Warren Buffett appeared live on CNBC's Squawk Box, Monday, February 27, 2012, for his annual "Ask Warren" three-hour marathon.

This is a transcript of his comments.

ANNOUNCER: This is a special presentation of SQUAWK BOX. For the next three hours, the "Oracle of Omaha." Warren Buffett answering your questions on the pressing issues affecting the country and your wallet. Get the market-moving plays that could change your financial future. It all starts now.

BECKY QUICK, co-host: Good Monday morning, everyone. Welcome to SQUAWK BOX here on CNBC. I'm Becky Quick, reporting live from the printing press floor of the Omaha World-Herald. We have a very special guest with us today, Warren Buffett. He's going to be talking to us for the next three hours. Also, Joe Kernen and Andrew Ross Sorkin are back at CNBC's headquarters. We do have a pretty exciting and news-packed morning ahead of us. Warren Buffett will be answering your questions this morning. But first, we do have a roundup at the top of the headlines at the top of the hour. And, Joe, Andrew, good morning to both of you.

ANDREW ROSS SORKIN, co-host: Good morning.

JOE KERNEN, co-host: Good morning. Good morning to Mr. Buffett as well. It's great to see him, and thank you very much. When you said printing press, I thought you were at the Fed for a second. But you're at a different printing press this morning, right?

BECKY: Yeah, a little different printing press this morning. This is the Omaha World-Herald.

JOE: Because if it was the — if it was the— if it was the Fed we probably couldn't hear you because it would be running right now I think.

BECKY: Because they'd be running.

JOE: Be like...(imitating sound of printing press).

BECKY: You're right, they would be running right now.

JOE: All right, let's see these headlines.

JOE: (Referring to the Academy Awards) But there was nothing for me, I'm sorry. There just was nothing for me and I didn't see any of it. So I'm glad you watched. So you're one person who's in the know.

ANDREW: I will bet some money, but I could be wrong on this...

JOE: Go ahead.

ANDREW: ...that Mr. B., Warren Buffet, might have watched a bit of it just because I know he likes movies.

BECKY: You're wrong.

ANDREW: I'm wrong? Warren, you didn't watch any?

BECKY: You're wrong. No, I didn't watch a minute and Warren...

WARREN BUFFETT (Berkshire Hathaway Chairman and CEO): No, when Ed Asner did not get nominated for his role in "Too Big to Fail," I decided to boycott them.

BECKY: Not a minute of it.

JOE: "Lou."

ANDREW: Perfect answer.

JOE: "Lou." All right. Well, Becky, enough about— I mean, is it fluff? Is it me? I don't— I don't— it's my cranky, cynical old age I think.

BECKY: But, guys, let's start off our conversation this morning with Warren Buffet. We do have some important topics to get to. And...(network audio difficulties)...of all, we want to thank you very much for taking the time to join us.

BUFFETT: Thanks for coming.

BECKY: We should point out that we're here at the Omaha World-Herald because this is Berkshire's most recent acquisition. Earlier— or last year, I should say— last year you went ahead and you stepped in. And I guess one of the key questions I have is why did you do that? Why don't we start off talking about that right at the top.

BUFFETT: Well, the World-Herald, is— I should mention one thing. William Jennings Bryan was the editor of the World-Herald, so if you go back to 1894 to '96, and then, of course, he started running for president and he didn't have too much luck doing that. He lost three times. The World-Herald— newspapers face three major problems and two of them they can't do much about but the third they can. The first problem they have is that— you know, the only reason you buy a newspaper is to find out something you want to know that you don't know. I mean, news is what you don't know that you want to know. And if you go back many years, if you wanted to know the box score on your favorite baseball team, if you wanted to know the closing prices on stocks, if you wanted to find an apartment, the newspaper was primary for all those things. So it's lost primariness in certain major areas of news, but it still retains primariness in a number of items that are extremely important to people. And it's vital that they continue to be primary in those areas. As long as they're primary in areas that are of interest to you that you can't find someplace else, you're going to buy a newspaper.

BECKY: What do you mean? Is that classified, obituaries? What are the...

BUFFETT: Well, it can be— it can— yeah, obituaries are a good thing. I mean, you're not going to find out whether your friends are alive or dead anyplace else. But just take high school basketball. Take Nebraska football.

BECKY: Right.

BUFFETT: You will learn so much more about Nebraska football if you read the World-Herald than you can get from any other source. Well, that's important not only to me but everybody in Nebraska.

BECKY: Right.

BUFFETT: So the World-Herald will always be primary in that. They— you will know 10 times as much about Nebraska football if you read the Omaha World-Herald than if you try to get your news from any other source on that. The same thing is true in terms of local politics, and people— when there's a sense of community, people care about that. Now, if you're in an area where there isn't that sense of community, it's different.

Second problem they have— but they still are primary in plenty of areas, not as many as 30 or 40 years ago. It's expensive to turn out a paper. I mean, you know, you start with trees up in Canada and you end up with a kid, you know, throwing it on the door. So very expensive. That doesn't go away, and electronic is not expensive.

But the third thing is that newspapers have been giving away their product at the same time they're selling it. And that is not a great business model. So when they put papers up on the Internet and you get it free, you're competing with yourself. And that— you're seeing throughout the industry— you're seeing a reaction to that problem and an answer to it, and that's important for the...

BECKY: And the answer is charging people online?

BUFFETT: Yeah.

BECKY: Yeah.

BUFFETT: Yeah, in other words, you shouldn't— you shouldn't be giving away a product that you're trying to sell.

BECKY: So Rupert Murdoch got there a long time ago and had said that this is something we need to be doing. You agree with him on that aspect of it, that this is something that you charge?

BUFFETT: Yeah. Actually, Dow Jones was doing it before Rupert, too.

BECKY: Right. Right.

BUFFETT: I mean— and— whereas The New York Times, you know, held off for a long time, although they've instituted it recently. And it's being instituted in other places in other ways. So that's key to the future of the newspaper. But newspapers tell you a lot of things that you can't find out other places. And most citizens are going to find them useful, it's just you can't give them away for nothing.

BECKY: All right, let's— we can talk more about this later.

But I also want to start off while we're here— at this point the market, the Dow and the S&P, are sitting at just about the highest levels we've seen in four years. We have seen an incredible run over the last several months, and you are somebody who had stepped in four years ago— or I'm sorry, back in 2008 when you wrote that op-ed piece for The New York Times. The headline was `Buy American Stocks. I Am.' We've come a long way in the market since then. The Dow at that point was below 9,000. And I want to know what you think about stocks at these prices. Do you still think that this is a great time to be buying stocks?

BUFFETT: Well, stocks are businesses and the question is you have to invest in something. If you get your money in your wallet, it's invested. It's just invested at zero. And, unfortunately, if you got your money in a bank these days, it's invested at zero. Or if you have it in Treasury bills, it's invested at zero. I've got a section in the report where I say that if held over a long period of time, there's no question in my mind that equities generally, a diversified group of leading companies, is going to outperform, in my view, dramatically, paper money or nonproductive assets such as gold. That's no forecast for the next three months or six months or a year, but it— I think it's obvious that owning really first-rate productive businesses— and there's hundreds of them— you just— you know, you get a compound over time. They either pay the money out to you, they reinvest it, they buy in shares so that your ownership interest goes up. So equities are still cheap relative to any other asset class.

BECKY: But they're not...

BUFFETT: I would say the single-family homes are cheap now, too.

BECKY: You would?

BUFFETT: Yeah, single-family homes— but if I had a way of buying a couple hundred thousand single-family homes and had a way of managing— the management is enormous— is really the problem because they're one by one. They're not like apartment houses. So— but I would load up on them and I would— I would take mortgages out at very, very low rates. But if anybody is thinking about buying a home— five years ago they couldn't buy them fast enough because they thought they were going to go up, and now they don't buy them because they think they're going to go down. And interest are far lower. It's a way, in effect, to short the dollar because you can— you can take a 30-year mortgage and if it turns out your interest rate's too high, next week you refinance lower. And if it turns out it's too low, the other guy's stuck with it for 30 years. So it's a very attractive asset class now.

BECKY: If you are a young individual investor at home and you have your choice between buying your first home or investing in stocks, where would you tell someone is the better bet?

BUFFETT: Well, if I thought I was going to live— if I knew where I was going to want to live the next five or 10 years I would— I would buy a home and I'd finance it with a 30-year mortgage, and it's a terrific deal. And if I— literally, if I was an investor that was a handy type, which I'm not, and I could buy a couple of them at distressed prices and find renters, I think that's— and again take a 30-year mortgage, it's a leveraged way of owning a very cheap asset now and I think that's probably as an attractive an investment as you can make now. But I think equities are very attractive compared to anything else.

BECKY: But, obviously, they've come up quite a bit since you first were telling people you were buying them for your personal portfolio...

BUFFETT: Yeah.

BECKY: ...with both hands essentially.

BUFFETT: Right. Yeah, well, I wrote that article— I said if you— if you wait till you see the first robin, spring'll be over. And— well, spring is over, but we're not in the dead of winter yet either. And stocks— we were— we were here three years ago and stocks have almost doubled exactly since we sat down three years ago. So they're not as cheap as they were, but measured against the alternatives, would you rather have cash, would you rather have Treasury bonds, would you rather have, you know, you name it? I would rather own great businesses, and we own a lot of them through stocks and we own a lot of them outright, and I'd love to buy another one this afternoon.

BECKY: When you look at stocks, do you look at American stocks first?

BUFFETT: Yeah, I— but I look at stocks all over the world. But, sure, the big market is here. I mean— and I know the companies better here. But we— well, at year-end for example, we have a insurance subsidiary— reinsurance subsidiary in Germany. I bought seven international stocks then. In fact, I may have bought— I put— I put 175 million euros in each, I guess, of eight stocks, and they were all European stocks.

BECKY: When was this, at the— at year-end?

BUFFETT: Right toward the end of the year. Yeah, I just— I just picked eight of them. I didn't— I do not know those eight companies as well as I know American Express or Wells Fargo, but I know them well enough.

BECKY: You did this because you looked at the situation with the euro crisis and you thought it was improving or at least they had started to make some progress on that?

BUFFETT: I just thought these eight companies were terrific companies that were cheap.

BECKY: But why did you focus on Europe? You've never really done that before.

BECKY: Well, I just— I just thought these eight companies were cheap. And they obviously were affected by the European crisis. And in the end those eight companies I bought are going to be there five, 10, 20, 50 years from now. And there may be something else that's bothering the world 10 years or 20 years from now. There's always going to be something that's bothering the world. These companies will do fine regardless of what happens in Europe and there will probably be plenty that happens in Europe.

BECKY: Did you buy that for Berkshire's portfolio...

BUFFETT: Sure.

BECKY: ...not for your own personal...

BUFFETT: Yeah, I don't have 175 million euros times eight, no.

BECKY: Euros times eight. What are you doing in your personal portfolio? Are you continuing to buy stocks?

BUFFETT: Every now and then, yeah. Yeah. Then I— I don't think about my own portfolio very much. I think a lot more about that portfolio of our German reinsurance subsidiary. That...

BECKY: Yeah.

BUFFETT: That's what I spend my time thinking about.

BECKY: OK. When you take a look at the housing market, you had told us last year when we sat down here that you thought last year could be the turning point, and you pointed out in your annual report this year that you were dead wrong on that call.

BUFFETT: Exactly.

BECKY: We didn't see the improvement last year, but you do think that we'll see it this year?

BUFFETT: Well, I think we're likely to, but— and I'm somewhat chastened by the fact that I sat a year ago and said it would happen by now. But what I do know is that today there are more households being created than houses. Well, if that continues— and it will continue— eventually it gets in balance. And when it gets in balance— gets in balance in different geographies at different times. But when it gets in balance, we will need more than a million residential housing units annually. And when we're building a billion units, supply and demand will come into balance. Got way out of balance five years ago and it's taken us a long time to work it off. But it does get worked off, and households are now being formed. The first year after the recession in 2000— after it hit— in 2009, household formation went like this. I mean, that happens in recessions. But that's changed. I mean, you know, we have four million people, roughly, hitting each age cohort every year, and we form households and they want to be in houses.

BECKY: There was an article that was out today talking about what economists are expecting for GDP, and most of them, even though they do see signs of improvement, expect that we'll be growing at about 2.4 percent this year.

BUFFETT: Yeah.

BECKY: Does that fit with what you see with the businesses you manage?

BUFFETT: I see our businesses getting better month by month and I've seen that ever since the summer of 2009. And the headlines have bounced around, the economists' predictions have bounced around, and I will tell you that looking at some 70-some businesses, leaving out the housing-related businesses...

BECKY: Mm-hmm.

BUFFETT: ...that quarter by quarter, ever since the middle of 2009, regardless of what the housing— headlines were saying, our businesses kept getting better. And they continue to. Not at some rate like that...(gesturing upward)...

BECKY: Mm-hmm.

BUFFETT: ...but they keep getting better. And I see no reason why that changes. I don't pay any attention to the GDP forecasts of economists.

BECKY: But corporate profits have risen, yet we haven't seen the jobs picture come along and improve at the same sort of pace.

BUFFETT: Yeah. Well, that's— in my view, that's because of the housing-related factor. This was a— this was not a recession for housing, this was a depression. This was every bit the equal of anything we've ever seen in terms of a crash for housing. And the ripples from that spread out and they spread out very quickly in September of 2008. But it's taking a long time for that to— for that to come back. But the housing-related figures— if you look at the composition of employment, construction workers show up as a number, but that's not really the number. We have five companies that are related to housing. Only one is directly in housing, Clayton Housing. We're the largest home builder in the United States, believe it or not, Berkshire Hathaway.

BECKY: Mm-hmm.

BUFFETT: Nobody think of us as that. But we've got four other companies, Shaw Carpet, Acme Brick...

JOE: Yeah.

BUFFETT: ...Johns Manville Insulation, MiTek, and those companies are— have been affected enormously by this and they're employment has gone down from 58,000 at the peak to 45,000 at the peak.

BECKY: Hm.

BUFFETT: When housing comes back, they will go back up and you will see that all throughout the economy.

BECKY: Mm-hmm.

BUFFETT: We have a healthy economy except for housing, but housing is such a big factor. Housing was 22 trillion or so of America's 60 trillion of wealth a few years back. And when that goes— gets whacked and is held on leverage with mortgages...

BECKY: Mm-hmm.

BUFFETT: ...the effect is enormous.

BECKY: OK, I know Joe has a question as well. Joe:

JOE: Yeah, you know, he always— it's a sore subject, that stupid brick company that he has. You know...

BUFFETT: Wait a second, I sent you the— I sent you a brick. Clearly it didn't have any effect on you.

JOE: I asked for a Marquis Jet Card, you sent me a brick. One brick. One brick.

BUFFETT: One brick.

JOE: One brick.

BUFFETT: And what...

ANDREW: I've seen the brick. It's on your desk.

JOE: No, I took it— I actually took it— I actually took it home, but that's a sore subject, Warren. So, you know, you can't— you can't win, though, Warren. I was reading about Berkshire net income come down 30 percent because of derivatives, and I'm like, how did you possibly lose money in derivatives? Because you wrote all those S&P put— you didn't lose money. You made less than you made last year on the S&P derivatives, on the puts, right? But you can't win.

