This is an unofficial transcript of Warren Buffett's live appearance on CNBC's Squawk Box on Monday, March 4, 2013.

BECKY QUICK, CNBC ANCHOR: Good morning, everyone, and welcome to a special edition of "Squawk Box" here on CNBC. I'm Becky Quick and this morning I am in a suburb of Omaha, Nebraska, called La Vista. Joe Kernen is back at CNBC headquarters on the East Coast.

Our special guest this morning is Berkshire Hathaway chairman and CEO, Warren Buffett. We are coming to you this morning from the warehouse of Oriental Trading. Berkshire bought this catalogue-based seller of arts and crafts last November.

We've been soliciting your questions for Mr. Buffett over the last several days and as always, you didn't disappoint. You have e-mailed, tweeted, Facebooked and shared your thoughts on LinkedIn. Mr. Buffett is ready to answer many, many questions, as many as we can get to. But before we get to that, Joe is going to give us a quick rundown of the morning's top headlines.

And, Joe, good morning.

JOE KERNEN, CNBC ANCHOR: Hey, Beck. I know the sequester is hitting everybody hard, but this is your new set up there with the boxes and the — usually we can splurge a little bit more. This is affecting everyone, I think.

BECKY: This — it is. But this was a purchase. Berkshire never gave any numbers on this, but it was reported that this was a purchase of about $500 million. It was —

JOE: Whoa.

BECKY: What we thought was the company's most recent acquisition when we were planning and trying to figure out where we're going to do the show this time around.

JOE: Yes.

BECKY: Of course, he surprised us with another purchase since then, but yes, when we were — when we were planning on this and we were putting everything together, this was what we thought was his most recent acquisition.

JOE: I was thinking about that sequester. I mean, Buffett could take care of it himself if he really — you know, if he really wanted to, right? I mean, does he — does he have his — his checkbook —

Does he have his checkbook with him? I mean — Warren, why let this happen? Just — you know. Loosen up, loosen up the pocketbook.

WARREN BUFFETT, BERKSHIRE HATHAWAY CHAIRMAN & CEO: I've never been known for that, Joe.

(LAUGHTER)

JOE: Hey, Becky, you know, I came in here. I'm going to get to the — I am. I'm going to get to these headlines. But I came in here thinking that I could kind of coast this morning. I mean, I was up late, I was watching the "Walking Dead." I got to tell you what happened last night.

BECKY: Are you — no, you better not. I have watched all the way. The — the first halfway through the second season. You better shut your mouth. Don't tell me.

JOE: You — do you — no, I better.

BECKY: La, la, la, la.

(LAUGHTER)

(JOE READS HEADLINES)

JOE: Now, back to you, Becky, and Mr. Buffett.

BECKY: And, Joe, by the way, you cannot snooze through this. You are expected to play on all accounts so —

JOE: I'm tired.

BECKY: You're not going to get an easy day off.

JOE: I was — I was up until 10:00.

BECKY: Blah, blah, blah.

JOE: All right. I've got a — I've got a couple of question.

BECKY: All right.

JOE: All right.

BUFFETT: I bet you do.

BECKY: We do — yes.

(LAUGHTER)

Warren is ready for them. Again, our special guest today is Warren Buffett. And Warren, thank you very much for joining us this morning. We really appreciate it.

BUFFETT: Thanks for having me.

BECKY: Again, we are here at Oriental Trading and we come out, as we have every year, I believe, for — this is the sixth or seventh year we've been doing this, to come out and talk to you after you put out your annual letter so shareholders. You did that on Friday. People have gotten a chance to take a look at that and come up with a lot of questions that we have for you.

But why don't we start off how you started your annual report this year. You said it was a disappointing year for you even though the value of the company increased by over $24 billion. Kind of hard to match that all up.

BUFFETT: Yes, well. (LAUGHTER)

If it's going to be a disappointing year, I like the fact we made $24 billion. But the — I've regularly measured the performance of Berkshire by the change in book value versus the S&P 500 with dividends added back. I mean, you can — you can buy a — an index fund, a very low cost index fund and get those results. So unless we're delivering something better than those results over the years, we aren't doing anything.

