFETT**: Joe, I'll give you--I'll give you breaking news. Dairy Queen same-store sales have been right up through this, too. But I would hate to own a luxury restaurant in Manhattan or something of the sort. The--we have three classes of jewelry stores, they overlap to some degree, but our high-end jewelry store is down a whole lot. Our--call it the mama bear is down a lot. And the baby bear is down some. I mean, you just go right--you can just see what the American public doing. The American public has had a reset of their buying habits like you can't believe.

**BECKY**: Then why did you make your investment in Tiffany?

**BUFFETT**: Well, we lent Tiffany money at 10 percent. We did not buy the equity. But I think the chances of Tiffany not paying us back--and Tiffany's going to have a bad year now.

**BECKY**: Right.

**BUFFETT**: I mean, anybody that's in luxury goods is going to have a bad year now and then, and they may have a couple of bad years in a row. But the American economy's going to be stronger five, 10, 20 years from now. And if a guy can bring home a blue box and have somebody kiss him, I mean, you know, that all--there's always a market for that.

**President BARACK OBAMA (on tape):** My friend and Hillary's friend, Warren Buffett... It is true that my friend and supporter Warren Buffett, for example... Let me tell you who I associate with. On economic policy, I associate with Warren Buffett...

**BECKY**: Welcome back, everybody. Again, we are live with Warren Buffett this morning at the Nebraska Furniture Mart in Omaha. And, Mr. Buffett, you may have just heard that sound. It was candidate Obama, before he was elected, talking about his relationship with you. We know that you supported him, that you voted for him, that you raised money for him. But we also have a question that came in from Robert this morning in New York, and he writes in, "Mr. Buffett, please describe in what capacity or role are you advising President Obama or his staff?"

**BUFFETT**: I've had a conversation or two with people--or not his staff, exactly, but in the administration. I've not had, aside from just seeing him at an occasion and just saying hello. But I've not had any real conversations with the president. He is the right president. And incidentally, this is the right country. I mean, we've got the right president, we've got the right country. You know, we're gummed up at the moment, but this is the place to be. And this is the right time. I mean, I wish I was 21 now instead of 78. So this is--the best days of America really do lie ahead. And President Obama is--he's very, very smart. He's got, I think, exactly the right goals. He's articulate and I--you know, he will be the right person to be the commander in chief in this economic crisis. But it is an economic crisis.

**BECKY**: It is an economic crisis. And in an earlier hour you talked about how we were hours or days away from the cliff with the economy.

**BUFFETT**: In September.

**BECKY**: Back in September.

**BUFFETT**: In September.

**BECKY**: Where are we now?

**BUFFETT**: Well, we have done a lot of things that should have been done. I mean, when the--when we--when we guaranteed money market funds, if we hadn't have done that, I mean, it would have been--we would have been going over Niagara Falls instead of--instead of riding up there just above it. If we hadn't done the commercial paper action where the Federal Reserve got into the picture--and their participation has gone down substantially now, but they stabilized that market. We were losing blood by the bucketful in terms of funding and liquidity in September, and the government basically did the right things in order to stem the flow of blood and get the patient so at least you didn't have to work on that aspect of it. And that was vital. I mean, that was--that was Pearl Harbor. And now there's a lot of things to be done. And they can't happen instantly. But the biggest thing right now is clarity as to what will be done in terms of the financial system.

And there's been enough mix up with different people saying different things that I think that the--that President Obama is the person to give real clarity to that.

**BECKY**: We have people asking questions about things that the administration has already put out. In fact, Bob wrote in from Baltimore, Bob Knott, who says, "On a scale from one to 10, how would you assess the value to the US economy of President Obama's recently enacted stimulus plan?"

**BUFFETT**: Oh, well, the stimulus plan's going to take a long time to kick in. I mean, there'll be certain things kick in fast. But the stimulus plan is part of the recovery, but it's not the most--it's important to put it in, but there's other things that need to be done now to restore confidence. You're not going to--you're just not going to see that much happen. I mean, there'll be things on TV and all of that. But when you're talking about a $14 trillion economy and you're talking about all the things that are worried--people are worried about and scared--and scared is a better word, because that's what they are. There are things that need to be done up front that actually are more important. But I'm still in favor of having a stimulus bill.