BUFFETT: Yeah.

JOE: You make $300 million, they're still calling you a slouch for having those derivatives.

BUFFETT: Yeah. Yeah, and actually, if you— if you— if you priced them today vs. December 31st, because the market's gone up not only here but in Europe and Japan, we would probably show something over a billion dollars of profit today. Now, whether that'll be as true on March 31st, who knows?

JOE: Right.

BUFFETT: But it doesn't mean anything. I mean, we've got— we've got $4.8 billion stuck in our pocket five years going.

JOE: I know.

BUFFETT: And this— you know, anyway, it— we wrote about it all.

JOE: Yeah, I know. So, but that's just the way the headline— the other headline today that you knew was coming was Buffett's "trust me" on succession isn't cutting it. And I— you know, the Journal's got an article and— saying that yeah, the board's comfortable. What? Your shareholders are chopped liver? They can't be comfortable, too? It creates instability. Why not just— why not just say who it is? Or are you still worried about like a David Sokol thing where you— the guy that— maybe the guy that you've— that you've identified, you know, maybe something— he falls out of favor, so you still have the option of changing it at the last minute. Why not just tell everyone?

BUFFETT: Yeah. Well, we have four stocks that we have $45 billion invested in: American Express, Coca-Cola, Wells Fargo and IBM. Every one of those four companies with 45 billion, every one of those four companies has changed management since we bought our shares. I didn't have the faintest idea who the successor of management would be in any of those four, but we've put billions and billions of billions of dollars in there. In some cases, it's changed more than once. I don't know who the next manager of those four companies will be, but I don't worry about that. They're wonderful businesses, and they've got good boards of directors; and when the time comes, they will pick the person that will do the best job. And if they make a mistake, they'll make a change. And we've had that— like I say, if you ask me who the next CEO of Coke or American Express or Wells Fargo or IBM would be, I don't know the answer, and I don't care. I know they've got wonderful businesses, and I know they're developing wonderful talent. Now, the interesting thing at Berkshire is, normally if you run a business, you're look— you're looking for somebody from production or manufacturing or sales or something to succeed the CEO. At Berkshire, we have dozens of CEOs who are running businesses. We've got people like Matt Rose running the BNSF. I mean, they are CEOs already. So we have a choice of dozens of CEOs, which is a luxury that I don't know another company that has it.

JOE: Hm.

BUFFETT: So you know, in the end, you know, it may be— it could be tonight, it could be five years from now. The board of directors knows exactly who the person is the next morning. And I don't know, for example, Amazon is now the— or I should say Apple is now the largest company by market value in the country.

JOE: Yeah.

BUFFETT: Exxon's number two. I don't know whether you know who the successor is to Tim Cook or Rex Tillerson.

JOE: But it's not Matt Rose. Now you just said it's not Matt Rose. So now I know it's not Matt Rose.

BUFFETT: No.

JOE: Because you just said he's got a— he's got to run the railroads.

ANDREW: Right.

JOE: So he can't run Berkshire.

BUFFETT: Well...

JOE: So it's not— no. I was hoping it might be Matt. I like Matt. Now I realize it's...

BECKY: Is that universally it's definitely not?

BUFFETT: No, I think— I think you misread that. The person— the person who's going to become CEO of Berkshire is probably a CEO of some operation within Berkshire Hathaway.

JOE: Oh, so it is Matt Rose.

ANDREW: Right.

BECKY: Well, you said...

ANDREW: Hey, Warren...

BUFFETT: You're breaking news here, John.

ANDREW: Hey, Warren...

BUFFETT: You're stretching to do it, but you're— yeah.

ANDREW: When you sit and talk to the board about a potential successor, and you talk about the downsides of naming that person or naming a list of people, what are those downsides? And I ask it only because there is all of this pressure, and it would seem that, you know, you just mentioned Tim Cook, there was a sense, though I don't know if it was said publicly, that he clearly was going to be the successor and that gave some people a sense of stability around what was going to happen after, if you will, a Steve Jobs.

BUFFETT: Yeah. I think that was probably made clear, though, after it was also clear that Steve Jobs had a real health problem. I would ask you this, who's Tim Cook's successor?

ANDREW: It's a good question, I have— you— you're...

BUFFETT: Yeah. No, no.

ANDREW: It's a great question.

BUFFETT: No, no, nobody knows. Yeah. I don't— I don't know. You know, who's— you know, who's Jeff Immelt's successor? Who's Jamie Dimon's successor? It— all of those people have decided— they've got somebody in mind. I will guarantee you that. Their directors have discussed it. But for various reasons, one of the reasons being that they don't know when it'll happen.

ANDREW: Right.

BUFFETT: And when it happens makes a difference. And they also probably don't like the effect of having a crown prince.

ANDREW: Right. You...

BUFFETT: They— you know.

ANDREW: You were much more...

BECKY: Warren, this is the first time...

ANDREW: Oh.

BECKY: This is the first time that in the annual letter you've actually laid out and told the shareholders that there is one person in mind.

BUFFETT: Well...

BECKY: In the past, it was always this idea that it was one of three or one of four people.

BUFFETT: Yeah. Well, you can blame me for that because I have said at annual meetings that the board knows exactly which one they would pick the next morning. But I probably haven't made that as clear as I should've that it's always been the case that even though there were three possibilities or four possibilities, they knew which one would be the designated one the next day, but they did have these backup candidates. I probably should've made that more clear, and I tried to make that clear this time. What— five years ago, if something happened to me five years ago, the board had one person in mind, they had a couple of backups at that time, always.

BECKY: Is— a year ago, was it a different person they had in mind than it is now?

BUFFETT: No, no.

BECKY: And I ask that because David Sokol has since left the company.

BUFFETT: Yeah. No. The same person— it would've been the same person a year ago as now. And you can go back further.

BECKY: So it was not David Sokol.

BUFFETT: You can go back further than that.

BECKY: It was— it was not David Sokol a year ago or further back than that?

BUFFETT: No. Not the one they would've picked.

BECKY: Can you give us an update on what has happened with the Sokol situation?

BUFFETT: Well, I really don't know because it's being investigated by various authorities, and they talked to me last June just— and not a deposition or anything like that, it was just an informal...

BECKY: Who did?

BUFFETT: Well, I can tell you the SEC did.

BECKY: Mm-hmm.

BUFFETT: And they— and then that's the last I've heard. Now, unfortunately, I know that it must be fairly active because we have to pay Dave's legal bills under Delaware law, and we've paid, I think, something like a million four, so I assume something is going on. I hate paying these legal bills, naturally. And now if he's found guilty of a crime, we can claw those back at some point, but the bills just come in. I read the other day where Fannie Mae, they have paid 99 point something million dollars on three people, Frank Raines, Tim Howard and one other fellow, and they're not done yet, either. And, of course, that's the American taxpayer paying that. And it's a very awkward thing when you have somebody that's been charged with something that was an employee and, under Delaware law, you basically have this duty to defend them. Although you can claw it back if they're later found to commit a— to have committed a crime. And Dave has plenty of money, so we would not have a problem getting it back if that's the case. But I have no notion, I've not talked to Dave, I've not talked to the authorities. I mean, it's their investigation, and I'm on the sidelines but writing checks.

BECKY: Mm-hmm. Andrew, I'm sorry, did you have another question?

ANDREW: No, no, no. You asked the— you asked the exact question that we were planning to ask.

BECKY: Just in terms of what had happened with that situation?

ANDREW: No, less on Sokol. No. I was more interested in the fact that in the— in the report, he identified— he said that he had one candidate in mind, and I was curious what had happened in the past year that was different from years past, but he answered that question directly, so.

BECKY: Hm.

BUFFETT: Yeah. I started all this trouble five or 10 years ago, facetiously I answered some question.

BECKY: Mm-hmm.

BUFFETT: I said, `Well, I've got this envelope.' I didn't have any envelope. But, `I've got this envelope,' and I made this crack that I said, "Well, I open the envelope, and I pull out the slip inside, and it said, `Check my pulse again.'" But somehow that all got into the fact that there really was an envelope, and I— for— another one of my jokes that's gone astray.

BECKY: All right. Well, Warren, we're going to take time right now to go get a check on the markets and when we come back, we'll have more of this conversation. Andrew.

ANDREW: Absolutely. We're going to come back in just a moment. Are we going to the markets right now? We are. We're going to go across the pond to see our good friend Ross Westgate who's standing by with the Global Markets Report. Ross.

ROSS WESTGATE reporting: Hey, Andrew. Good morning to you. Everybody here in Europe perking their ears up there when Warren says he bought eight European stocks towards the end of last year. Well, if they were German stocks, he would've done quite well because the Xtra Dax so far this year up around 16 percent.

BECKY: Warren Buffett sitting here, and he said that he's paying very close attention to what you're saying, too, now that he has those eight European stocks that he's watching.

All right. Right now we're going to pause for a break, but we have much more with Warren Buffett when we come back. He'll be answering some of your email and Twitter questions right after this.

Also, BUFFETT WATCH is not stopping there. A little later today, I'll be hosting a Facebook Q&A session. That starts at 11:30 AM Eastern Time. Right now, though, as we head to a break, check out the global market headlines. SQUAWK BOX will be right back.

BECKY: Let's get back to some of our questions with Warren Buffett this morning. Warren, Joe just mentioned that national average on oil prices climbing to $3.69. Do you worry that higher oil prices, higher prices at the pump could cut off any sort of economic rebound here in the United States?

BUFFETT: Well, they're a minus, but I don't see them stopping things. I mean, you know, I'd rather have them a lot lower. Of course, we had them a lot lower when the — when the panic hit. I mean, oil had been $147 a barrel, you know, prior to Obama coming in.

BECKY: Mm-hmm.

BUFFETT: And then, when the panic hit, it hit everything. And then oil totally tanked. But, no, I do not think it will derail what's been going on now for almost three years, two and a half years. We've had a steady recovery.

BECKY: Does the price of oil make since given that economic recovery? Or is this something where people are just a little too worried about what's happening in the Middle East? Or is this a situation where you have speculators playing in the commodities markets again?

BUFFETT: You know, I've got no position in oil, so I don't— I don't really have a view. The one thing that's extraordinary in oil, which we've never seen and which has probably caused some people to go broke, is you have this— you have 100-plus dollar oil, $108 oil the other day, whatever it was, with $2.50 for natural gas.

BECKY: Right.

BUFFETT: Nothing like that's ever existed, and I mean, the BTU equivalent, you know, people say that can't happen. So people that have gone long natural gas and short oil are really feeling the pain. I wouldn't be surprised if even the unwinding of some of those positions could cause some of what goes on in both markets, but this is— this is extraordinary. I mean, and you would've said it couldn't happen, but that's like saying before long-term capital management, you know, you couldn't have had 30-year Treasurys and 29 1/2-year Treasurys with 30 basis point spread. You never— you want to be very careful in markets saying something can't happen.

BECKY: In your annual letter, you actually said that you had guessed wrong on where natural gas prices were going to be headed and that was one of the issues that you wish you had done.

BUFFETT: Did I ever? Yeah. Yeah. Like a billion dollars worth plus.

BECKY: Let's get to some questions from viewers. We promised to bring some of those up, and we were just talking about succession at Berkshire. You had a lot of questions that came in both on Twitter and on our own email of people asking more questions about that. One's from Max Rudolph who writes in that while you're very careful generally about how you write your annual report, nowhere has it ever said that the CEO that you have in mind is an internal candidate. It seems to leave open the possibility that a board member could become CEO. Can you comment on that?

BUFFETT: Well, that would not be impossible. I mean, it— I don't think it's going to be the case, but certainly we've got incredible business talent on the board, and they're intimately familiar with Berkshire. I think it's very, very unlikely that we wouldn't have somebody better for the position as a CEO of one of our companies, but if we're on a— I was going to say a train trip, but I'll say a plane trip and the plane went down, we had all of our managers on there, the board would not be a bad place to look. But that isn't going to happen.

BECKY: OK. Another question comes in from Ed Polli in Bridgeport, Ohio, who wants to know if the person that the board has chosen to be your successor, does he know that he's been chosen?

BUFFETT: No.

BECKY: OK. Jeff Webb writes in from Washington and he says, "Will it be necessary for the next Berkshire CEO to reside in Omaha. And will the annual shareholder meeting remain in Omaha after" you leave?

BUFFETT: Well, that's a good question. I would certainly hope so, but I won't be around to enforce it. I— well, maybe I will. I've left them all a Ouija board so they can stay in contact with me. I've threatened them in various ways. But I would say that there's every intention of the headquarters of Berkshire being in Omaha 50 years, 100 years from now and that— and it wouldn't make sense for the CEO not to be located where the headquarters are. So I think that's a 99.9 percent answer, yes.

BECKY: All right. David Lund from Ogden, Utah, writes in and points out that when Lou Simpson retired, his portfolio was liquidated.

BUFFETT: Right.

BECKY: What will happen to your portfolio when you retire?

BUFFETT: Well, I don't know. I mean, that will be for somebody else to decide. But what will happen is that Todd Combs and Ted Weschler, who are already on board now, will be managing the investments, and they will be managing counting the cash. They'll be managing $160 billion, and they're totally capable of doing that. My

guess is that they would like some of the things we own very well, but it will be their call. They each, as I mentioned in the annual report, they're managing about 1 3/4 billion now, although that number will go up during 2012. I don't know what they're buying. They don't have to check that with me. They can be buying— each buying the same stock. I think in one case, they've done that. But it's their baby. I mean, I— they are getting paid based on their results and it wouldn't mean anything if I— if I were second-guessing them or they had to get approved by me. So they will buy stocks, and I will find out about it later, even though they work in the same office. And when I'm not there, they will just be managing a whole lot more money, and they're totally capable of doing that.

BECKY: They each have a few billion dollars right now?

BUFFETT: Right now. But that will go— that will even go up during this year.

BECKY: OK. Control room, I'd like to go to number 108, this is a question that came in from Gary Watkins in Atlanta, Georgia. Since you bring up Todd Combs and Ted Weschler, he writes in and says when you're talking about them, you say each of them receives 80 percent of his performance compensation from his own investment results and 20 percent from his partner's. He assumes that this is so they will help each other. Can you elaborate?

BUFFETT: Yeah. Well, that's— the point is, I've seen investment organizations where people are competing with each other. You know.

BECKY: Mm-hmm.

BUFFETT: And these fellows wouldn't anyway. But I do believe in having compensation systems that reinforce the values that we value.

And we certainly value cooperation among two people doing that sort of thing. So— and both of these fellows agreed with this arrangement. I mean, it made sense to them. So they get paid 80 percent on their own performance and 20 percent on the other person's performance. And performance is defined as doing better than the S&P 500 over a period of time. Todd came on board a year ago, and he did very well the first year, so he has earned a significant amount of performance compensation. Ted didn't participate in that because he wasn't— he didn't come on board till this year. But from this point forward, they will participate with each other.