And it's true now that our — the real value of Berkshire is considerably greater than book value. But year to year, book value is not a bad tracking measure of how our intrinsic business value is. And — so some years we — well, generally speaking, if this — if the S&P has a big up year, we're going to fall short because they're 100 percent in stocks. We're a third in stocks and then we — tax affect our gains. So we take 35 percent off those gains as they occur.

So we — we would expect to beat the S&P in a so, so year or a down year. We expect them to be less than an up year. But our job is to beat them over time.

BECKY: The S&P was up by just over 16 percent last year. Berkshire shares were — the book value was up by 14 percent. So it was very close.

BUFFETT: 14.4, yes.

BECKY: 14.4.

(LAUGHTER)

For me to be rounding there. Is that a reflection, you think, of — I mean, this has now been four years running that Berkshire has underperformed the S&P on that. Is that a reflection of the massive gains that we've seen in the stock market or do you think this is a reflection of big Berkshire has gotten at this point?

BUFFETT: Both. Both. But it's beat us three out of four. We have —

BECKY: I'm sorry. Three out of four.

BUFFETT: Yes. And, of course, we've still — we've never had a five-year period when we've fallen short. We've had 43 consecutive five-year periods where we've on but if the market is up in this year, any significant amount, then our five-year record will get broken. But it's a function of the fact that we've had up markets over the last four years, but it is a function of size, too.

BECKY: What you've been doing along the way over the last several years is making bigger and bigger acquisitions as part of all this. You said you were disappointed in 2012. You didn't make a major acquisition but you followed up very rapidly with the recent announcement of the Heinz acquisition.

How — how do you get to these acquisitions? Why does Heinz make sense?

BUFFETT: Well, Heinz makes sense because we've got a business we like and we've got a partner we like. And we've got a price that I barely like. (LAUGHTER)

But we've got a — we've got a great business. And that's the most important thing. Then we have these terrific partners, Jorge Paulo Lemann, I've known him for a dozen years. You couldn't — you can't find better business people. And they are — they will do the work. We are a financing partner. And you know we hope to own Heinz 100 years from now. I mean, if you own great brands and you take care of them, they're terrific assets.

BECKY: We have a question that came in and we've been soliciting questions. This is question number 62. We've had questions that have been coming in all along. And this comes from someone named Wilco Shutzendorf. He says, "As an investor I think Berkshire was a better value than Heinz. Question is, wouldn't it have been better for Berkshire to buy back its own stock at current prices than to buy Heinz at a 20 percent premium to its market value?"

BUFFETT: Buying Berkshire up to 120 percent of books. We feel we're making significant money. In other words we feel the value of Berkshire as well over 120 percent of book. How much, nobody knows. We can't get chances to buy $12 billion worth of Berkshire. We had that one piece from an estate that was 1.2 billion. But that's a big piece. But one doesn't preclude the other.

We could buy Heinz and we could buy our stock if it was in that 120 percent range. The surest way to buy — make money is to buy your own dollar bills for 80 cents or 90 cents. It's not precise what that dollar bill is. I mean, whether our stock is worth 138 percent or 135 percent of book or some number, I don't know. I just know it's worth more than 120 percent. But, you know, if somebody walks in here, I don't have to know whether they weigh 300 pounds or 350 pounds to know that they're fat. You know so I mean, you don't have to be precise on these numbers.

And we did — if we get chances to buy our stock at 120 percent book or less, we will be buying. But if we get a chance to buy another Heinz, we will do that, too. One does not preclude the other.

BECKY: OK. Why don't we talk a little bit about the sequester. Joe was just talking about it. This is the first business day back since the sequester took place. I flew over the weekend and I was a little worried you'd be facing long lines as you got out. It wasn't the case. How big of a deal is the sequester and what do you think eventually should happen?

BUFFETT: Well, I think it could go on for quite a while. The sequester in effect reduces the amount of stimulus to the economy. OK? They talk about stimulus and they say, well, this is a stimulus bill, you know, and they vote $800 million or something — $800 billion, and say, well, this is stimulus.