**BECKY**: There are people who are looking for quick solutions. Theodore in Woodstock, Georgia, writes in with the question a lot of people have asked. He says, "Should the SEC suspend mark-to-market accounting?"

**BUFFETT**: Well, that's a--you know, I've always been theological on mark-to-market accounting, because I've seen so much of what people do when they're allowed to use their imagination on balance sheets or income statements. And frankly, American business misbehaved in a big way, particularly in the '90s. But people did play games with numbers. And they probably still do. But it--there was--it was almost accepted as a way of doing business. So I've always been suspicious when you give a CEO a pen and tell him it's the honor system. And anything other than mark-to-market works in that direction.

Now, it's true, I think, that mark-to-market has had a--it's been some gasoline on the fire in terms of financial institutions. The markets are, on certain things, are pretty unrealistic, which is why I said just a little while ago that I would like to--I would rather buy the toxic assets at market from a bank than their good--than their best assets. There's more money to be made in those and they've been marked to a level where there's a lot of--you know, where they're probably below fair value, in my opinion. So I'm sympathetic. I think the best way to handle that, though, probably still, is to have the mark-to-market figures, but not have the regulators say, `We're going to force you to put a lot more capital based in on these mark-to-market figures.' I say in our annual report, I mark some--we mark everything to market. I say I don't agree with it in certain cases, and I explain my reasons and shareholders can decide whether they think the reasons are valid or not. I hate to give it up.

**BECKY**: Joe:

**JOE**: Thanks. I want to drill down on a couple of things, Mr. Buffett. We talk about the--you talk about 535 members of Congress, and that you don't think necessarily that, given a crisis, that you should steamroll or have a lot of things put through just because there's a crisis, you mentioned. I'm just trying to drill down on some of these things that are in the budget, and I'm not necessarily sure they're from Congress. I think President Obama knows what's in that budget and definitely, you know, they have his signature on them.

And I'm talking about, for example, the carbon tax. Does that make sense here? Does--which ones do, which ones don't? He was talking about the card check--he was talking about card check in EFCA last week. Does that make sense to you, Mr. Buffett?

**BUFFETT**: I think the most--the more contentious of it, certainly card check is contentious, but I would defer pushing a big agenda. And you know, there's this phrase that a crisis, you know, should not be wasted. Well, I think if you said a war should not be wasted and use that as an excuse to push--try to push through everything in sight, I think--I really think it's a mistake. I don't want to try and call from unity among all our managers while at the same--at Berkshire while at the same time imposing all kinds of new actions on them, many of which they disagree with. You know, that's not an argument for doing absolutely nothing but it's a--it is an argument for deferring some of the things that are going to cause...

**JOE**: I'm just--which things? Which things, though, Mr. Buffett? I mean, what would you tell...

**BUFFETT**: Well...

**JOE**: You know the president and he takes your advice and he use--he uses your name in talking about who he talks to about the economy.

**BUFFETT**: Yeah.

**JOE**: Which things would you urge him to put on the back burner right now? Because they're trying to do everything all at once.

**BUFFETT**: I know, and I don't think that's a good idea. But I also don't think it's a good idea to use CNBC as a way to talk to the president of the United States too much. Although I've done a little of that.

**JOE**: All right. I have--I have to--I have to ask you, though. I have to ask you which of the things. I know that they're watching, and I--and I know that they're hearing this from you. But--and I think, you know, there are some people that think they need to hear it.

**BUFFETT**: I would--I would err on the side of doing too much on the--if I--you're going to err on the side of doing--like if you're going to land on Normandy, you know, how many troops do you send in? You probably send in more than you think are needed. I mean, and I would say I would err on the side of doing too much on the economy and I would err on doing too little on the side of a whole bunch of other things I cared about.