BECKY: OK. Andrew, you have a question as well?

ANDREW: It's on this topic. Hey, Warren, I'm curious if you imagine bringing on other investment managers still. I think I remember recalling you said something to the effect that you were thinking of two to three to possibly more than that. And I'm wondering have you— have you found the two that you love and that there's no more, or you think that there might be additional?

BUFFETT: I certainly feel no need for any more. I feel terrific with these two, and they could easily handle the whole place. So it may well be that we find a third, but I'm not— I'm not— I'm not thinking about that actively. And if somebody came along that I thought was absolutely terrific and I thought it would add something to the picture, I wouldn't hesitate to do it. And Todd and Ted would not be surprised if I did it. But you may very well be talking to me— I hope you are talking to me five years from now, and it will be Todd and Ted. They're terrific human beings. I mean, these are two fellows who were running, in effect, hedge funds. They were making more money than they can make with Berkshire, and they were getting, A, an entirely different tax treatment. They had a carried interest. So the money that Todd made last year, which was substantial, he would have made that same money if he'd been running his hedge fund. I mean— and he would have gone to work the same time in the morning. He has a couple of assistants. They would have been the same people, he would have been reading the same reports. But he would have been taxed at less than half the rate that he was taxed at because we pay it to him as ordinary income. And otherwise, he would have got it as long-term gain.

BECKY: Doesn't seem fair.

BUFFETT: It's a little crazy, isn't it?

BECKY: Yeah. It gets us to the topic of tax policy, and I know that's a big can of worms that we're opening up this morning, too.

BUFFETT: Yeah.

BECKY: You have had a huge role in the discussion around taxes, and you've been someone who's come out very sharply on President Obama's side. In fact, there's the Buffett tax that's now named after you.

BUFFETT: Yeah. Well, that's because Alzheimer's had already been used. I always wanted to have a disease named after me but...

BECKY: What— how do you feel about the turn that this has taken in the national discourse and how it's put you front and center in a very contentious debate?

BUFFETT: Yeah. Well, maybe there's a lot of people— by definition, almost, if you're— if you're into something where the Republicans tend to be on one side and the Democrats on the other side, all you do is you make half the people of the United States mad at you for coming out of the chute. But that's OK. The— you know, the important thing, we've got an important problem in the United States, and a very important problem, and it was man created and it can be solved by man. But it needs analysis, it needs thought, and then it needs action. And to the extent that I can contribute either in the, in the thought or the analysis or the action, you know, I— I'll do it. But it isn't like I've got any magic facts that anyone else doesn't have. I mean, I just go on the Internet and get facts and then— and see where they lead me. But I don't think there's anyone— it's been very interesting to me. Republicans and Democrats know we need more revenue and we need lower expenditures and...

BECKY: But that's not necessarily something they would all agree to. We have plenty of people who come on the show who say that it's not necessarily a matter of bringing in more revenue. You do that by lowering taxes and thereby growing the pie. And that, as a result of growing the pie, you can actually lower people's tax rates and still bring in more money.

BUFFETT: Yeah. Well, the pie is going to grow, and it's going to grow under the present tax rates. It's growing at— I've got a table here that shows the tax rates all back to, back to when I started in business. It's grown when tax rates were in the 30s on capital gains. It's grown when tax rates were 80 percent on ordinary— it's grown under— we have a wonderful market system that works. And so we will have a growing pie. But a growing pie isn't going to solve a deficit that's 9 percent or 8 percent of GDP. It never has and it never will. We— fortunately, the fact that we have a growing pie does mean that we can have like a 2 point or 2 1/2 point gap between revenues and expenditures and have a sustainable economic picture. So, you know, the goal, and it should be taken up promptly, is to get the gap between expenditures and revenues down to a 2 to 3 point gap. That's totally sustainable, growth will work out fine, the economy will grow. Debt, as a percentage of GDP, will not grow if we get into that range. And almost everybody realizes that and almost everybody says some of it has to come from expenditures, some of it has to come from revenues. And then they get to the specifics. And the real problem, of course, the biggest problem you have, probably, because I've talked to Republicans and Democrats on this, they agree on that. But they all want the other guy to go first. The Republicans want the Democrats to go first on expenditures, and the Democrats want the Republicans to go first on revenues. And they just feel there's a tactical advantage in the other guy going first, then they can shoot at his stuff and say how terrible it is. And so now we've gone into this dance where nobody'll get on the dance floor.

BECKY: Joe.

JOE: Yeah, Warren, you've seen the figures if you let all the Bush tax cuts expire, which they're going to do anyway. If you don't do anything about that, I don't know how much of the deficit it solves, but it's a large part.

BUFFETT: Large part.

JOE: A large part of that. You don't see that coming from Democrats. They only want to do it on 200 to 250 or whatever it is, which solves very little. Would you by— I mean, is that the best thing to do, to let it, let all of the Bush tax cuts expire or would that add to the income disparity or the fair— would that hurt on the fairness debate that no one under 200 or 250 should shoulder any of the, of the deficit cutting, or does it make sense to just let it go back to the Clinton years for everyone?

BUFFETT: I think if we hired 535 people to run the government and to represent us and that they should not in effect act on a default basis and just say, `Well, we'll just let everything lapse back to where it was.' They would proactively say, `What is the best way to get revenues up to 18 1/2 or 19 percent and what's the best way to get expenditures down to 20 1/2 or thereabouts percent? And let's do it now.' And, you know, this bit about, well, we can't do anything because it's an election year, well, you know, if they're not going to do anything because it's an election year, why are we paying them? They can all go home if it's an election year. We'll just pay them three years out of four if you're only going to work three years out of four. So we've got, you know, we've got a major, major problem, and the idea of putting it on some default setting, you know, it's crazy. I can put it on default setting without hiring 535 guys. So, no, I wouldn't— I would approach it and say, look it, we've got serious propositions out there, we've got Simpson-Bowles, you know. Come up with something and get it for a vote. And if the people want to vote it— Congress wants to vote it down, that's one thing. But just to sit there and say, `Well, we're paralyzed because it's an election year' and then let things drift along till the end of the year when, as you point out, all the stuff expires and the sequester kicks in and, you know, and the payroll tax holiday ends and all of that, I think, I think that's a crazy way to run a government.

BECKY: Warren, you bring up the idea of Simpson-Bowles and, interestingly enough, you're quoted on the front page of The New York Times today in this story about Simpson-Bowles. The Times puts forth this idea that President Obama has actually taken, in their words, huge chunks of this. Let me find where it says, "Mr. Obama has come to adopt most of the major tenets supported by a majority of the commission's members, though his proposals do not go as far." They say that he has quietly put forward Simpson-Bowles. Would you agree with that?

BUFFETT: Well, I haven't read the article and I— but I would say this. Alan Simpson and Erskine Bowles, both of whom I know, I mean, they are high grade people. One's a Republican and one's a Democrat. They disagree on some things. You won't find people of greater integrity. They are smart, they worked, I don't know, for 10 or 11 months. They compromised. They got people with as diverse viewpoints as Tom Coburn of Oklahoma, who's a very high grade guy but has differing views than Dick Durbin, who's also a high grade guy from Illinois. And they got them to sign on. Now, having put that effort forth, they came up with a plan. I would like to see that plan voted on. I mean, what was, what was the reason for sending them out, you know, to beat each other's heads for 10, 11 months. They got 11 out of 18 signatures. I understand that Simpson and Bowles are actually taking their recommendations and crafting it into a legislative bill. I heard that a month ago. I don't know whether for sure that that's true. I would hope that that bill just gets presented. Bring it up next month. Let's see how Congress feels about it. If they don't like it, they can come up with something different. But conscientious, smart, decent people worked for months to come up with something. They were— they were chartered to do it, and I think— I think Congress owes them a vote on that.

And I would— I would love to see that put up. And I would say this, I would say that if I wrote a letter to the CEOs of the Fortune 500 companies and said, `Do you want to vote on this now?' I think it would be almost unanimous. I think it would be the same with labor leaders and church leaders, and you name it, up and down the line. That doesn't mean they all agree with it. But the question is, do you think it's better than what we're doing now? I mean, is it an appropriate response to a problem we all recognize we have?

BECKY: And I guess the point being you can't cherry pick the items you like from that and start breaking apart the plan?

BUFFETT: Once you start cherry picking, the whole thing disintegrates. Then K Street comes out, you know, in full force, money pours in, you know, supporting this little thing that helps this person or that person. In the end, we're going to have a code that everybody— you, I, you know, everybody, your all— all your listeners— they're not going to like some part of it. But I can guarantee you they don't like some part of this. And this— and this particular code is leading us down a path that's unsustainable. So why not have a code we don't like that at least is sustainable as opposed to one that's unsustainable?

BECKY: Right. Andrew.

ANDREW: Warren, there's an op-ed in today's Wall Street Journal by Rick Santorum laying out his economic agenda, and he proposes some new tax rates and policies on corporate taxes. He's halving them down to 17 1/2 percent. And on personal, he's doing just two brackets, 10 percent and 28 percent. I'm curious, beyond just the Simpson-Bowles debate, what do you think the right numbers are? What are the right brackets and what is probably the highest— what do you think from a competitive perspective on a corporate basis the highest rate should be?

BUFFETT: Well, the rate— what the rate should be is— are rates that bring in about 18 1/2 or so percent of GDP as revenue. Now, we've had rates like that throughout most of the post-World War II period. You know, we've managed to pull that off. It's not impossible at all. And then we just knocked the heck out of rates, you know, roughly 10 years ago or a little less. So the interesting thing about the corporate rate is the corporate profits as a percentage of GDP last year were the highest or just about the highest in the last 50 years. They were 10 and a fraction percent of GDP. That's higher than we've seen in 50 years. The taxes as a percent— corporate taxes as a percentage of GDP were 1.2 percent, 180 billion. That's just about the lowest we've seen. So our corporate tax rate last year effectively, in terms of taxes paid for the United States, was around 12 percent, which is well below those existing in most of the industrial— industrialized countries around the world. So it is a myth that the American corporations are paying 35 percent or anything like it. Incidentally, you know, it— 1.2 percent of GDP or 12 or so percent, 12 or 13 percent of corporate profits actually paid, you know, that is— that's a rate far, far, far below what we've seen in the United States. I've got a chart here that— can you put that up?

BECKY: There's a chart that we gave you guys.

BUFFETT: OK, yeah.

BECKY: It's— I think it's E1. It's the one you took a still shot of earlier Paul.

BUFFETT: It...

BECKY: Yeah, here it is.

BUFFETT: Yeah. Here's...

BECKY: OK, it's on the screen.

BUFFETT: Yeah. Here's the— here's what's happened over the last 60 years. As percentage of GDP. That top blue line is individual income taxes. And you'll notice that they've bounced around but been fairly steady. The yellow line that's accelerated is payroll taxes. Payroll taxes have gone from a very small percentage of GDP up dramatically. At the same time, that red line is corporate taxes as a percentage of GDP, which were over 5 percent, if you go back a long period, and 4 percent, and now, like I say, they were 1.2 percent last year. So corporate taxes are not strangling American competitors.

JOE: But, Warren...

BECKY: Warren, is that because people were able to write off— go ahead. Go ahead, Joe.

JOE: You can— yeah, you can see that the finance— that last drop-off right there...

BECKY: Right.

JOE: ...is the financial crisis. If it were to go back...

BUFFETT: Well...

JOE: I mean, right?

BUFFETT: No, but if you take 2011, 2011, corporate profits were a record. And...

JOE: But for example— you know, for example, GE, which, you know, is the poster child because, you know, people can conflate what GE did.

BUFFETT: Yeah.

JOE: They had, you know, they paid taxes abroad, and they had a lot of tax loss carried forwards, or, you know, from GE Capital and the losses in 2008 and 2009, it reduced the tax bill in those subsequent years, 2010 and '11. So if you were to normalize it on that chart, you normalize it without the financial crisis, it gets back to 4, 5 percent. I mean, using 1.9 per...

BUFFETT: Oh, no, no, no.

JOE: Where does it get back to?

BUFFETT: It doesn't get...

JOE: What does it get back to?

BUFFETT: Well, again, I mean, well, all I can do— you can normalize it all you want but you can go back to 1980 and you haven't had a figure, you know, much above— you've had three a couple times. So you've got all these numbers of 2 and 1 1/2. It does not average anything like 4. When I was in the golden years of American business, and it was pretty good for investing, too, the corporate tax rate was 52 percent in the United States and people paid it. Our tax rate at Berkshire, we didn't have any loss/carry forwards or anything, we didn't have that much foreign income. But our tax rate in terms of taxes paid last year, it was a little higher than the national average. But because of 100 percent write-offs and various other things, our tax rate came down, we paid $2 billion. We paid more than 1 percent of all the corporate taxes in the United States. But our tax rate on US income, you know, got down to taxes paid, got down to 15 or 16 percent. We're still above average.

BECKY: Warren, there are plenty of companies, though, especially small businesses, who we hear from all the time that are paying much higher rates. The way the tax code is set up right now, they are the ones who get saddled with paying these exorbitantly high rates.

BUFFETT: If they're— yeah, well, they can be paying— if they're S corporations and they make a fair amount of money, they will be paying it at 35 percent. Now, they may be getting accelerated appreciation, 100 percent depreciation on things, too. I mean, if they're buying any kind of fixed assets, they really aren't paying at that rate.

BECKY: But if you're somebody who is self-employed and maybe you have a couple of employees working for you, you are in an incredibly difficult position to try and find any loopholes that work for you.

BUFFETT: People making small amounts of money are at a huge disadvantage to people making large amounts of money under our present tax system.

BECKY: Because not only that, they pay their own Social— their own payroll taxes, too.

BUFFETT: They pay payroll.

BECKY: They have to pay 30 plus percent.

BUFFETT: No, no, they— the system— all you got to do is look at, you know, that payroll tax has moved up dramatically and that is not paid by the super rich. My payroll tax, you know, last year was, I guess in 2011 would have been $13,300. It was nothing in relation to my tax liability.

JOE: Warren, as the world gets more competitive, could you argue that maybe— I mean, maybe you don't even think that that's— that that's a fact, that the world's gotten more competitive, but, you know, as we have to compete more with China and a lot of emerging economies with their cheap labor, I mean, there are probably some people would say that we need to— you know, that it's not 1930 or 1940 or 1950 anymore and that, you know, we want our corporations to be the best in the world and the leanest and the quickest to move, and, you know, there could be an argument. I mean, I've seen people argue that corporations shouldn't pay any taxes because their shareholders pay taxes, their employees pay taxes. I mean, do you just dismiss that out of hand or?

BUFFETT: Well, like I say, it was 1.2 percent of GDP.

JOE: Right.

BUFFETT: And, incidentally, I mean, the place— the place where we are— the very high cost compared to the rest of the world is CEO pay. Our CEO pay is considerably higher than if you look around the rest of the world.

JOE: Right.

BUFFETT: Nobody ever mentions that in terms of competitiveness. The— you know, we are exporting as a percentage of GDP twice as much as we were back in 1970. Our goods and services have— we've really had a lot of export success. And the other side of it is we like to import a lot, and of course we've been able to print money, which lets us import. So we exchange little pieces of paper for goods from around the world, and that's a lot of fun.