Stimulus is when the government operates at a significant deficit. That is stimulus by its definition. We're operating at a $1 trillion deficit roughly. The sequester reduces that a little bit. Raising the taxes at the start of the year, reduces that somewhat. But we're still operating at a deficit that is 6 percent of GDP. And by Keynes' definition, in the fourth of a recovery, that's a pretty fair amount of stimulus. So it just — it has the effect of reducing stimulus.

BECKY: But it sounds like you think that's a good thing at this point.

BUFFETT: Well, I think — well, I think at some point reducing stimulus is good. I don't think a 6 percent stimulus in the fourth year, third to fourth year of a recovery that is recovering, I think that's still giving the county quite a juice.

BECKY: So you're not worried about the sequester and about this pulling back on the economy because there have been a lot of scare tactics out there. There have been a lot of people who have said this is the end of days if we get to this point. You don't think that's the case?

BUFFETT: We're going to bring down spending and we're going to bring up revenues. (LAUGHTER)

And we may get there in fits and starts and everybody may scream each time we do it, but the deficit is going to come down. It needs to come down and it will come down. And we may be doing it in a meat ax way in this particular move. We did it in kind meat ax way in terms of the revenue going up. At the start of the year when we increased the payroll tax by a couple of percent, that's just — that hit all across the board, you know, on poor people and people of moderate means. It was a lot of money.

It — roughly an equal amount of the sequester, incidentally. So we have cut the stimulus from these two factors, but it's still 6 percent of GDP. And if you had asked me three or four years ago whether having a running deficit of 6 percent after a recovery that's been going on for three years was appropriate, I would say that's a fair amount of stimulus.

BECKY: So in getting there in a meat ax way better than not getting there at all?

BUFFETT: That's a good question. (LAUGHTER) It probably leads you to getting there at all. (LAUGHTER)

You may have to use the meat ax first and then people got a look at their handy work and say, we have to do better than this. But, you know, we still are talking about spending $3.6 trillion and taking in $2.6 trillion and that's a lot of stimulus.

BECKY: OK. Joe, I know you have some questions, as well.

JOE: Yes. I mean, I just — when Warren talks about where we are, and that we are recovering, I mean, you'd have to extrapolate what you said to Ben Bernanke and the Fed, I guess, too, Warren. I mean, they're awfully stimulative at the Federal Reserve and I guess I was just reading between the lines of what you said. I guess you'd wonder whether they need to be quite as free and easy right now, too.

BUFFETT: Yes. It's an interesting thing, Joe. Because we're running, well say, very roughly at $1 trillion deficit and the Fed is buying roughly a trillion dollars worth of — and not necessarily government bonds, but mortgages. But government issued paper or — let's regard it as government paper. And so in effect they are picking up our deficit and creating bank reserves with the money. And you might say you look at that and you say, this is wonderful.

You might say why don't you have them buy $3.6 trillion of government paper every year and then there wouldn't be any — you wouldn't have to have any taxes and the Treasury would be running a — or the Fed would be running a huge profit. Then they're running about $80 billion a year now. But now they'd have this wonderful carry. You know, that $3 trillion of assets that they have are financed about a little over a trillion by currency and circulation.

Well, that doesn't cost them anything except the cost of the paper. And then they've got a couple of trillion, or close to it, of bank reserves which cost them a quarter of a percent. So basically, you know, I'm jealous of the Fed. I'd like to have a machine like that myself. But they — it doesn't cost them anything. So if they can do a trillion this way, why not do $3.5 trillion then we wouldn't have to have any taxes at all.

BECKY: You're being facetious for anybody who may not be picking up on this.

BUFFETT: Sure. Yes — no, I am being facetious, believe me. But it's something that can't go on. And if it was this easy, you know, we will be doing it centuries ago. And I've got enormous respect for Chairman Bernanke. I think what he did in the fall of 2008 saved this country.

But I think it will be interesting when they get to the unwinding stage of a balance sheet. It's usually a lot easier to buy things than to sell things. I saw that in my own job.

(CROSSTALK)

JOE: I guess, Warren —

BECKY: You say — I think — go ahead, Joe.

JOE: Sorry. I just have one follow-up on the — on the sequester. I don't know whether you agree with me on this or not, Warren. But I guess the worse thing is that we feel like we've done something and we may be less willing to do more and we didn't do anything about, you know, the lion's share of what we're spending all our money on.