**JOE**: You mean the banking system in the--in the economy is what you're talking about. OK.

**BUFFETT**: I--yeah, yeah, right.

**JOE**: All right.

**BUFFETT**: I--yeah. The job is to get--the job is to get that fixed.

**BECKY**: All right, you counted on--you commented on mark-to-market. What about the uptick rule? We've had several people who've written in about that.

**BUFFETT**: Yeah. Yeah, I--there's no--there's no question that it--there's something wrong with people buying stocks and saying untrue things, and there's something wrong with people shorting stocks and saying untrue things. And sometimes it seems like the shorts are a little more eager to spread negative stories than the longs. But I've seen a lot of people on the long side do a lot of things they shouldn't have done, too. I think--I think probably the uptick rule is a good idea. I mean, we had it for decades and the--it--on balance, I probably would have it in. I don't think it's the key to things at all. I mean, I think that--I mean, you can--you can do bear raids of a sort through credit defaults, swaps and all that sort of thing now, and there'll always be people trying to push the bear case. There are people trying to push the bull case all the time. In the end, if you don't owe money on stocks and you own a good business, a good business will not be ruined by somebody selling stock short on an uptick or otherwise. I welcome people shorting Berkshire. I mean, you know what I mean? They're the--they're the sure buyers later on. They have to buy someday, right?

**BECKY**: Right.

**BUFFETT**: Again, doesn't make any difference to me, you know, who--there could be a lot of people sell Berkshire every day, there's going to be a lot of people buy Berkshire every day. If somebody wants to sell it short, buy it later on, that's fine with me. I mean, they're going to have to buy it someday.

**BECKY**: Here's a question from Michael in Mystic, Connecticut. He says, "After showing support and advising President Obama, what are your thoughts on the president openly criticizing the use of corporate jets by CEOs considering the fact that Berkshire Hathaway owns NetJets..."

**BUFFETT**: Yeah.

**BECKY**: "...and that some of those CEOs are your largest clients?"

**BUFFETT**: Yeah. Well, when you say considering the fact we own it means that I do have a dog in this fight, and so I--put me down as biased. But I do think--I use a jet both personally and with business. I mean, I have my own things I pay for, but I use it in business. I would say that net--and I'm probably a biased observer, maybe--but Berkshire has been better off by me having a plane available to go and do deals or whatever it may be. A lot of times it doesn't work out. But net, it's a plus. We have done things I wouldn't have done if we hadn't have had a plane. And I think it's--I think he made a mistake in--I think--I think it's--I think it's a big mistake to start demonizing anybody in this game. I just think that it causes the American people to look backwards. And we don't want villains, we want victory.

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**ANNOUNCER**: He's the world's most famous investor, and today Warren Buffett is answering your questions. This is a special presentation of SQUAWK BOX, live from Omaha, Nebraska.

**BECKY**: Welcome back to SQUAWK BOX here on CNBC, first in business worldwide. We are just one hour away from the opening bell on Wall Street. The futures are under some pressure this morning, but we are letting our viewers get a chance this morning to ask Warren Buffett their questions on everything that's been happening out there, from the economy to investing. And right now we'd like to get to some more of your e-mail questions. Mr. Buffett, again, thank you for all your time this morning.

**BUFFETT**: Mm-hmm.

**BECKY**: Brent from Morrison, Colorado writes in, he's got a question very specifically about what's happening with taxes. He says, "Which do you think's more valuable to the economy right now? Raising taxes or lowering them?"

**BUFFETT**: Well, I think that on people making anything less than a lot of money, I think lowering taxes is a good idea. Now, bear in mind, we're going to spend 3.6 trillion or something like that in the next year. I mean, somebody has to get taxed, and nobody likes to be taxed, so--and I've expressed my views probably in the past that I think that guys like me have gotten off too light and they--just generally, and the IRS just came out with something the other day that the 400 top Americans in 2006 in terms of their taxable income paid at a rate of 17 point something percent, which was the lowest since they've ever started the figures, and they had 29 percent about 12 or 13 years earlier. So I think that too much has been done for me and too little has been done for the people that work here at the Nebraska Furniture Mart. But I don't--we're going to be huge gap in revenue and another 100 billion that helps the people at the lower end I am basically all for whatever the number may be. I don't think anything that helps me is needed one bit in terms of this economy. So I think that, as we move forward, I hope that the tax system gets more equitable, at least as I see it, in terms of treating the people that don't happen to be born just wired the right way and everything. They're paying higher rates than I pay just because I'm good at capital allocation.