BECKY: You know, Warren, if you don't mind, we're going to slip in a quick break here. But when we come back, we have much more to come from Omaha. Stick around, a special edition of SQUAWK BOX right after this break.

JOE: Let's get to Becky who is in Omaha this morning. She's with Berkshire Hathaway chairman and CEO Warren Buffett.

Becky, I was — I don't know — leading into the last break, I was thinking about, I don't know whether you saw Barron's, there was a Jeremy Grantham piece that was very troubling to me and I wanted to just at some point ask Warren about...

BECKY: Why don't you ask him now?

JOE: Yeah. OK. Warren, his basic thrust was that our middle class has been getting more and more decimated over the years as a lot of the cheap labor is found in the rest of the world where obviously the standard of living is not as high and it's just been a natural progression to send a lot of the jobs overseas. As a result, the middle class has had to borrow to fund a lifestyle and that's one of the reasons that the consumer is so strapped at this point. And it's a very negative piece where basically looking for another seven years or so of sub-par growth because of this and I don't know what the answer is. I think he — re-education or more to try to become up to, you know, more competitive or at least better than the rest of the world at doing things for our labor force. Do you have an answer for that?

BUFFETT: Yeah, the answer is, you know, our market system has worked well for 200-plus years. It's working well now in all areas except home construction, those related to home construction. You know, we're sitting here where the market has doubled from three years ago when we were sitting here. This country is remarkable. I mean, you have — you have people at our own company, you've got Tony Nicely at GEICO trying to figure out how to — how to serve customers better tomorrow, how to bring down costs. You've got Matt Rose trying to plan for the future of railroads in Fort Worth today and tomorrow. You've got people at Apple trying to come up with new products that you and I haven't thought of yet. America — American capitalism is dynamic, so anytime you look at it on a static basis, you can get very pessimistic.

And while I got out of school in 1951, the two people I revered most in the world, my dad and Ben Graham, told me it was a bad time to start in business, you know. It — you can sit down at the start of every year and write down 10 or 20 reasons why it's, you know, things are terrible. But the truth is, this economy works wonderfully. It's working wonderfully now. I mean, it isn't working for everybody at this moment and it's coming back from a terrible shock that it received in the fall of 2008. But look how far it's come back and it continues to come back every day. It's been doing it now since the fall of 2009. So it's, you know, it is — it is a terrible mistake to get pessimistic on America. You know, it has not worked since 1776 and it's not going to start working now.

BECKY: Warren, we touched on this in the last hour, but just the idea, you bring up that the stock market has doubled over the last three years when we've been sitting here and again, there are many people who now worry that the best and easiest gains are over. You said yourself in the last hour that it's not springtime anymore.

BUFFETT: No.

BECKY: Does that change what people — the way that people should be looking at the stock market as a potential investment?

BUFFETT: They should be looking at the funds they're going to save. I mean, that's the — those are the only funds you save that you invest with, and figure out what's the best thing to do with them. And they can buy farmland, they can buy apartment houses, they can buy duplexes, they can buy businesses, they can buy businesses through stocks, they can buy rare stamps, they can buy gold or they can stick it in money market accounts and all. They've always got all those options. And I've written a section in the annual report why I think that businesses are the best option. Now the nice thing about businesses is in this country is you can buy into all the best businesses in the United States, virtually. You can buy a piece of them and you don't have to buy, you know, if you don't understand company XYZ, you can buy company ABC. And naturally, it would be like — nicer to buy them at the prices of three years ago.

BECKY: Mm-hmm.

BUFFETT: But you know, they are attractive relative to other assets. That doesn't mean they're going to go up, but I will guarantee you that over a 20 or 30 year period, they're going to perform very well. And as I mentioned a little earlier, actually single family houses bought on a distressed basis now and financed over a long term at these interest rates may be the best investment of all. I mean, if I knew anything about real estate and I just was working with a relatively small amount of money and I was seeing distressed houses around me that I could rent out, I would buy them and put on an 80 — a 4 percent mortgage for 30 years and you know, I — three or four or five years, I'd probably sell it at a very substantial profit relative to my equity.

BECKY: Mm-hmm. OK. You know, Warren, we left off in the last break talking about taxes and your role in this tax debate has become very central and very polarizing. And just the last week Governor Chris Christie of New Jersey weighed in on this and weighed in on what you've been saying. Take a listen to what he had to say.

PIERS MORGAN, CNN (On tape): Warren Buffett keeps screaming to be taxed more.

Governor CHRIS CHRISTIE (R-New Jersey): Yeah. Well, he should just write a check and shut up. Really, and just contribute, OK? I mean, you know, the fact of the matter is that I'm tired of hearing about it. If he wants to give the government more money, he's got the ability to write a check. Go ahead and write it.

BECKY: He's not the only person who feels that way.

BUFFETT: Yeah.

BECKY: We've got a lot of viewer email that came in. We've been sitting down and doing this Ask Warren session here for I guess the last four years or so.

BUFFETT: Mm-hmm. Yeah.

BECKY: And this year more than any year there were a lot of emails that came in that similarly echoed what Chris Christie had to say. What...

BUFFETT: Well, I hope they were a little more eloquent than that. But you know, it's sort of a touching response to a $1.2 trillion deficit, isn't it, that somehow the American people will just all send in checks and take care of it. That was first come up with — first fellow to come up with that was Senator McConnell and I really — I — it's sort of astounding to me that somebody that has the responsibility for being the minority leader in the Senate would think that you attack a $1.2 trillion or so deficit

by asking for voluntary contributions. Since he did, I offered to triple his, but that's a — that's a side show. The real problem we have is we're taking in too little money and we're spending too much and that's not going to be solved by voluntary contributions. What we need is a policy, a tax policy. And to give you an idea of how extreme it is, just take a look, take a look at what I've labeled A1. And you can — you can find this on the Internet. And the figures I've circled, the 1992 showed that the 400 largest incomes in the United States that year, adjusted gross incomes, were 18 billion. Now that's about $45 million a person. And if you go down to 2008, it's 108 million. That's 270 million a person. So from 1992, the 400 top incomes went from 45 million to 270 million, which is not bad, I think. Now if you go over to A2...

BECKY: Mm-hmm.

BUFFETT: ...you will see that during the same period, those top 400 saw their tax rates drop from 26.3 percent to 18.1 percent.

BECKY: Right.

BUFFETT: At the same time that was happening. But what's even more startling is if you go to A3 and you will see that in 1992, six people among those 400 paid at a rate that was less than 10 percent. That's just two-thirds of what the average person pays on payroll taxes. And that six went up to 30 over that period. And the number paying from 10 to 15 went from 10 to 101. So 131 of the 400 largest incomes averaging $270 million each, 131 out of 400 were paying at a 15 percent rate or below. And that — the payroll tax for people making less than 100,000 up until this year was 15.3 percent, they were paying. So solving that problem — solving the problem of me paying the low tax rate I pay is not going to solve the fiscal problems of the United States, but to ask other people to be making sacrifices during this period and we're going to ask them to make sacrifices, we're going to ask them to make it on the revenue side and on the expenditure side, and to leave this group alone is a travesty.

BECKY: So to Joe's point, you can't fix the deficit by just going after...

BUFFETT: No. You can't — you can't fix the deficit by going after any one expenditure or any one revenue item. And you certainly can't fix it by asking for voluntary contributions.

BECKY: So this is something that you think for the optics of the situation or just for the appearance of fairness, the president says all the time.

BUFFETT: I think it should be incorporated into a revision of — which is going to have to happen on both the revenue side and the expenditure side. But I certainly think it's important to incorporate this into a revision. And I think this is something that can be done immediately.

BECKY: Mm-hmm.

BUFFETT: I mean, a minimum tax on people — there's 131 people that filed those returns that showed 15 percent of less and my cleaning lady, Mary, you know, has a payroll tax of 15 percent.

BECKY: Joe:

JOE: But — yeah, but what — I just don't know why — I don't know why you harp on it so much, though, Warren, when you know that it's 1 percent — it's not going to do any — it's not going to solve anything. Maybe we need to fix it for the optics of the situation, but what — I guess, the real — the real question is what do we do with dividend income and capital gains income?

BECKY: Mm-hmm.

JOE: Because it — let's say that you work your entire life paying ordinary income and you're not a — let's say you're not getting carried interest. Let's say you pay — under your normal situation, you're paying ordinary income at 30 or 35 percent. And you — and you do very well and you're very successful. And at that point in your life, you're 60 years old, 65 years old, you invest in dividend-paying stocks and you have capital gains, which lowers your taxes to that rate. You've paid taxes once already. I mean, there — we need to decide what the correct rate for capital formation is for long-term gains and for dividend income. It just seems — I don't know, just to keep bringing it up as a — as a red — look at this, look at this, it's not fair, it's not fair. When you know it has to do with long-term gains and dividend income. Let's do something, let's find the right rates for dividend income and long-term gains and stop pointing fingers at these people.

BUFFETT: One point — I don't think I've named an individual.

JOE: No, you haven't. But it's a matter of public record, you've only got to look up 130 of them.

BUFFETT: Well, no, but the real question is this a tax code the United States should be proud of that produces these results?

JOE: I don't know whether we should be...

BUFFETT: (Unintelligible)...500...

JOE: But now that we're back to emotion again, we're proud, we're not fair, we're not this. We've got a huge problem and this doesn't — this won't scratch the surface of the problem. And carried interest?

BUFFETT: Oh, well, I was...

JOE: Carried interest, you need to do — you need to do something with carried interest as well.

BUFFETT: I would say...

JOE: And maybe if there's an optical — if there's that optics there. But the real problem and the reason Simpson-Bowles is so hard is that most people don't want their entitlements to be touched, for Medicare or for Social Security and that's going to be the hardest thing that we — that we try to do in dealing with the deficit, not taxing 131 people that makes you feel better about yourself.

BUFFETT: Well, no, the numbers here, though, just think about it a second, Joe. The numbers here probably come to 40 billion. Now that doesn't — that may not sound like a lot of money to you, but 40 billion is 2,000 — is almost $2,000 a piece for 20 million families.

JOE: You — I know.

BUFFETT: If you take — if you take the bottom 20 percent in the United States, there's 20 — almost 24 million households, households, and their top income is $21,000, now if you — to those people, 40 billion divided by their 20-some million is real money, it's 1,000 or $2,000. But I don't — I don't argue with you. It's going to be tough to take away promises we've made. We — we're a rich family that's overpromised. But to not start at the top. I mean, this is something we can do something about right now and it is not an...

JOE: But how do we do it, Warren?

BUFFETT: It's not an...

JOE: Shouldn't we try to try to figure out what the...

BUFFETT: (Unintelligible)

JOE: ...what the best rate for the most competitive and the rate that brings everyone the most benefit in dividends and capital? We've got to have that discussion. Isn't that more important?

BUFFETT: Well...

JOE: Because that's how these — that's how these people are — to just like put a, what do you, like a surtax or something, that — or we can do that. I've asked you why can't we just tax you at 10 percent of your wealth and that didn't go over very well. If you had a 10 percent of all this wealth would bring in quite a bit of money, too. We'd get — I figure we get about 5 billion from you alone, right?

BUFFETT: Yeah, that's true and actually, you know, it's been — wealth tax is tough to enforce. I mean, very hard to say what, you know, what every farm is worth or you know, every business, private business is worth. I don't — I don't particularly favor a wealth tax, but I would not — I would have no objection to it. I mean, if 10 percent of my wealth and 10 percent of everybody's wealth went to the government, I don't think that's the best system, but...

JOE: What should we do with capital gains? What do you think — you think is 30 percent OK? What about dividends? They're actually taxed the first time when a company is in its operation — I guess you say it's taxed to 1.2 percent anyway for corporations, but they do pay taxes once. What should the dividend rate be? I mean, you must have an idea where capital gains and dividends should be right now. Tax rates.

BUFFETT: Well, OK. Incidentally, that point about double taxation has been made, but I just thought it would be fun to take a look at my own situation because it — if you go back to — I did — I made these calculations in the office three times where my rate was about half or everybody's rate. If you go back to 2004, if you put up what would be that number on that, if you put up — well...

BECKY: Warren, let me ask you.

BUFFETT: Yeah.

BECKY: What do you think about dividends? Is there a rate that is acceptable? If they went to 25 percent, if they went to 30 percent?

BUFFETT: Well, the best period we had in our — in post-war history, in the '50s and '60s.

BECKY: Mm-hmm.

BUFFETT: And in the '50s and '60s the tax rate generally on capital gains was 25 percent.

BECKY: Mm-hmm.

BUFFETT: And the tax rate on ordinary income got up to 80 percent or thereabouts. And our country prospered very substantially. I mean, the stock market did well, investors did well, the economy did well. So that was — that was a rate that worked very well. Corporate tax rates then were 52 percent.

BECKY: Should...

BUFFETT: And people paid them, incidentally.

BECKY: Should capital gains and dividends be the same rate as ordinary income?

BUFFETT: That depends on what the ordinary income rates are. I mean, you'll — you can go that either way. I — that's what they were in 1986. I mean, that was — under Reagan we went to 28 percent on everything. I don't have any problem with that. I think that they're — I think that says every tax system is going to get criticized. I would not have a problem with a 28 percent rate. There would be a lower rate on people with lower incomes, but so it would still be a graduated rate.

BECKY: Mm-hmm.

BUFFETT: The but idea of taxing capital gains and dividends as — at the same rate, we've done that in 1986 and people thought it was a wonderful improvement on the tax code at that time.

BECKY: Mm-hmm. Joe, does that answer your question?

JOE: Yeah, I think now we're at least — now we're having the discussion, maybe that's what we need to do. And then we need to just, you know, hear from certain people that just say, you know, for competitive reasons, you don't want to raise taxes on the job creators, blah, blah. You've heard all this stuff before, but at least we can then have a...

BUFFETT: Sure.

JOE: We can have an actual discussion. Because that would take care of this whole issue that your secretary pays less than you in taxes. That wouldn't happen if it — if you were — if your income was taxed at ordinary income rates. That wouldn't happen if it — if you were — if your income was taxed at ordinary income rates. We'd be — we'd be finished with the discussion if it was 28 percent, Warren.

BUFFETT: Yeah, no, she wasn't paying — well, you've got to integrate payroll taxes in there, too.

JOE: Well, I know, I know.

BUFFETT: But, yeah. But if you...

JOE: And you must — you must be — I mean...

BUFFETT: ...there's no question — but it's...

JOE: ...it would be nice if you could give her a little bit of a raise then we wouldn't have to worry about it all the time. You could probably pay her a half a million a year, right? She does — I mean, she...

BUFFETT: Well, but...

JOE: ...dealing with you must be worth at least a half a million.

BUFFETT: Her tax rate — well, it is, there's no question, she's worth it. But her tax rate then would not — it would still be double mine. It doesn't — that...

JOE: Well that's because — that's because yours is all on — that's because yours is all dividend again. You don't pay yourself any ordinary income. I wouldn't pay myself anything if I were you, either, but I sure would like $60 billion.