This came out of the discretionary side. It did nothing for the mandatory side. So those huge issues and the demographics of our population, all those things are still there. It's only 2.3 percent of the total, but if you take it as 2.3 of the discretionary, it actually is a pretty big cut for discretionary. And it doesn't even get to —

BUFFETT: Yes.

JOE: It doesn't even get to the core of our problems. So it's - you know, in that way, it's — it's kind of — it misses the mark. It may cause some unnecessary, you know, furloughs and pain and it doesn't even help our situation.

BUFFETT: No. It's a very dumb way of attacking a very serious problem, if you think about. You have people on both sides rushing to television cameras on Sundays and other days to lock in positions, to say, I won't do anything but this. And if you have a negotiation, if you have labor negotiation, and you have a number of managers — people on management side going on television, saying, I won't budge an inch from this, and then you had a whole bunch of people from labor going on and saying, I won't budge an inch — that does not set the stage for negotiation.

Then on top of that, if you have somebody negotiating for management, say me and one union leader out there, and I negotiate with him, finally we get in private instead of on television, and then he can't go back to his membership and get his position ratified. It's a terrible — just a — you couldn't negotiate under more difficult conditions. And I think there's strong evidence that one or even perhaps both parties, but certainly one party, is in a position where you can't make a deal in private that you know is going to get ratified by the membership.

BECKY: You mean they can't control their base?

BUFFETT: Yes. Well, and they don't speak for it. Yes. If you're negotiating with somebody, and you don't know whether they're speaking for their base, you've got a problem. Even in negotiating for businesses. I always feel I'm at a disadvantage because when I say well, we'll pay $10 billion, we'll pay $10 billion. But the other fellow says I've got to go back to my directors and I've got to get opinions from investment bankers and everything.

So there's an imbalance of commitment and who wants to lay out their best offer if you — if the other fellow, when he says yes doesn't really mean yes. The really key to making a deal is to have people who can absolutely speak with their constituencies and who when they say something you can count on them delivering it.

And as you start moving away from that, and we've moved away from that enormously, television accentuates it, just speaking out accentuates it, somebody says, you know, I won't give a dime on taxes and than their constituencies here and those people who'd in the next are primaries. So now that they — they get locked into positions.

But few had gone back to the continental congress, I mean, they negotiated in private and they were not out there staking positions and saying I won't do this or I will do that. And I think it was — I don't — I'm not sure we have a constitution. If we had had a bunch of television cameras out on the side and a whole bunch of people who couldn't speak for their constituencies.

BECKY: I mean, you have the same players in place that probably lost trust in each other after 2011. Is there a way to get it back? Have you ever seen a situation where things have gotten out of control with those same activists, those same people in charge could get back to a position of trusting each other?

BUFFETT: Well, the way that you'd get a deal made is if Obama and Boehner and Reid and McConnell, too, but if they could actually go into a room, go up to Camp David, you know, wherever it may be, and hammer something out with the knowledge that once they'd hammered it out they can deliver their constituency. I mean that's the way deals are made whether it's in labor negotiations, whether it's buying companies or it just isn't made by dealing with people who can't speaker for their constituencies.

BECKY: OK. Warren, if you'll bear with us for a moment, we're going to slip in a quick break here.

But again, Warren Buffett is with us all morning long. He's going to be answering your questions. So keep sending them to us. We'll have more of his responses when we come right back.

Plus, the stories this morning that are moving on the SQUAWK news wire, including why Las Vegas Sands says it likely violated the U.S. corruption act.

Stay tuned. ""Squawk Box"" will be right back.

(COMMERCIAL BREAK)

JOE: Welcome back to "Squawk Box".

U.S. equity futures at this hour have gotten a little bit worse, down about 47 points, making headlines this morning.

Las Vegas Sands says it likely violated the Federal Foreign Corrupt Practices Act. The act outlaws bribery or foreign officials. In an SEC filing and the casino operator confirms it's under investigation, "The Wall Street Journal" reports that the company's findings are related to deals in mainland China, led by executives no longer employed at the Sands. Harkening back again to that "60 Minutes" piece last night. The billionaire 47-year-old billionaire Injanna said that to do anything in China, you have to play by the local rules and corruption is rampant across all quarters.