**BECKY**: Is that something that you think should be taken on immediately? Or do you think it needs to wait until the economy gets through the roughest patches?

**BUFFETT**: I think, on balance, we ought to defer most of the things that cause people to get very riled up. I think we ought to--I think the message out to continuously be, `We are in an economic war. We're going to solve this together. We're not going to use it as a way to get all kinds of changes made.' And I might like to see a change in the tax code and maybe--but right now I'm for doing the part that helps the people that are the worst off and whatever doesn't cause--whatever doesn't pull us apart. And I don't think we should have lots of things now that cause us to become disunited. We have a common interest and a huge objective, which is to get this economy working well, and that will take people working together.

**BECKY**: Richard from Forestdale, Massachusetts, writes in his question, number 334 is "Some have opined that the Federal Reserve must, at times, be the lender of last resort. Are the Fed and the Treasury now the spenders of last resort?'

**BUFFETT**: Well, the Fed--that's a good question. The Fed has become--I think the Fed of New York, for example, had 9 billion of deposits from banks throughout the country a year ago. Now they have 450 billion. I mean, they have become--can you imagine that? That is a huge change in behavior by banks. They have become the intermediary, almost, for banks. I mean, the Fed is the one place where everybody goes. They can print money, you know.

**BECKY**: Sure.

**BUFFETT**: I mean, basically, so the--they are the--they have a huge role to play in this, and I think they've been playing it well. I congratulate Chairman Bernanke. I mean, he did some important things when he needed to do them, and he should be given a lot of credit for that.

**BECKY**: Joe, you have a question as well?

**JOE**: Yeah. I'm just thinking of other things.

**BECKY**: I know where you're going.

**JOE**: No. I kind of feel like I'm a pesky little gnat. I've got one more--one more thought, Mr. Buffett, and that has to do with, you know, trying to narrow the--what we've seen between the haves and have nots, and I know that you think that, you know, that certain people have been treated too well, others not enough. Some say that EFCA and card check would narrow the disparity. In other words, having unions have more of a say, more companies unionized. Is that a good idea? Or do you think, as a business owner, it would be a negative for the economy?

**BUFFETT**: I think the secret ballot's pretty important in the country. You know, I'm against card check, to make a perfectly flat statement.

**JOE**: OK.

**BECKY**: Wow.

**JOE**: That's great, thank you. Appreciate it. OK, Beck.

**BECKY**: I didn't expect that short of an answer either.

**JOE:** I know. I liked it. I mean, I liked that he gave me an answer. I'm not saying either way how I feel, but I liked that we got it from Warren.

**BECKY**: (Unintelligible).

**BUFFETT**: We have loads of unions at Berkshire, and I mean, dozens and dozens and dozens at our various companies, and I understand the reasons for unionization, I mean. And by and large, I think certainly the people that are in unions have not been well treated by the tax code that we've had all the time. I think card check is a mistake. I think that...

**JOE**: I think it's important for--to hear from things like that. We all support the president, obviously, and we all want to get out of this mess that we're in right now, but that doesn't mean that people like you and people that he admires and listens to can't point to certain things and say maybe that's not such a great idea and that's why we have this dialogue. Right?

**BUFFETT**: Right.

**BECKY**: All right.

**BUFFETT**: Yes, sir.

**JOE**: Very good.

**BECKY**: All right. Let's bring in another question from a viewer. Steven from Brookeville, New York, writes in, and this is circling back in a way to some of your comments on the banks earlier, but he says, "President Obama recently stated that buying stocks is a potentially good deal if you've got a long-term perspective on it. So if President Obama were asked about whether buying bank stocks," and Steven lists stocks like Citibank, Bank of America, Wells Fargo, JP Morgan, "Is it a potentially good deal for those with a long-term perspective? What do you think he would say about that, and how would you respond to that question?"