BUFFETT: Yeah, well, 131 out of those 400 people came in at below 15 percent.

JOE: I know. But have they got dividend — OK, now we're — now we're going in circles. We're back to — we got to do — we got to figure out how to do that. And then the carried interest thing, which is also — you know, when you say someone has worked a lifetime and then is enjoying the fruits of their lower tax rates, if you made your entire income from the carried interest then you got — you know, then you got to explain that away. That makes it tough. That optically is bad.

BUFFETT: Joe, no we — we had — we had this fellow, Todd Combs, he came to work for us last year. He was running a hedge fund before that. He made a lot of money from us last year because his performance was terrific. He did exactly what he was doing at the hedge fund before. He has people working for him. He came to work at the same time, read the same papers, and he got taxed at more than twice the rate that he would have if he'd done exactly the same activities at a hedge fund. Now that does not strike me a making any sense.

JOE: Wow, we are — this is — I'm getting — you know, I'm getting...

ANDREW: A lot of emails.

JOE: ...a lot of emails coming in to me personally from — I've heard of some of these people. Anyway, thanks, Warren. We'll be back to talk more with the Oracle of Omaha, the chairman of Berkshire Hathaway, but right now data that could move the markets this week. We'll tell you what you need to be watching. SQUAWK BOX will be right back.

BECKY: By the way, if you were listening to SQUAWK earlier this morning, you know that Warren Buffett is bullish on housing.

Warren, you talked about how this is maybe the best place to put your money, maybe even better than the stock market?

BUFFETT: Well, I think if you have a way to manage the single-family home — yeah, single-family homes are selling at very attractive prices in many places and the mortgage financing you can get is unbelievable.

BECKY: Right.

BUFFETT: It's a great way to short the dollar.

BECKY: All right, we're going to have a lot more on that conversation and much more. SQUAWK BOX back right after this quick break.

ANDREW: I don't want to go there. Let's get back to Warren Buffett and Becky, who's in Omaha this mooning. I got a question if you'd indulge me, Warren. I've been doing a little bit of research while you've been talking. Now just about the tax rate, which you've talked about the tax rate — higher tax rate in the '50s and '60s being 52 percent, but the effective tax rate during that period on the .01 percent, and there's a study — I'll send it to you — says the effective tax rate on a .01 percent back then was actually 71.4 percent in the 1960s and 74.6 percent in the 1970s. And my question is, would those rates fly today and what would the impact on the economy be. And I ask that in the context that in the '50s and '60s some people would argue — and we had a number of people emailing already — suggesting that the wind was at our backs, if you will when you think about the economy during that period.

BUFFETT: Well, I don't think they — they probably wouldn't fly today and I don't think they necessarily need to fly today. What you really need to do is have tax rates that people pay. And, you know, as I point out people — I think people have generally thought that people with $270 million of average income were probably paying a rate that was equal to — it isn't just the secretary in my office, it's everybody in my office. I think they probably thought they were paying in the 30s or something like that till you actually look up the figures. And incidentally if you go back to 1992, almost all of them were. It's just that the code has gotten to favor more and more the extremely wealthy and that's why the wealthy have seen — they've seen their net worth — the net worth of the Forbes 400 since 1992 has gone from 300 billion to a trillion five, five for one. So it — you know, we have a system that has drifted toward favoring the ultra-rich and...

JOE: You know, Warren...

BUFFETT: ...you know, we — but I don't — I don't — I don't think — I don't think we ought to go back to 70 percent rates, no.

JOE: I keep getting — I keep getting this question. You own — you own roughly a third of Berkshire Hathaway. Why don't you consider that the $2 billion that you pay — that Berkshire pays a certain tax bill, you own a third, so basically that income that Berkshire gets, the $2 billion, why don't you consider that as something that — that would skew your tax rate a little bit higher. You include it in your net worth. Why don't you include that $2 billion, your pro-rata share of Berkshire's tax bill since you don't pay yourself any ordinary income or minimal why don't you consider that as part of your tax bill?

BUFFETT: Well, I'm going to give away every share, every single share of Berkshire I have so that really belongs to philanthropies. You can argue that philanthropies may be paying it...

JOE: Or paying 2 billion.

BUFFETT: ...but I just — I've heard the double taxation article — argument a lot and actually I have — I have Governor Romney's tax returns here as well as my own tax returns. And it's kind of interesting. Here is, for example, in 2004 I had 46 million of capital gains. And, Becky, you can put up the last page of that return and you'll see on that return that millions and millions of dollars to capital gains and a few thousand of that was doubly taxed. I made a lot of that, millions and millions of dollars, from profits and Treasury inflation-protected bonds. There's no double taxation there. I made some of it from real estate investment trusts. There's no double taxation there.

Here are the same figures for 2006 when I had 40 million of capital gains and here's the last page of my schedule D there. Every single one of those stocks in which I was making millions of dollars was a Korean stock. They didn't pay a dime of United States federal income tax. So, and if you look at Governor Romney's return you'll see that he made substantial capital gains from companies where the companies themselves went public, but they in some cases pay no federal income tax and in other cases have paid very minor federal income taxes. So it is true there is some double taxation. There's an enormous amount of double taxation though with my secretary. If she gets a salary of X and we won't use her. We'll just use anybody who gets a salary of $100,000. They are paying 13.3 this year, 15.3 in 2010. They're paying 13.3 percent in payroll taxes and then that same income gets doubly taxes and gets taxed for income tax purposes. They get no deduction for their Social Security taxes in computing their federal income tax. So we have double taxation for tens and tens and tens and tens of millions of people who are making very small amounts of money.

BECKY: Warren, let me ask you this, though. By continuing to push this we did get a lot of questions, presumably from shareholders. One that came in was from David Evaul who said that having political positions are a part of public life. But for the life of me "I cannot understand why the CEO of a publicly traded company would antagonize roughly half of the political power in this country. Don't you have a fiduciary responsibility to shareholders not to get into such a public and antagonistic debates, no matter what your political views might be? It seems even Democratic shareholders would prefer you move to the sidelines of the political debate."

BUFFETT: No, I don't think if you're a CEO that you put your beliefs in a blind trust. I mean, I don't think you give up your citizenship. We have 270,000 people who work for Berkshire. There's not one of them that I've ever asked about their political views, or there's not one of them that I've told in any way to refrain from expressing their beliefs whether they're religious beliefs or political beliefs. And I think that — my cleaning lady, Mary, does not have voice. She doesn't have a super PAC, she can't spend $10 million trying to influence, you know, under free speech. I mean, free speech for her is something you can read about in the First Amendment. It doesn't mean a thing. I do have some kind of ability to speak out and I think that if you have an ability to speak out and you see things that you think are wrong I think you ought to talk about them.

BECKY: Let me ask you how this has gotten played in the political debate, though. There's another question that came in from Larry Polena in Cleveland, Ohio. Control room, it's number 40. He says, "It seems like the president has expanded the tax increase proposal you had, yet is still attaching your name to it. I thought the proposal you made was much more narrow than what the president has talked about when he talks about the Buffett tax proposal. Can you explain the idea you originally had and how it is more narrow in scope in terms of the number of people affected than what the president's talking about"?

We had a lot of people who said the 250,000 rate vs. the million.

BUFFETT: No. I never said 250. The Wall Street Journal sort of implied I said 250 in an editorial there, so I can see how people may have gotten that idea. But I have said above a million and I've said a minimum tax. And there are plenty of people that make over a million, over 5 million, over 10 million that pay normal tax rates. And I would not have — what I talk about would have no effect on them at all. It's only the people who are paying very low tax rates like me, but like some of my friends and like those 131 out of 400 who had an average income of 270 million who are paying less than 15, those are the ones I'm talking about. So I would have a minimum tax above a million and perhaps a different level of minimum tax above 10 million. Now Senator Whitehouse of Rhode Island has introduced a bill that is largely along that line. But it is — it does not apply to people with 250, it does not apply to everybody that makes 100 million.

BECKY: And what's your understanding of the president's understanding of the Buffett rule?

BUFFETT: Well, there has not been a specific bill as I understand it. But Senator Whitehouse has a specific bill. And his bill phases it in at a 30 percent minimum tax, counting payroll taxes, starting at a million. Now it phases in so that if you make a million and one dollar you're not worse off than if you made 999,000. But it — he has a bill that incorporates the principle I've talked about. It's not exactly what I would have, but you know...

BECKY: Something along those lines.

BUFFETT: ...that's always going to be the case.

BECKY: Although we get something like number 89, control room. This is a little bit tongue-in-cheek. But is there a tax you don't like? This was a Twitter that came — a tweet that came through. "When did this start and you're aware there's another side of the balance sheet?" What do you say to people like that?

BUFFETT: I don't like any tax. I've got my tax return here from when I was 13 and I paid $7 and I can tell you that I did not like paying the $7 at that time. The — no — but the reality is that we are going to have to raise 18.5 or 19 percent of GDP and revenues and I certainly think that the people who are very wealthy should do more than the people like my cleaning lady. And I'm not going to like it. You know, when I sit down and write the check for whatever it may be I'm not going to like it. But I also like this country and I think that what this country offers is wonderful and I think a very rich country should take care of the people that get the short straws in life. So I believe in things like Social Security, which is paid for by taxes. I believe in a good public school system, which is paid for by taxes. Even people who have no children, I think, should be paying, particularly if they're well to do, I think they should be paying for the — for a good school system for society as a whole. I believe in good medical systems. So, you know, that does not come free. And taxes are what we pay.

BECKY: There are a lot of people who are trying to figure out the economy, and we could talk more about this in a just a minute. But, overall, your view of the economy is that it continues to improve.

BUFFETT: The economy has been getting better since late summer of 2009. I said it was getting better then, and it's been getting better. And we see it in all our — we have 70 plus businesses, and we're seeing it in every place except those related to home construction.

BECKY: OK. Joe, we're going to talk more about that in just a moment, but I figure this is a good time to kind of look at what the economy is seeing and what Mr. Buffett sees in the stock market and other arenas, too.

JOE: All right, sounds good, Beck. A lot more with Warren Buffett right after break.

Let's check on the futures this morning. They've been trading lower most of the session, the market session, a little bit better than they were, down about 50 points.

Now making headlines, US economists seeing more reasons for optimism this year. A new survey from the National Association for Business Economics, that as forecasters have raised their expectations for employment. Also for new home construction and business spending this year. We're going to have more headlines and some stocks to watch coming up in just a bit. SQUAWK BOX with three hours of Warren Buffett will be right back.

BECKY: Welcome back to SQUAWK BOX. We are live in Omaha this morning at the World Herald Freedom Center. This is the printing presses for the Omaha World Herald. We're speaking to Warren Buffett, who's the chairman and CEO of Berkshire Hathaway.

And, Warren, for people who are just tuning in, we should tell them we're here because the Omaha World Herald is an acquisition that Berkshire Hathaway recently made.

BUFFETT: Yeah. In December of last year, just a couple months ago, Berkshire bought the Omaha World Herald. I've been reading it since I was about six. I study these things a while before I write a check and, you know, it's a terrific newspaper. I've read it every day, you know, throughout my lifetime, and it was employee-owned and there were some cash problems in terms of redemption of stock that was built into the system, so it become advisable to look for a new owner, and I'm glad they looked for me.

BECKY: Someone did write in and wanted to know if you had any say over the editorial content.

BUFFETT: Zero, zero. No, my guess is that next year that they will probably endorse somebody for president, and I'll probably vote for the other guy. But who knows?

BECKY: OK. Let's get back to the economy. We have talked an awful lot about how you see things going along. And in Berkshire's 70 businesses or 70 some businesses, you have continued to see slow and steady gains. Is there a sign in any of those businesses yet that there really will be a turn in housing or is that just something your gut tells you at this point?

BUFFETT: It — if you look — if you really were looking for it you might find some little flicker someplace. But the important thing is if you take our five largest businesses, and they're big.

BECKY: Yeah.

BUFFETT: They all — you know the aggregate earning are over $9 billion. And they're basic businesses, you know, whether it's a...

BECKY: Outside of insurance.

BUFFETT: Outside of insurance, every one of them set an earnings record last year. I think it's pretty likely that every one of them sets an earnings record this year. I mean, these — you know, they earned over $9 billion pretax last year. So these are big businesses. And, you know, the people — we're hiring in those businesses. People don't have to worry about their jobs in those businesses. So it — the economy is coming back every place except home construction, and it will come back in home construction, I can guarantee you that. I just don't know when.

BECKY: There's an impression that businesses are not investing in the United States, and that's something a lot of people have said. But you point out in your annual letter that Berkshire is spending a lot of money on capital expenditures, $8 1/2 billion in 2011?

BUFFETT: Yeah. We spend — we spend 8.2 billion in — which was an all-time record by — it broke our record by $2 billion. Ninety-five percent of that was in the United States. And that 8.2 billion we spent last year, we'll break that record again this year, and it'll almost all be spent in the United States. There are all kinds of opportunities in the United States. And we have the cash to take advantage of those opportunities, and American business has the cash to take advantage of the opportunities. There is — there's not a shortage of investment funds in the United States in any way, shape or form, and there's not a shortage of opportunities.

BECKY: Do you believe the recent jobs numbers that we've been getting a look at, that indicate that hiring is starting to pick up a little bit and the unemployment rate is starting to come down?

BUFFETT: Yeah. Hiring is picking up but — it's picked up in our businesses unless they're related to housing construction. I pointed out in the report our housing businesses are down from their peak of 58,000 people to 45,000 people. When housing comes back, we'll be hiring at those five companies. But a lot of jobs that aren't called construction jobs in the United States are tied to construction. So when we go down 8,000 people or so at our carpet business, those are not called construction jobs, but they're related to construction. Same thing with insulation and other things.

BECKY: You know, Warren, we talked to the CEO of the Gallup organization, and he pointed out some things that they've seen in their weekly and monthly polls that they run. They're constantly talking to people. His concern is that we will see the jobless rate or the unemployment rate pick back up to about 9 percent when we get the next monthly report for jobs. Would that surprise you?

BUFFETT: Well, it would surprise me. But what counts is over the next year, two years and three years. We've been coming back. I mean, we — you know, it was — it was September of 2008 when I was on CNBC. I called it an economic Pearl Harbor. I'd never used that term before. I mean, that — it isn't that I come up with that all the time. I mean, we went through something that this country hasn't seen before in the way of a financial panic. The country almost stopped. And that financial panic bled over into the general economy very quickly and very severely. And we've been coming back now for three years from that, and we continue to come back. But I will predict that our businesses will have more people working for them at the end of this year than at the start of the year.

BECKY: Joe, you have a question, too?

JOE: I do. I'm amazed at how much mail we're getting on a lot of this. Go back one more second, Warren, and we'll get back to this current line of thinking. This gentleman writes in, pretty interesting, "Why would I ever consider sending more money to Washington, given the inept policies and investments of our government? Would Warren continue to send money into a business black hole if it had a similar track record?" And I was thinking, if the government was a business and Berkshire was looking at it, there's no way Berkshire would even take a 1 percent stake in the government with their track record of investments. And I've gotten you to admit in the past that one of the reasons you think the Gates Foundation will do a lot better with your 50 or 60 billion is because even charities have a better — a much better reputation for watching how money is spend and for doing more good. So with all that in mind, can you at least see how someone might be sort of just, on an intellectual basis, opposed to just giving a blank check to such a profligate entity?