So elsewhere, Elan says its investors do not view a 6.6 billion approach by Royalty Pharma as worthy of discussion. Elan announcing the day that it would give shareholders 20 percent of the royalty rights for multiple sclerosis drugs Tysabri.

Now when we return, more from Berkshire Hathaway. Chairman and CEO Warren Buffett is answering our questions as well as yours all morning long. So stay tuned.

(COMMERCIAL BREAK)

ANNOUNCER: The world's most powerful investor, Warren Buffett, on the economy and gridlock in Washington. Plus, he's ready to field your questions live.

This special presentation on "Squawk Box" begins right now.

BECKY: Good morning, everybody. Welcome back to "Squawk Box" here on CNBC. I'm Becky Quick. And, again, we are in a suburb of Omaha, Nebraska, this morning called La Vita.

Joe Kernen is back at CNBC headquarters on the East Coast. But our special guest this morning is Berkshire Hathaway chairman and CEO Warren Buffett. Before we get to more questions for him, Joe is going to give us a quick rundown of the morning's top headlines. And Joe, go ahead. Take it away.

JOE: What? Again? All right.

(CROSSTALK)

Just — OK. Fine. You're going to make me do this? I will. I really — I'd love this machine. You've got Warren Buffett.

OK. There are some — just kidding. There are some headlines Fed chairman Ben Bernanke, once again back that pulling back on aggressive policy measures too soon would pose a real risk of damaging a still fragile recovery central bank vie chair, Janet (INAUDIBLE), is speaking at 8:00 this morning. We will bring you her comments as soon as they hit the tape. But as we found out last week, more and more people just said, you know who you listen to? You listen to the chairman.

All this other stuff that we heard, all the, you know, worries and consternation about whether there were negative effects, listen to Bernanke and you'll see that the Fed is going to do.

A survey by the national Association for Business Economics finds that sequestration is not the favored method to cut the U.S. budget. More than 70 percent of economists polled opposed the full implementation of $85 billion in federal budget cuts that were to start taking hole last Friday.

Most respondents indicated that cuts should be focused, primarily, as we were just talking about, not on the discretionary side but on the entitlement side.

And Royal Dutch Shell may be forced to shut down a 150,000 barrel per day oil pipeline in Nigeria, due to persistent thefts. The pipeline is one of the most important production routes for Africa's top crude oil exporter. US equity futures have been weak so far this morning, now even a little bit weaker, down about 52 points.

And Becky you — we have your questions. You have — I — I know how you operate and you've got probably 14 hours worth of questions for your three hours, so I know — I know that you don't need me, but I — I am ready when you are. I have so many things — I didn't want — you know I even want to ask Buffett about Herbalife, I swear. I mean there are so many things I want to ask...

BECKY: You know what? You would not be the only one, Joe. We actually got some — some other viewers who wrote in questions about that too...

JOE: ...yeah, because it's a big brand name.

BECKY: Right.

JOE: It's a big brand name, and you know he loves brand names...

(CROSSTALK)

BECKY: There are millionaires involved who are kind of very vocal about where they're taking down with this.

JOE: And — and I...

BECKY: ...since we brought it up, why not — why don't you weigh in?

BUFFETT: Well I — I don't have a position in Herbalife, but — but both Carl Ichan and Bill Ackman are members of The Giving Place, so...

BECKY: Right.

BUFFETT: ...I would like to see both of them make a lot of money, because they're going to give at least half of it away to charity.

(LAUGHTER)

BECKY: So, you wouldn't say one way or the other? Have you ever ran through Herbalife's filings, or had any thoughts about it?

BUFFETT: No, no I haven't, no.

BECKY: All right, I understand you want to be politic and stay out of this. So instead, why don't we jump right back into another controversial subject? You were just talking about Bernanke, and what you thought about what the Fed's been doing recently. Joe just mentioned in his headlines that Bernanke has warned about the risks of pulling back too soon, how that could damage the economy, and — and I want to go back to something you just told us in — in the last break.

You said, "I think it will be interesting when they get to the unwinding stage of the Fed's balance sheet." When you say, interesting, what do you mean? And I say that because you called 2008 interesting too?