**BUFFETT**: Well, I don't know what he would say.

**BECKY**: Yeah.

**BUFFETT**: He doesn't consult me on his portfolio. I would say that if--well, there's certain banks that are basket cases. I mean, here are--here are 3600 banks since 1934 that the FDIC, one way or another, banks and saving institutions, they've had to bail out.

**BECKY**: Hm.

**BUFFETT**: But they didn't bail out the stockholders. So you can--you can lose everything if you buy stock in a bank, and you should be able to lose everything. You just shouldn't lose anything if you loan them money or a deposit. So the question is, whether banks, which have terrific earning power going forward, will be forced to sell stock at ridiculously low prices. And if you take the great majority of banks, which will do fine earning their way out of it, although they'll be more names on this list, you know, a year from now.

But if they don't have to sell stock at distressed prices, I think a number of them will do very, very well. I mean, and we own some bank stocks, and I like owning them and I like owning them in the quantities we own them. And the only fear I have, frankly, is that in some kind of a situation, they might be forced to issue a lot of common stock and they don't need to do it. They've reduced their dividends, so they can build equity and they'll build equity at a very rapid rate with the spreads that exist now. So the banking system largely will cure itself.

Citigroup may be a special case. I mean, and I'm afraid that in a sense, the American public has sort of taken its view of all banks from what they read about Citigroup all the time. But there are 7,400 banks or something like that in the United States and most of them are just fine. You look at the banks around Omaha, you know, they are not going broke. We had a bank in Loup City, Nebraska, go broke about a month ago, and we'll have another bank go broke someplace in Nebraska, you know, in the next two or three months. But, by and large, they're in good shape, and they are putting on assets with spreads that are terrific.

**BECKY**: You said that the banking system will take care of itself, that it will earn its way out of this.

**BUFFETT**: Most of it.

**BECKY**: Does that mean you think the American taxpayer money that's already been spent on these banks is good? That we'll get that money back?

**BUFFETT**: I think it's good with overwhelmingly most of the banks, but I think that we're--a good bit of the money is, you know, I think, I think it's--it can be questionable in a few cases, yeah. It can be questionable in a few.

**BECKY**: You're talking about AIG and Citigroup are some of the names.

**BUFFETT**: Well, you're--we're talking about anything you want to talk about.

**BECKY**: AIG and Citigroup are the big names that pop up.

**BUFFETT**: Yeah. Well, AIG isn't a bank, but there's a lot of money in there.

**BECKY**: (Unintelligible).

**BUFFETT**: And it was a huge risk to the system, and it shouldn't be--conditions shouldn't be allowed to recreate itself in the future. But the very fact it shouldn't be allowed to recreate itself in the future, does not that mean that the wrong thing was done in terms of stepping in there in September. That was the right thing. That weekend, you know, we had Lehman and Citi--I'm sorry, AIG was the same weekend Merrill, which got bought by B of A that weekend, but the dominos were lined up. They were lined up and they were huge dominoes, and it's a good thing that they didn't start toppling.

**BECKY**: OK. I want to get to a question that came from an investment club of seventh and eighth graders who invest $1 million in fake money every year. This is the Grizzell Middle School Investment Club in Dublin, Ohio, and the question is, where do you think gold will be in five years and should that be a part of value investing?

**BUFFETT**: I have no views as to where it will be, but the one thing I can tell you is it won't do anything between now and then except look at you. Whereas, you know, Coca-Cola will be making money, and I think Wells Fargo will be making a lot of money and there will be a lot--and it's a lot--it's a lot better to have a goose that keeps laying eggs than a goose that just sits there and eats insurance and storage and a few things like that. The idea of digging something up out of the ground, you know, in South Africa or someplace and then transporting it to the United States and putting into the ground, you know, in the Federal Reserve of New York, does not strike me as a terrific asset.

**BECKY**: There's another question that came in from Keith in Rolla, Missouri. We talked a little bit earlier about GM. You said there needs to be a different plan that's put into place. Do you think it can happen outside of bankruptcy? But his question is, "If GM files for bankruptcy, how will that affect Ford and Chrysler?"