BUFFETT: Anytime an organization is as big as the US government or any other government, they are not going to be as efficient, obviously, as smaller organizations. But I've heard that argument since the late 1930s when my two sisters and I sat around the dinner — the dining room table and my dad presented it day after day. And it was true then, too. It's been true every year that I've been alive. On the other hand, we have successfully defended the country, we've built the greatest industrial machine the world's ever seen, we've built the richest population the world's ever seen. We've done that with the government...

JOE: The government didn't — the government didn't do that, though. In that I think the...

BUFFETT: Oh, no. Having — I think the government...

JOE: But the question, Warren, if there's only so much capital, there's only so much capital in the world, and you look at where it's going to do the most good or where it's going to be treated best, shouldn't we, at least in the back of our mind, think that the private sector's a better place to keep it than in — than in the government sector? Because every dime that you give to the government, it's not necessarily going to help the people that are in need that you're talking about, Warren, for education. It's going for political decisions benefiting cronies or benefiting ill-conceived venture capital-type Solyndra investments. I mean, they're — there's just a vast amount of waste.

BUFFETT: And, Joe, that's been true throughout your lifetime. And you take — you take the 60 years or so since World War II, and we have sent 18 to 19 percent of our resources to Washington and they've been treated just like you described.

JOE: Right.

BUFFETT: And we have had — we have had an economy that's been wonderful. It has a market system. Capitalism works.

JOE: But is it in spite of — in spite of — in spite of or because of?

BUFFETT: Both, both, both.

JOE: Right.

BUFFETT: No, I'm not kidding. It's both. I mean, you know, you would not — you would have — you would have loved what the government was doing, you know, on December 8, 1941. You would have not seen...

JOE: I agree.

BUFFETT: ...less money to Washington.

JOE: I agree.

BUFFETT: And so it's in spite of and because. And — but the truth is, we can have a country that works wonderfully with 19 percent or so of revenues going to Washington and spending 21 percent.

JOE: It's just that there's so many different ways to get there. I mean, we were there a couple — we were there in 18 or 19 percent in 2006 and 2007 even after what you said decimated our revenue 10 years ago. So there was, even under the current — even under the current, when we had a good economy and low — you know, everybody was working at 4, 5 percent back in '06 and '07, we were getting 18 or 19 percent.

BUFFETT: The point is to average — the point is to average around 19 and spend around 21.

JOE: Right, right.

BUFFETT: And to have policies in place that do that with the greatest degree — I mean, one way or another you're going to get it — with the greatest degree of fairness on the revenue side and the greatest degree of efficiency on the expenditure side.

JOE: Right.

BUFFETT: And there's going to be a lot of slippage on both.

JOE: Ooh, slippage. That's like shrinkage or leakage. None of those are good.

BUFFETT: Well, that's true. Listen, Berkshire has some ways to — you know, it kills me but it does. The bigger you get, generally speaking, you know, the less efficient you get in many ways. Now, there's certain advantages to scale in other respects.

JOE: You're not — Andrew's got another — you're not going to want to...

ANDREW: I was going to...

JOE: You're not going to ask him if we should to go 100 percent, are you?

ANDREW: No. I was going to...

JOE: Seventy's not high enough for you.

ANDREW: I was going to save Warren — I was going to save Warren from you and change the entire direction of the conversation.

JOE: Save him from me? How can you — you don't need to save a guy — you know what? Never be — never feel sorry for someone who has a private jet. That was someone that — someone told me that long ago and I — and it's what I live by.

BUFFETT: Yeah, yeah.

JOE: Never feel sorry for someone who flies private.

ANDREW: OK. Warren, we don't have much time...

BUFFETT: Keep preaching — keep preaching that, Joe, I'm with you on that.

ANDREW: Warren, I wanted to get some thoughts about the banking business, and I know we don't have that much time here, so I'll start with one question, maybe we can bleed into the next hour on this. But as I was reading your letter and some of your comments about Bank of America, I also noticed that you — and you've done this now several times, you've praised Jamie Dimon at JPMorgan, and yet I realize that you are not an investor in JPMorgan. And I'm curious why not.

BUFFETT: Well, we own stock in Wells Fargo, we got the Bank of America situation. And I'll let you in on a little secret. I own some shares of JPMorgan.

BECKY: Personally, right?

BUFFETT: Personally, right, right. You just — you just got some news from me, Andrew. But what I — what I specifically reference, and this is important, Jamie Dimon, I think, writes the best annual letter in corporate America. I think you will learn — I think every viewer will learn something by reading his annual — they'll learn a lot by reading his annual report. He is a — he thinks well, and he writes extremely well. And he works a lot on the report, he's told me that. And that's an annual report worth reading. Most annual reports aren't worth reading, but that one is.

BECKY: Why would you buy that stock for your personal account and not for Berkshire?

BUFFETT: Well, because Berkshire doesn't own it, and it's one that I can buy without having any possible problems about conflict.

BECKY: All right. We're going to take a quick break here. When we come back, we'll have more from Warren Buffett after this very quick break. By the way, keep your emails coming. We are going through them, taking — looking at all of them. Don't forget, you can also tweet your comments and questions. Make sure, though, if you do, that you include the hashtag askwarren. Right now, Warren is a trending topic on Twitter. Wow. I didn't know that. As you've been talking, we've been picking it up and apparently lighting up the Twitter universe. By the way, tomorrow on SQUAWK BOX, we have another big lineup for you, including Pimco's Mohamed El-Arian, who'll be sitting down with us for two hours. Also, Roger Altman of Evercore. And a new segment that we're rolling out, Trump Tuesday. Donald Trump joins us to talk markets, politics and much more. SQUAWK BOX will be right back.

ANDREW: Let's get back to Becky who is live in Omaha. Becky, I have got stolen Joe's read. He's giving me a look.

JOE: Thanks, Joe. Thanks, Joe.

ANDREW: Thanks, Joe. It's great.

JOE: You're here, it does...

BECKY: Thank you, Andrew. Thank you, Joe.

JOE: You're out there he does it, you're he does it. It's just...

ANDREW: It all ran together. I apologize.

BECKY: Oh, we're a big family. We all share. We all share, it's all good.

JOE: This is Freud — this is Freudian, though. This is — I mean, it's not really a slip. I mean, you know, I'm just wondering whether it's accidental at this point, Becky. But OK.

BECKY: No. He's doing it just to rattle you for the morning.

Anyway, guys, we are back with Warren Buffett and Warren, we've gotten a chance to ask you about a lot of different things that have been going on. Andrew just picked up with a line about some of the banks and this is a good time to ask you about Wells Fargo, which you own a major, major stake.

BUFFETT: Yeah.

BECKY: How's big the — what's the percent of the shares outstanding you have?

BUFFETT: Well, we have — we have a little over 400 million shares, so we're well over 7 percent of the company.

BECKY: We had John Stumpf in — John Stumpf in recently to talk about how things are going at the bank, and a lot of people have said that they think that is the best run bank in the country. We have analysts who were on that day that said that as well. You own now a stake in Bank of America, too. If you had to match all these banks up, what do you think is the best run bank?

BUFFETT: Well, banks are not going to earn as good of return on equity in the future as they had — that they did about five years ago. Their leverage is being restrained, for good reason in many cases. So banks earn on assets, but the ratio of assets to equity, the leverage they have determines what they earn on equity. And if you reduce leverage, you reduce earnings on equity. It's still a good business. And the American banks are really probably, in many cases, in the best shape they've ever been in. Around the world, banks are not in good shape, but the American banking system has really had a remarkable comeback in the last three years.

BECKY: You didn't answer my question.

BUFFETT: What's your question?

BECKY: Which bank do you like the best? You invest in many of them.

BUFFETT: Which bank — you mean of the ones we own?

BECKY: Yeah, of the ones you own.

BUFFETT: Well, I would say that if I had to just own one bank, I would probably own Wells.

BECKY: OK. Wells Fargo is in the news today. There's a story in the Financial Times that says that the company is looking for acquisitions in terms of wealth management, that they're looking to get into some of that higher income gain. Is that a good move from your perspective?

BUFFETT: Well, if they execute it well, it's good. And what Wells has done very well is to sell a wide variety of services to a huge deposit base. The biggest single asset that Wells has is its deposit banks, as is true with the Bank of America.

BECKY: Mm-hmm.

BUFFETT: They have a consumer-based small business type base that's just huge, more so than will be the case with Morgan or Citigroup. So that's a terrific asset. It really isn't a big value now because you can't put money on it at any rate. But over time, it's a terrific asset. And they sell other products to that group, and the more products they have that they effectively can deliver to those clients, the better.

BECKY: Well, that brings us to a question that we got from our viewers. Again, we have a lot of questions that have come in from our viewers. This one comes from Charles in New York, New York. Control room, it's number 84. And he picks up on this idea about the low rates. He says, "If the employment picks up substantially this year, do you think it will prompt the Fed to reconsider its considerably low rates policy?" And would that, in turn, end up helping those financials?

BUFFETT: Well, if it picks up enough.

BECKY: Mm-hmm.

BUFFETT: I mean, if the economy really started roaring, the Fed would act sooner than 2014. They will respond to what they — what they see in the economy. I doubt that it picks up at that rate. I think it will get better as the year goes along, but who knows? You get a lot of surprises in economics.

BECKY: So you don't necessarily worry about inflation before that? I guess the Feds looking at its best forecast and it says 2014. Does that jibe with what you see?

BUFFETT: Not necessarily. But I just — I don't think I'm great on some crystal ball.

BECKY: Mm-hmm.

BUFFETT: I can tell you that business is getting better. Now, it's been getting better for the last three years, and I think it'll keep getting better, barring some, you know, bolt out of the blue. But I don't think anybody knows the pace at which — it'll really start improving when housing construction picks up significantly.

BECKY: If you had to bet, again, you don't have a crystal ball in this, but if you had to bet, do you think that it would pick up enough if you had to bet earlier or later, that you'd say 2013 or 2015?

BUFFETT: I think it'll — I think it'll look strong before 2014.

BECKY: OK.

BUFFETT: And interest rates will pick up some, but we have, you know, we have — we have sown the seeds of a lot of inflation for the future. Now, whether we can unsow those seeds and dig them up again, that's not so easy to do. It's easy to talk about, but it's a lot easier to sow the seeds than it is to replant.

BECKY: I know you said that you don't like gold or a lot of other places to put your money, but John Merrill writes in with a pretty good question. He says, "Would you rather have, if you had to have one of the two, all the gold ever mined or all the paper dollars ever printed? The choice is between two monetary assets, either of which could be used to buy Exxon or farmland." And what's your answer on that?

BUFFETT: I definitely don't like paper money. I like physical assets. So I would — I — but I wouldn't buy gold or I wouldn't buy rare stamps, although I was a stamp collector. I wouldn't buy paintings, although, you know, a number of them I appreciate. I would buy something that's productive. I bought a farm in the mid-1980s. You know, I mean, that farm is more productive now in terms of it actually — farming techniques have improved somewhat, fertilizers and all that, and then prices are somewhat higher. That farm will always be a good asset, and I don't get a quote. I've never had a quote on it in 25 years. I've never turned into the farm channel, you know. But it will be a productive asset. I would rather own that than own some asset that just looks at me.

BECKY: Andrew, you have a question, too?

ANDREW: Hey, Warren. I — just going back to banking because I was listening to some of your comments about Wells Fargo and some of your praise for Bank of America, reading some of the things you said about Brian Moynihan. And one of the companies that wasn't in there, though — I don't know, actually you may still be a little bit invested in some of the...

BECKY: Mm-hm.

ANDREW: Well, the preferreds that were paid back. Goldman Sachs. I was curious to sort of — how you see that business model and how you look at Lloyd Blankfein. I know you've praised him in the past.

BUFFETT: I'm unequivocal in my praise of Lloyd. I think he did a terrific job in bringing the company through a crisis. I — he's a fine human being. He's very smart. He's straightforward, he's decent.

ANDREW: But what's your take on the larger business model?

BUFFETT: And we own — the business model is not as good as it was five years ago. And that's true for all the investment banks, and it's true for the commercial banks. You know, they are subject to much more scrutiny and particularly in terms of leverage and in terms of the activities they can engage in and that will reduce the profitability, the return on equities that they get now compared to what they can earn five or six or seven years ago. Our position is that we own warrants on about 43 million shares or there about at 115 that are good in — for about a year and a half, or just a little more.

JOE: Warren, why haven't — why haven't you just bought a whole fertilizer company?

BUFFETT: Well, no one's offered...

JOE: I mean, not that — not that you don't manufacture enough yourself, as we've seen today.

BUFFETT: Yeah.

JOE: But...

BUFFETT: I understand that one. I do.

ANDREW: Oh wow. Wow.

BUFFETT: I knew there was a reason for that question. Well, I...

JOE: No, no, no, no, no, no. That came out — I really wasn't planning on saying that, but I listen to you...

BUFFETT: Oh, I know that. But, listen, why don't — I'm in the factory.

JOE: No, but honestly, you look at everything I read and I'm back to that Grantham piece in Barron's, I mean, you think about the long-term trends and demos for fertilizer companies or any kind of ag-related company. I'm just wondering, you know, you got all — you never know what to do. You have — money keeps building up and you buy a whole railroad. I mean, I'm just surprised that at some point you haven't decided to just do something like that.

BUFFETT: I don't rule it out. None has ever been offered to us. We tend to buy businesses that are offered to us. I do not go out prospecting very often. But it is — it's a commodity business, but it's a commodity business that it takes a long time to bring on additional supply. The demand overall — but the demand overall for corn, the demand for wheat and soy beans and all kinds of things. The real question is whether the supply grows faster. That will determine the pricing. And as you know, fertilizer prices have moved around a lot over the last 10 years.

BECKY: Mm-hmm. Warren, why don't we talk about something you've talked to us about the last time you were on, IBM, a new company that you've been making major acquisitions in. I believe you own about 5 1/2 percent?

BUFFETT: Five and a half — we call it HAL around the office, yeah.

BECKY: So...

BUFFETT: Five and a half percent, yeah.

BECKY: ...have you continued to buy shares of IBM since we spoke with you?

BUFFETT: Oh, we bought just the tiniest bit. We — you'll see in the first quarter, we just bought a few shares. I was willing to buy a lot, and then it moved up. But anything we own, with the few exceptions, we can't buy more American Express because it's a bank holding company and it's against the rules. But anything we own is at the top of our mind in terms of when we buy something additionally. In other words, I measure any new purchase against what I like least in our portfolio now and unless it — unless it meets that test, I'll just buy more of something in the portfolio.

BECKY: So have you been buying more of Wells?

BUFFETT: And we bought more Wells — we bought more Wells. Yeah. We bought more Wells just year after year. And we bought...

BECKY: Coca-Cola?

BUFFETT: We bought more Wells since year end, as a matter of fact. And we bought just a few shares of IBM. But if we like something, you know, we're going to — the money does keep coming in, so we will — we'll look first at the things we own.

BECKY: The new CEO of IBM, management changed.

BUFFETT: Yeah.

BECKY: Even since you began buying that stake.

BUFFETT: Right.

BECKY: Ginni Rometty, have you met with her or talked with her?

BUFFETT: Yeah. She was out here for lunch about a month ago, but she was also making sales calls.

BECKY: And what did you think after meeting with her?

BUFFETT: I think she's terrific, you know. But I would expect that. I mean, you know, IBM is a very well-run organization. I didn't know who she was, you know, a year or 18 months ago. And I knew that Sam Palisanto was going — they tend to retire early there. So I knew he was going to retire fairly early. I did not sit there and, you know, write to Sam and say, `I can't buy this stock unless I know who your successor is going to be,' or anything of the sort. I knew they'd make a good choice, and they did.

BECKY: Are there any other new companies you've been delving into?

BUFFETT: There are always things on the horizon.

BECKY: Would I be wrong in assuming — well, is IBM a one-off in the technology field? Because there are a lot of people who did not expect that. You've never really invested in technology companies. Is that still — does that standard still apply for the most part?

BUFFETT: It — probably for the most part, but if I think I understand enough about the future of the business and I like the management and I like the price and it's big, because we need sizeable ones, we would buy it. But, as I've told you in the past, Microsoft is off limits because people would think I had some kind of inside information if anything good happens, so it's a no-win situation from our standpoint. But it's unlikely we do a lot in that area, but if I — if I felt a strong enough conviction on something, and I liked the management and price, I would do it.

BECKY: OK. When you take a look at Bank of America, people have written in wondering what you think about Brian Moynihan's performance there since you've stepped into the stock.

BUFFETT: I think he got — he got handed a — it was a terrible situation he got handed. I mean, it — you know, with the — all of the problems — particularly of Countrywide more than anything else, but some of their own, too. So he was handed a mess. And, fortunately, he was also handed, you know, as great a deposit basis as exists in the world, and that deposit base continues to exist. You know, they have a contact with a significant percentage of all of American homes, and that's a huge asset. And what he has done is he's working through the problems he inherited, and you can't do them in a day or in a week or a month, particularly ones that involve litigation. He's pared off some of the assets that aren't central to it. He's done exactly what I would do if I was in there, and it's going to take him a significant amount of time from this point forward. Litigation can't be pushed. If you just say, `I'm willing to settle with anybody,' you're going to be a patsy, you know, so he has to — he has to weigh the costs of diversion of time and all that's involved in litigation against just being a patsy in terms of lawsuits.

BECKY: That stock right now, we just saw, is at $7.85. You bought in at 6 percent preferred, but you've also got warrants.

BUFFETT: Yeah.

BECKY: Seven hundred million?

BUFFETT: Seven hundred million, yeah.

BECKY: To buy at below 7.50, I believe.

BUFFETT: Seven fourteen.

BECKY: Seven fourteen, anytime between now and 2021?

BUFFETT: Yeah. They were 10 years from the time we got them.

BECKY: OK. So, again, you feel pretty confident in that investment, not necessarily because you're buying on the open market, but because you have a different deal.

BUFFETT: No. We like the preferred and we like the warrants, and we will be there for a long time. Now, you know, we are prohibited from selling. I mean, we do not have something that we can turn around and sell tomorrow. Like somebody buys a stock in the market, they can change their mind tomorrow if the stock goes up a point, they can sell and make a quick profit. We can't do any of that. We have to make our money out of the fact that the business really does well over time.

BECKY: Mm-hmm.

BUFFETT: And I think it will.

BECKY: You brought up Apple a little earlier today when you were talking about Tim Cook as the successor there. You're not somebody who's ever bought Apple shares, correct?

BUFFETT: No, I've never bought Apple.

BECKY: But you...

BUFFETT: I wish I had.

BECKY: But you have talked to Steve Jobs in the past.

BUFFETT: Yeah, Steve — I got — Steve went on the board of Grinnell College when I...

BECKY: Mm-hmm.

BUFFETT: He was in his early 20s. He was a big admirer of Bob Noyce's, and Bob was connected there. And so I saw him just a few times over time, but he called me — he did call me a couple of years ago. It was an interesting conversation because I hadn't talked to him for a long time, and he said `We've got all this cash, Warren,' and he says, `what should we do with it?' So we went over the alternatives, and it was kind of interesting.

BECKY: What were the alternatives that you laid out? Stock buybacks, dividends?

BUFFETT: There's only four things you could do.

BECKY: Stock buybacks, dividends, acquisitions? What am I forgetting?

BUFFETT: And sitting with it.

BECKY: And sitting with it.

BUFFETT: And sitting with it, and he had many, many, many, many billions. And I said — I went through the logic of each thing. Now, the — he told me they would not have the chance to make big acquisitions that required lots of money. I mean, they were internally, and that's exactly what they should be. And then I asked him the question, I said, you know, `I would use it for acquisitions if I thought my stock was undervalued.' I mean, `I would use it for repurchases if I thought my stock was undervalued.' And I said how do you feel about that? Stock was around 200 and something. He said, `I think our stock's really undervalued.' I said, `Well, you know, what better can you do with your money?' And then we talked a while, and he didn't do anything. And, of course, he didn't want to do anything. He just liked having the cash. It was very interesting to me because I later learned that he said that I agreed with him to do nothing with the cash. But he just didn't want to — he didn't want to repurchase stocks, although he absolutely thought his stock was significantly underpriced at 200 and whatever it was.

BECKY: Well, he was right, it's over 500.

BUFFETT: Yeah. I said, look, you can buy dollar bills for 80 cents or 70 cents and you know the dollar bill. I mean, it's not a counterfeit, it's your dollar bill. I said go to it, and the truth was he didn't. He just didn't want to repurchase stock. But he was certainly right about his stock being undervalued.

BECKY: You've said in the past that you would never do stock buybacks and you would never issue a dividend at Berkshire. Last year you broke the idea of the stock buybacks by laying out how and when you would buy back stock from Berkshire and actually starting to buy some back.

BUFFETT: Yeah, and I — but I never said we'd never buy stock back. As a matter of fact, in the 2000 annual report, we announced we'd buy stock back. I've always said buying stock back makes great sense when you're buying it at a significant discount. Now there is that ethical question about you're buying it from your partners. I mean, the first line we have in our economic principle is that although our form is corporate, our attitude is partner — partnership. So we want to be sure if we're buying it back from our partners at a discount from what it's worth that they understand what it's worth and why we're doing it. But there's nothing like buying your own stock back at a big discount. I mean, one of the things I like about IBM is the fact that they have aggressively bought their stock back over time. That's made their shareholders richer.

BECKY: Mm-hmm.

BUFFETT: And they've announced they'll continue to buy their stock back big time and that will make their stockholders even richer. I love it.

BECKY: There is a viewer who wrote in on this exact question. Chris Sales from Freeland, Michigan. He says "in the letter released on the 25th you indicate that you don't enjoy cashing out partners at a discount when you rebought — when you repurchase Berkshire shares, yet at the same letter you prefer IBM buying stock from your fellow IBM partners at the lower — and he lower prices the better." Why do you have the different views?

BUFFETT: Well, I say if we buy our own stock the lower the price the better.

BECKY: Yeah.

BUFFETT: I mean, we are running the company for the shareholders and I don't think there's anything wrong with IBM buying their stock at all. And they have laid out a plan — they laid one out five years ago, a road map and they've laid out another road map. They've told their shareholders exactly what they expect to do and if the shareholders elect to sell the stock at a price that's attractive for the company to buy it, there is no moral stigma in the least attached to them buying it. I'm — and I'm all for it.

BECKY: We've got a question from Hunts Point, Washington. A lot of people wrote in similar questions. This one comes, it's number 31, control room. "Even though the book value, as well as incremental stock prices increasing, why not now give a dividend?"

BUFFETT: Why...

BECKY: Why not give a dividend?

BUFFETT: Well, a dividend essentially would have hurt Berkshire at any time since I've been there.

BECKY: Yeah.

BUFFETT: I mean, every dollar that's been reinvested in Berkshire has turned out to have a greater than a $1 value. So what's the sense of paying out somebody a dollar that's worth $1.10 or more in the business? And we say that we'll buy it at $1.10.

BECKY: All right, we've got more to get to. We're going to take a very quick break. Guys, we'll send it back to you in the studio. When we come back we're going to talk a little bit more about Simpson-Bowles and some other issues, too.

ANDREW: And as Becky just said, coming up we're going to get more from the Oracle of Omaha. He's answering your emails and tweets and big news on the Twitter front. Warren Buffett, he's trending in the US right now right behind "The Artist" and Meryl Streep. And today's a very special day for our colleagues at "Squawk on the Street." They're unveiling their new set at the New York Stock Exchange. We're going to get a sneak peek of it in the next half-hour. SQUAWK is coming right back after this.

BECKY: Welcome back to SQUAWK BOX, everyone. We are live this morning in Omaha with Warren Buffett.

And, Warren, one of the subjects we've discussed this morning is Simpson-Bowles and what needs to happen or what you think needs to happen. We've been talking to CEOs, to business leaders and to personalities over the last several months and asking them about Simpson-Bowles. I thought you might listen in for a moment when we hear what Clint Eastwood had to say about Simpson-Bowles just after that Super Bowl half-time ad that they had. Why don't you listen in right here.

> **BECKY (on tape):** Have you seen Simpson-Bowles and some of the ideas that they had put forth, the panel that the president convened...
>
> **CLINT EASTWOOD**: Yes. Yes.

BECKY: ...and then it's kind of gone away since then.

EASTWOOD: Yeah. Well, likely I did. In fact, I was kind of amazed when they took the Simpson-Bowles and assigned them to this research and then they came back with a recommendation which was exactly stop spending and then everybody said that's enough, you guys, go home. And I thought that's a waste of money, waste of time, wasted effort from everybody. It wasn't very spirited for the country when people would see that. I think Simpson — I think both those gentlemen are smart and they had — certainly worth listening to if you've gone ahead and assigned them to this project.

BECKY: Warren, Clint Eastwood has been a longtime Republican, he ran as a Republican for mayor of Carmel.

BUFFETT: Sure.

BECKY: But you've echoed some similar sentiments this morning.

BUFFETT: I agree with him 100 percent. I mean and I think that — I think that Simpson — I hope they put it into — draft it into legislation or legislative form and I think that — I think it ought to go to Congress and I think that Congress ought to take a vote on it and we can see whether they like it or not. But the American public, I think, are entitled to have that happen. And for Congress to say, you know, we can't get anything done because it's an election year, I would just say if they feel that way let's just skip paying them this year and let them come back next year but — if they're not going to work on it. So I would — I would love the idea of the American public, whether it's through business leaders, whether it's through Clint Eastwood or saying, you know, let's just have a vote on this. These fellows worked for 10 months, they're conscientious, they're smart, they're decent, they come from both sides. They got people on both sides to agree on it. Let's have a vote on it and everybody's going to dislike something in it but the question is, is it better than what we're doing now?

BECKY: You think a vote like that would actually pass Congress?

BUFFETT: Yeah, I do. If there was enough pressure. If the motivation came because — for Congress to take it up, came about because virtually every CEO in the country, labor leaders, educators, everybody else was saying give us a vote on this and I think if it went up there next month I think it would probably pass. Yeah.

BECKY: So...

BUFFETT: I don't — I don't think they — I think they'd be thinking about the next election. They think if they voted against it, you know, maybe if the people wanted it and they voted against it they might not vote for those legislators.

BECKY: It sounded like you were blaming Congress just now for not bringing that bill to a vote to this point. Other people have blamed Obama and his administration for not forcing an issue.

BUFFETT: Well, Congress initiates legislation. That's their function under the Constitution. You know, they take an oath to support the Constitution, it's their job to bring forth legislation which they think is beneficial for the country. And here you couldn't have had a better group work on it. They've come up with something. Congress certainly hasn't come up with something, so let them take it up.

BECKY: OK. Is there anything that you would do to try and force that issue?

BUFFETT: Well, I think there may be some efforts going on in that. I'm not part of them, but I — but I would certainly sign on to anything. If Clint Eastwood presented something that said give us a vote, I'd sign it.

BECKY: OK. Let's talk a little bit more about some of the issues coming up this November. I know that you are a supporter of President Obama's. You've raised money for him. But you also told us when we sat down with you in November that among the Republican candidates you liked Mitt Romney the most. Is that still the way you feel?

BUFFETT: Yeah, I think — I would say that if I — among the four candidates the Republicans have up, if one of them's going to be president I would probably prefer it would be Mitt Romney.

BECKY: Why is that?

BUFFETT: I've looked at his tax returns, I've got his tax returns here. They're about six times as long as mine. The — I just think that he would be more likely to makes more sensible decisions and less — and less — fewer nonsensical decisions than any of the other three.

BECKY: What did you find in his tax returns?

BUFFETT: I found that he was paying a very low tax rate. His tax return and my tax return are the only two that are out there...

BECKY: We knew that though.

BUFFETT: ...from the super-rich, so it's kind of a limited sample at the moment. And his return, kind of interesting. We printed it on both sides of the paper. So here's — this is on both sides of and take a look at it. It's a — it's a — it's a lot of pages. And I don't fault him for anything in this tax return. He is doing exactly what the US Congress told him to do. I do fault the US Congress for writing a tax code that allows that kind of a return to be filed.

BECKY: And, again, this is some ground that we've covered earlier today already, but your point is that the tax laws should be changed, especially for the very richest Americans?

BUFFETT: Yeah. And if I don't fault him, though. But he is paying a much lower tax rate counting payroll taxes than anybody in my office except for me, yeah.

BECKY: And...

BUFFETT: We will have people working on these presses here at the World Herald and they will be paying a higher tax rate — they'll come here in the middle of the night — they'll be paying a higher tax rate than Governor Romney or me.

BECKY: And that's what you would like to see changed.

BUFFETT: I think that should be changed. And these people have no voice in getting that changed.

BECKY: All right, let's talk about some other issues, too. We have touched on a lot of the different companies that you hold. Another major one is Johnson & Johnson. And that's another company that you've been a shareholder in for a long time that's also seen a management change recently. Bill Weldon...

BUFFETT: Right.

BECKY: ...is going to be the chairman but not the CEO. Alex Gorsky's going to be stepping in there. How do you feel about that particular change and how do you feel about Johnson & Johnson lately?

BUFFETT: Well, Johnson & Johnson obviously is — has messed up in a lot of ways in the last few years. You know, my friend Jim Burke used to run that and it does not have the reputation now that it had, you know, a few years back. It's still got a lot of wonderful products and it's got a wonderful balance sheet and all of that, but there have been too many mistakes made at Johnson & Johnson.

BECKY: What went wrong?

BUFFETT: I don't know. I wasn't — but clearly they have not lived up to their own standards.

BECKY: You have not been selling your stake though.