**BUFFETT**: It would be tough. I mean, Ford has tried very hard to stay out of the government operation, but it would affect the whole economy and I--and particularly now. And I--that's why net I think it would be a mistake to let it go that way, but I think the government ought to hammer out everything it can to make the business model viable at a 12 or 13 million unit a year, and we'll see what they do on that.

**BECKY**: OK. If we want to get back to some questions, again, about TARP and things that have gone through, there's a question that came in from Jeff in Stockton, New York, who said, "Wouldn't it have been a better idea when the $700 billion TARP was passed by Congress to give it to us?" He means, we the people. "Example, if $30,000 for married couples, 15,000 to singles, get put back into our economy, it'd be up and running." He thinks he can buy a house, purchase an automobile, put money in our banks. People have asked a lot of questions like that. Would it have been better to give everybody $30,000, $100,000?

**BUFFETT**: Well, the math is a little off because there's close to 120 million households and TARP was 700 billion, so if you divide 120 million, it comes out to a little less than $6,000. But if you could've restored--it was essential that people believe in the financial system. The machine won't work without that. If they believe in that and you're just going to send out $6,000 to every household in the United States, I'm not sure that would've been better for economic activity. But I am not inclined to look back and say this would've been better than that. I mean, if there had been four fewer ships in the Pearl Harbor, then Pearl Harbor would've been better, probably so. We'd have four more to go out, you know, the next day. But forget it. You know, we've got to go forward.

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**BECKY**: Welcome back, everybody, to this special edition of SQUAWK BOX. We are live in Omaha, Nebraska, at the Nebraska Furniture Mart with Warren Buffett. And by the way, we do have a programming note for you. Coming up this evening we have a special with the highlights of today's Ask Warren edition of SQUAWK BOX. You can tune in to CNBC Reports. This is The Billionaire Next Door: Restoring Trust. That's coming up tonight at 8 PM Eastern time.

In the meantime, though, we have plenty more questions that have come in, and, Mr. Buffett, we'd like to get to some of those, as well. Starting off with this, there's a question that came in from Greg Martin in Roswell, Georgia. He says, "How do we best prepare for the inflation that will result from the stimulus, and how severe do you expect it to be?"

**BUFFETT**: It's hard to tell how severe it'll be. There will be things that government and Federal Reserve can do years from now that will try to counteract it. But we are certainly doing things that could lead to a lot of inflation, and the best asset during inflation is your own earning power. Anything you do to improve your own talents and make yourself more valuable will get paid off in terms of appropriate real purchasing power. If you do something well, whether you're a major league baseball player, you know, whatever it may be, if you're a good assistant, whatever it may be, that's the best asset. The--in my view, the second best asset is a good business. And you might own one yourself, but you might own it through equities.

**BECKY**: All right. Hendrick writes in from Del Ray Beach, Florida, and says, "Is America considered cheap in the eye of international investors when considering products, whether it be retail, wholesale or goods in general?" And they want to know if now is a time to export.

**BUFFETT**: Well, you...

**BECKY**: Yeah.

**BUFFETT**: You want exports, obviously, to grow. And incidentally, people lose it because the trade balance figures and how much we import. The exports of the United States were 5 percent of GDP if you go back to about 1970. You know, they're about--they got up to about 12 percent. So we make a lot of things the world likes. A lot. Twelve percent of 14 trillion is not a small number. We--we've been very good at that and it's important that we stay good at it, and it's important that, you know, we also import from other countries. But we want to do things to encourage trade and exports. And like I say, we haven't done a bad job on that, it's just we went kind of import crazy and consumption crazy over the last 10 years.

**BECKY**: All right. Bill writes in from Louisiana. He's got a question about the new tax policy. He says, "Giving to charities is such an important issue for both you and Bill Gates. I know you don't base your giving on tax policy, but the new policy seems to penalize charitable giving." What's your thought on that?

**BUFFETT**: Well, it'd be--the proposal, I think, reduces the value of deductions to some extent.

**BECKY**: Right.

**BUFFETT**: Interest deductions and everything. I think you have to look at the whole integrated policy. And in the end if people can only deduct 28 percent, you know, instead of 36 percent or whatever it may be...