BUFFETT: No, we haven't been buying more, though, either.

BECKY: But why haven't you sold them?

BUFFETT: Well, we might. I mean, there are things I like better than J&J. The four biggest ones I've named. And conceivably we've got a lot of cash around so I don't need to sell things. We've got — still got 30-something billion cash around and so I've got a lot of extra cash. So I don't focus on selling things that are — Johnson & Johnson is still an attractive business at its price. But if I needed money that would be on my — on my sell list as opposed to Wells Fargo or the others I've named.

BECKY: You still on the prowl for a major acquisition above $10 billion?

BUFFETT: You bet. You bet. Yeah, we — yeah, that's my job and the money does keep coming in, and I like buying businesses better than anything else. Lubrizol was a great buy for us, and you know, the best one we've made in recent years obviously is BNSF. But I love the idea of buying big businesses for Berkshire that we can own forever. As I mentioned in the annual report, we have — we know own eight companies that each by itself would be on the Fortune 500 as a stand-alone company. So there's 492 to go and I've got the names of every one of them in my mind.

BECKY: OK. Andrew, you have a question?

ANDREW: Yeah. Warren, we've got a number of emails from people who've asked why you haven't doubled down and bought more shares of Coca-Cola. You look at the way the shares have moved, you know, ever over the past couple of years since the financial crisis is actually — it's obviously gone on a huge run. What's the answer?

BUFFETT: It's a wonderful company. And it's our — at market it is our single biggest investment. At market we've got almost $14 billion in it. So it already — I mean, it is our number one investment. And it's not inconceivable we would buy more but in the last year I bought primarily IBM. Among marketables I put almost $11 billion in that and I put about a billion in Wells Fargo. I regarded those both as more attractive then Coke last year, but that can change. I mean, I always think in terms of the ones we own presently as to whether we should add to them. And Coca-Cola, Muhtar Kent has done a terrific job at Coke. I mean, he's been a fabulous manager and Pepsi's giving us a little help.

BECKY: Hm. You know, Warren, let's talk also about what's happening in Europe. We've talked to you over the last year or so as we've watched the European situation play out and you noticed that very early that it was going to be a big problem. Are you convinced that Europe has turned the corner in terms of dealing with its financial crisis?

BUFFETT: Well, it turned the corner in terms of its funding crisis for its banks a few months ago when the ECB said they would give these three-year loans at 1 percent and they gave almost — well, it was 400 and something billion euros, which translates to maybe $600 billion.

I mean, they opened up their window. So they — the European banks were facing a funding problem and they get less of their money from deposits and more from, essentially, bonds...

BECKY: Mm-hmm.

BUFFETT: ...than the American banks, and they're in far different shape than the American banks. So they had this huge funding problem that was really coming down the pike pretty fast. The ECB solved that temporarily. But that does not solve the solvency problems of European banks and it does not solve the imbalances of — fiscal imbalances of countries that cannot print their own money. The basic problem they have is they gave up their right to print their own money, the 17 countries that are part of the Euro Union. So — monetary union — so you can't believe how fundamental it is. If you owe money — the difference between being able to print your own money to pay it and not being able to print is night and day. Now they are wrestling with that and this action by the ECB to stave off funding problems for the banks gives them more breathing space on that. But the problem hasn't been solved yet.

BECKY: And the expectation is more money will be needed. This weekend the news was that the G-20 kind of gave them the stiff arm in terms of looking for more money there. They would like to see Germany and some of the other European countries raise more money first.

BUFFETT: When you're spending more than you're taking in, which is true for the European Monetary Union as a whole, big time, when you're spending more than you're taking in and you can't print money, you have a problem. And you are dependent on the confidence of the world to keep lending you more and more money even though you don't — you're not able to print the stuff to pay them off. People are very happy giving the United States government money because we can print it to give it to them. How much it's worth is another question when you get it. The danger is inflation, the danger is not getting back dollars. The danger in Europe is, you know, how does a country that's spending more than it's taking in and can't print money, how can it — if it loses the confidence of the market, the game is over.

BECKY: All right. Joe, you have a question, too?

JOE: Yeah. You got the — we got the big primaries coming up and one's in Michigan, Warren, and I know you've seen the — all the debate being reignited about the auto bailout, you've got, you know, Romney and Santorum talking about it in one respect, we had Steve Ratner, you can't turn on the TV without seeing him somewhere defending it and saying there would have been no DIP financing. The Wall Street Journal weighed in over the weekend, I thought it was an interesting piece, the op-ed piece, just talking about that maybe the whole bailout made the auto industry — it's still there, the stocks are above zero, they're still running, but maybe didn't set up the future that great for the auto industry here. Would you ever consider buying a stake in GM or Ford at this point?

BUFFETT: Well, I've always felt it's too hard in the auto industry to predict who the winners are going to be. There were 2,000 auto companies established in the United States in the 20th century and what have we got left, you know, a couple. So it's very hard to pick — to pick winners. I don't — there will be a big auto industry five, 10, 20 years from now that we will be selling lots of cars, I just don't know whose cars they're going to be...

JOE: I mean, the...

BUFFETT: ...any more...

JOE: ...the Journal...

BUFFETT: But I would say this.

JOE: Yeah, go ahead.

BUFFETT: Well, I would say this, I was kind of on the fence about the auto bailout for quite a while. I mean, it kind of went against my instincts, but I will tell you, Steve Ratner is 100 percent right when he says there was not a dime of private capital that would have — would have been available for a managed bankruptcy absent government help. I mean, look, it's very clear to me in hindsight, it wasn't so clear to me at the time...

JOE: Right.

BUFFETT: ...but it's very clear to me in hindsight that the auto bailout was one of the best things that have happened in this economy. The dominos that would have fallen — you know, we saw dominos fall in September of 2008, we saw them fall so fast and such big ones, you know, we did not need a repeat of that with what would have started with the auto industry. But I do not claim any great foresight on that.

JOE: Yeah. Yeah.

BUFFETT: I have really mixed emotions.

JOE: The Journal delicately dances around that and says that, you know, in hindsight it's tough to say if the government hadn't been there and there hadn't been crowding out, nobody knows who might have come forward. They also go on to say — they also go on to say that some of the foreign automakers that now build cars in this country would have been interested in all of the assets if it had been done in a — in a normal way and they'd be making — they may have bought, you know, maybe we'd be making Toyotas in Detroit right now or something. But they make the point...

BUFFETT: Mm-hmm.

JOE: ...that the steel industry was able to come back after the normal paths were followed and it's been rationalized and that the future is much brighter because they were able to deal with all the legacy issues. I guess Ratner and others say that a lot of legacy issues were dealt with, but the Journal's point was that it would have even been — all these balance sheet issues would have been rationalized even more, in fact it may have had a better future. Now we've got CAFE standards that are going to go to 50 miles per gallon, you know, very quickly and it's going to be a tough — very tough future for our automakers here to try and hit those and give Americans things they want to buy.

BUFFETT: I would just say this, Joe, if all of the steel — the big steelmakers, you know, if 90 percent of the American steel capacity — if in March of 2009 it was all running out of cash simultaneously, believe it, there would have been no private solution. And I got a call in the spring — or maybe it was late winter — of 2009 and — from one of the — one of the automakers and looking for capital, there wasn't any place they were going to get a dime. I mean, it was — it would have been crazy to put capital in unless an overall solution was going to be engineered by somebody that really had the capacity to write checks, and that was the federal government. And like I said, I didn't — that's not a philosophical answer, that is just a pragmatic answer of what was going on in the world at that time. It would have been devastating. It would have unwound the progress that we'd been making from the fall of 2008.

JOE: Well, they're still too big to fail then, Warren, I mean we would have to do it again. I mean, the precedent has been set, we will still — I mean they will never go under. I don't know, you wonder — philosophically it's not good to talk about...

BUFFETT: No, they're...

JOE: ...but sometimes you do need to talk philosophically just because capitalism doesn't work if we — if you know that it's going to happen every time.

BUFFETT: It's too big — it's too big to fail all at once. I mean it...

JOE: Yeah.

BUFFETT: ...it's just like — you know, General Electric was in line there...

JOE: I know.

BUFFETT: ...in September of 2008. Now they didn't — they didn't do anything themselves, they were just one great big domino and they were right next to other dominos that were toppling.

JOE: Yeah.

BUFFETT: But what we learned in 2008 is that when dominos topple in this society, when big ones do, and when you start off with the two biggest institutions, Freddie and Fannie, you know, of the United States government with 40 percent of the mortgages insured and they go under conservatorship, you will find out that there are an awful lot of dominos in line. And you've got to have a firewall someplace and the only person that — the only entity that can come up with a firewall at that time is the US government. And incidentally, there's not great moral hazard in doing what they did. The shareholders of AIG, of Citi, of Freddie, of Fannie, you name it, they got creamed. I mean, it isn't like they got rewarded for the fact that they had their investment in it, they got totally creamed. They are not there sitting, `Goody, goody, I want to do this again,' you know. So the moral hazard thing can get misinterpreted.

BECKY: Joe, I think we have to sneak in a break here?

JOE: Oh, yeah, we definitely have to do that, or I will have moral hazard if we don't — I've been told that personally.

Coming up, more from Warren Buffett. He's answering your emails and tweets, and keep them coming, Warren Buffett is trending on — what does that mean?

ANDREW: It means that people are watching the show as we speak and they're writing about this interview.

JOE: What does trending mean?

ANDREW: Trending means that there are thousands of people who are putting the word "Buffett" in their tweets, which means that people are tracking it...

JOE: They're not...

ANDREW: ...and there suddenly is this trending.

JOE: ...they're not misspelling it, they're not headed to a buffet for sure? I mean...

ANDREW: They could be headed to a buffet, but more likely they're watching SQUAWK.

JOE: I don't think any Twitter people go to buffets anymore, because old people — right?

ANDREW: No, they're all in the buffet line tweeting at the same time.

JOE: All right. It's trending on Twitter big time, a lot of trending going on.

ANDREW: Yes.

JOE: Woo! Right behind "The Artist" and Meryl Streep.

ANDREW: Right.

JOE: Right. But first, we're going to get a — we got to get this — a sneak peek at Squawk on the Street's new set at the New York Stock Exchange. High-tech extraordinaire. SQUAWK BOX will be right back.

BECKY: We are back with Warren Buffett this morning. We've got a last few minutes of questions before we are finished up here. And, Warren, Jim Cramer was just making some comments about your view on stock buybacks, especially regarding IBM. You now own about 5 1/2 percent of the stock of the shares outstanding for that company and in your annual letter you laid out your cause for why you would be happy to see them buying back stock and you're not necessarily looking for that stock to go up over the last few years. That's a little controversial. You want to lay it out?

BUFFETT: Well, I don't know whether it's going to go up or not.

BECKY: Yeah.

BUFFETT: I'm just saying that if they're going to buy back stock, they're going to buy back a lot of stock, they've announced they're going to do that. If they buy it cheaper and I'm a continuing shareholder, I'm better off. I mean, if three people own a McDonald's stand and you can buy out a — one of the three for a fifth of the total value of it, the other two are better off at the end. And any time you — any time you buy your partner out at a discount, you benefit. Now there's no moral problem attached to that in the stock market because markets set prices, you wouldn't want to do that in a private partnership.

BECKY: Right.

BUFFETT: But I'll love it if IBM buys a ton of stock, and the cheaper they buy it, the better I'll do over time.

BECKY: OK. Let's talk about gas prices once again, because we did have a lot of people who wrote in who said that they are feeling the pinch of gas prices already.

BUFFETT: Sure.

BECKY: I guess gas price is up around $3.80, somewhere in that realm. We could very likely see it push back above $4. There are people who, again, who are writing in who say they feel it and it could end up cutting into what they spend in other places. Could it eat into the economy?

BUFFETT: Well, it is a minus, there's no question about it.

BECKY: Mm-hmm.

BUFFETT: I mean, if you spend more on gas, you've got less to spend on other things. We have — you know, we had $147 a barrel oil, too, so I mean, we've lived through it in the past. And $30 oil was a shock in the 1970s and it had an effect on the economy. So any time an important part of the American expenditures goes up in price, whether it's food or whether it's gas, you know, it has an effect on everything else, no question about it.

BECKY: I know that you look at a lot of different factors and that overall you are very optimistic about the future not only of this country but also of the stock market. But if you have a list of worries, what's at the top of that list?

BUFFETT: Well, the biggest worry is nuclear, chemical and biological attack of some sort, whether by a government or by a rogue group, and that will happen someday in our future and it'll be anything from a large tragedy to an unbelievable tragedy.

BECKY: Right now it's not — it's not on the forefront of Americans' minds, although a lot of the things that are happening in the Middle East right now are creeping back up there.

BUFFETT: Yeah. Well, it'll happen sometime when it isn't on their — on our minds, just like the attack in — on 9/11. I mean, there are people that wish us ill and they — and they wish us a lot of ill if they can pull it off. So nuclear, chemical and biological knowledge has spread, and there are plenty of people that would like — wish us ill, so that is the biggest worry we have. But in terms of the economy and all of that, the luckiest person born in the history of the world is the baby being born today in the United States. I mean, in terms of the outlook for their lives, they are going to live better than John D. Rockefeller lived or better than I live and so on. I mean, it — our country's future is just — it's fantastic.

BECKY: Warren, if you had to compare the stock market and how you feel about it right now vs. where you did back in October of 2008 when you told people to buy stocks, you were, how would you briefly sum that up?

BUFFETT: Well, they were cheaper at that time. It's become clear now that the dominos aren't going to fall, so people are less worried now. But the time to buy stocks is when people are most worried, and October of 2008 was a better time than now. This is a better time than 10 years from now will be.

BECKY: OK. Warren, we want to thank you very much for joining us here this morning and being so generous with your time.

BUFFETT: Thanks for coming.

BECKY: We appreciate it.

And, guys, we'll send it back to you in the studio.

JOE: So Warren, you won't come to the correspondents' dinner with me, that's all right. All right, that's fine.

BUFFETT: I'm sending — I'm sending another brick, Joe.

JOE: I'm going to...

BUFFETT: It's in the mail.

JOE: ...I'm going to — you know, I'm going to ask Bill Murray, then. If you're not coming, I'm going to ask Bill — I'm going to ask Bill Murray. But I asked you first, don't say that I didn't.

BUFFETT: Oh, I got it.

ANDREW: Warren, how would you — if I took Ed Asner, would that be OK, or is that sort of off-limits? You know.

JOE: That's — you...

BUFFETT: I think Ed Asner got overlooked in the — in the Oscars. I'm amazed.

JOE: He's a little more conservative.

BUFFETT: Those people have no judgment of talent.

JOE: He's a little more conservative than you are.

ANDREW: Wait, you're going to say he's a little more conservative...

JOE: No, than you are, Andrew, yeah.

ANDREW: I'm not so sure about that.

JOE: You — but you guys can have a meeting of the minds.

ANDREW: OK, we got to run. Warren, thank you so much for a wonderful three hours, a lot of news there.

JOE: A lot of time.

ANDREW: Make sure you join us tomorrow.

Transcription by BurrellesLuce

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