**BECKY**: Right.

**BUFFETT**: ...on charitable deductions, you know, I--everything has a--I don't think that's the end of the world. I don't think it'll change--that'll change charitable giving. I think how well the economy works will change charitable giving big time, and I think the best thing for charities in this country is to get the economy working well. And I--the people I know generally, it is not a huge factor, the amount of the deduction. Some people play games with it and all that. I've got $6 billion of carryover--$5 billion of carryovers on charitable deductions. I'm not going to get to use any of them. I mean, it doesn't make--but it doesn't make any difference. I mean, if you're inclined toward philanthropy, I--the difference between 28 and 35 or 6 is going to make a difference, you weren't going to be very charitable anyway.

**BECKY**: Right. Joe, I know you have a question, as well.

**JOE**: And along the same line, we can pick and choose different things. And a lot of the e-mailers, actually, and Becky's probably seen them, too, have asked this: Mr. Buffett, on cap and trade, a lot of people think that that's going to hurt the overall economy. And I know you've got Conoco--a stake in Conoco, you've got utilities. Is that the right--do you support cap and trade, that provision of the--of the budget?

**BUFFETT**: Well, yeah. As you know, that hasn't been enacted yet or anything. But it is part of the budget that was put out the other day that--giving effect to it. Anything you put in that effectively taxes carbon emissions is--somebody's going to bear the brunt of it. In the case of a regulated utility, the utility customers are going to pay for it. I mean, it's going to become, in effect, a tax which we have decided is needed because the market system doesn't really appropriately penalize something that hurts the future but doesn't really hurt us tomorrow morning. But that tax is probably going to be pretty regressive. It'll be determined by individual public utility commissions state by state what customers it gets passed through to. But if you put a cost of issuing--putting carbon into the atmosphere, it--in the utility business it's going to be born by customers. And it's a tax like anything else. If--in terms of ConocoPhillips, it would be less direct, anything of that sort. Or in terms of industry generally.

**JOE**: Yeah.

**BUFFETT**: But in terms of the utility industry, it'll be passed through.

**JOE**: And the coal industry, make it tougher. Are--then are you saying that we should not do that at this point?

**BUFFETT**: Well, I think--I think we should evaluate it in terms of the economy when we get to that point, but I think we should get the economy straightened. I think job one, job two and job three is the economy, Joe. I think--I think the future does have to have a constituency. I mean, if the market system is going to produce something that over 100 years or 150 years really will change the world in a big way, you better have something that forces the market system to adapt to that reality in the future. Whether the cap and trade--our own guys at MidAmerican Energy, I--who are very smart fellows and who you could have on to talk to about it, generally do not lean in favor of cap and trade. But they would be better to explain the reasons than I. One way or another, society will pay for it, though.

**JOE**: Yeah. I'm going to take that as against cap and trade.

**BECKY**: Warren, there's another question that came in from Vishal in India, who writes in, "Charlie Munger describes you as a learning machine. What would be the biggest lesson you've learned in 2008?"

**BUFFETT**: Well, I've learned that--I would say in 2008 it's been re-emphasized to me the dangers of extreme leverage, whether it's on an individual basis or whether it's societal. And leverage is a lot of fun on the way up, and what it produces on the way down when carried to extremes, whether individual--I mean--I mean the tragedy of somebody on a credit card, which is leverage, what it does to marriages, all kinds of things. Now, when you get where the entire economy, or much of the economy leverages up in a way that embodies societal dangers when it has to deleverage, I think we should have learned a lesson on that. And if you're--if you're dealing--there are a lot of things in life where you don't know whether it's just a little too much or a little too little, but I think we've learned that we want to err on the side, next time, of not allowing people to go on--or big institutions to get as unchecked on leverage as we have allowed them to do here recently.

**BECKY**: Warren, there are many people who have written in and asked a question somewhere along the lines of do you worry about the idea that we have scared away an entire generation of investors? Will they be afraid to get back in and invest after everything they've seen that's happened?

**BUFFETT**: We have changed people's consuming behavior and investing behavior big time with what's happened since the economic Pearl Harbor, and there's no question it's going to take people time to get over that. So the answer is they're going to--they're going to spend their money somewhat differently for quite a while, they're going to invest their money somewhat differently for quite a while. In the end, in--if you--if you're a saver, you have--you're going to invest. Now, if you decide to put it in the government securities at practically no yield, you're going to lose in terms of purchasing power. I mean, you still face the problem. So I would hope people would draw the right lessons from this, but there's no question they've had a scar on their psyche, which affects how they're going to behave for a while. And you're seeing that right now.

**BECKY**: You've talked about what you would like to see President Obama and Congress do to solve this problem. What would you like to see corporate America do, CEOs?

**BUFFETT**: Well, you know, I think corporate America--you know, I think the idea of complaining about taxes, complaining about this and that and all of it, I think corporate America has plenty of room to behave better. Now, actually, I think they hit bottom in the 1990s. I think there has been some improvement in behavior since then. But corporate--part of the reason, and it's just, you know, maybe a small part, but part of the reason that companies leveraged up like crazy and all that sort of thing is they started--big financial institutions said, `We can increase our earnings X percent a year, and we can--every quarter will be better than the corresponding quarter here.' You can't do it. It--you know, you're going to play games if you do that, and you're going to create SIVs and things to get around capital requirements, and you're going to get into liquidity put options. You're going to get into all these things to play games to get better numbers. You're going to have black boxes, you know, whether it's at AIG, which turned into black holes later on, because you can pull numbers out of those black boxes and you don't have--and for a long--for a while you can get away with it. But I think corporate America has behaved terribly in terms of their attitude toward the sanctity of the numbers they report, and I--it was worse in the 1990s, but I hope they get over that.

**BECKY**: What about average Americans? What should we be doing?

**BUFFETT**: I think the average American should be doing everything he can to keep his head above water, basically. I--we have changed the savings pattern just dramatically by the six--the American people just changed it themselves. They didn't get any admonition from the president or anybody else to do it, they just got scared so they're saving. I think that by and large people, to the extent they can, should--they certainly should avoid credit card debt. You know, I mean, I can't make money borrowing money at 18 or 20 percent. We have credit cards. I mean, the American public wants credit cards. So our furniture store issues credit cards and, you know, it's part of the landscape. Just don't be part of it yourself. They--there's--I tell students this all the time. You can't borrow money at 18 or 20 percent and come out ahead. I can't--I'd go broke. So the stay away from debt as much as possible. When you get amount for a reasonable down payment, you find a home you like, buy it. But don't do it till you can handle it. And take on obligations you can handle, avoid the others.

**BECKY**: Very quickly, are you more optimistic or less optimistic than you were just over six months ago when you told us we were in our economic Pearl Harbor?

**BUFFETT**: Well, I'm optimistic in the sense that we got past that, and the government did some of the things that were really needed and they did them fast. I am somewhat pessimistic--I'm not pessimistic about it long term. This country will work fine even if we screw it up. But it's important in terms of the speed with which we get back to our potential, it's very important that people work together. And I think the divisiveness and everything bothers me, and the idea of--I understand Congress and their responsibilities, but they really have to realize this is something different. And the--and the president has to do his part in respect to that, too. And so I--I've been--I've been very pleased, actually, in September with the immediate response, because it saved the system to some degree. I've been kind of disappointed as we've gone along in sort of we can't quite get our act together and we can't really get the American public to understand what's happened, what needs to be done and all of that. So I think there's a communications job to be done.

**BECKY**: All right, Mr. Buffett, we want to thank you very much with your time for us today. You've been very generous.

**BUFFETT**: Thank you.

**BECKY**: We appreciate it. And our thanks again to Warren Buffett. That's it from Omaha. We'll see you tonight on CNBC Reports. And, Joe, see you very soon, too.

**JOE**: All right, thank Mr. Buffett very much for me, too, for all that time. Appreciate it, Becky. Make sure you join us tomorrow. "Squawk on the Street" is next.

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