BUFFETT: Yeah, I — I — that's a euphemism. The — I — I — it's very easy to buy. You've got — you've got the Treasury issuing securities like crazy and you just — you just sop them up. You know if you buy $85 billion a month, and you — you just credit bank reserves. The Fed has about $1.1 trillion, or something like that of — of currency in circulation. You could just put more current in circulation, but — but basically you credit bank reserves so that if you're going to have $3 trillion of assets, you need to create $1.8 trillion, or $1.9 trillion of — of bank reserves.

And they pile up, and the banks get a quarter of a percent on it, and they don't like it because they're losing money. But they don't have good places to put out a lot of money now. Now when you start selling you know you — at that point you — you start stopping up reserves. And that's a — that's a much different action than buying. You saw just a whiff, I don't know, about two or three weeks ago of — just a whiff of the fact they might start tightening up...

(CROSSTALK)

BUFFETT: ...in the stock market. All over the world, everybody that manages money is waiting to catch the signal that the Fed will — will reverse course. And they — you know they're — I think they're on a hair trigger, so I think the Fed will try to give little signals here and all of that. But in the end, there are an awful lot of people who want to get out of — out of a lot of assets if they think the Fed is going to tighten a lot. And we've never quite had, in my — at least to my knowledge, we've never had the degree of disgorgement that might be called for down the line. And — and who knows how it will play out. But it'll be noticeable. It'll be very noticeable.

BECKY: Have you done anything differently at Berkshire to prepare for that?

BUFFETT: No, I — it's interesting, Becky and nobody believes this, but Charlie Munger and I have been buying stocks and business for 50 years. In that entire time, we've never had a discussion of macroeconomic factors in making a decision as to whether to buy, or sell a business — buy a business, or buy or sell securities. We just — it just doesn't get into it — our consideration. And if I were buying a farm, I would not be thinking about what the Fed was going to do. If I were buying an apartment house, if I were buying a business outright I wouldn't do it.

So, when I buy a piece of a wonderful business, say Coca-Cola or American Express, it is not a matter of consideration. So Charlie and I will talk about the business. We will not get into discussions about the Fed, or — or government or...

BECKY: But that may also be because you run Berkshire so conservatively. I mean you are constantly making sure you have a — a huge amount of cash on hand in case the 100 year problem comes along.

BUFFETT: Exactly.

BECKY: So, I mean you've already guaranteed against this anyway, I suppose.

BUFFETT: Yeah, well we don't — we don't know when the 100 year problem is going to come. It can come tomorrow. It can come 100 years from now. We want to be prepared for it. So we always are going to deal from strength. But in terms of making the decision as to whether to buy Oriental Trading today, or pass. Whether to buy Heinz today, or say — we do not get into macroeconomic discussions at all, and everybody thinks we do.

They think we sit there and decide what emerging countries are going to be better and so on — that just doesn't get into our decision making.

BECKY: Just to differentiate from what you do, versus what everybody else does, that may not enter your conversation ever because you've already guarded against it. It's...

BUFFETT: Well, because we think the important thing is to be in the right business at the right price. Price is all important. And if you read cheery headlines, and you're willing to pay a much higher price, you're making a mistake. And if you read depressing headlines, and you say I won't buy at any price you're making a mistake. That's why I wrote the Op-Ed in — in 2008.

BECKY: Right.

BUFFETT: Price takes care of the future, and — and it may be that you read terrible headlines for six months, or a year, whatever it is. I refer in the annual report, I bought my first stock in the spring of 1942, when we were losing in a war in the Pacific. But I bought a very cheap stock. And I felt we were going to win the war eventually, you know but I didn't — I — if I waited three months, as my sister pointed out to me, I could have bought it a lot cheaper. But that isn't — that isn't the question.

The real question is, whether I got a lot for my money, and whether I've got the staying power to wait until things change.

BECKY: All right. I know you don't look at the macro issues. I know you don't pay attention normally to where the stock prices are, but you did write that Op-Ed back when you thought stock prices were very low.

BUFFETT: Yeah.

BECKY: When you look at where the indices are now, which is right near all time highs, does it make you nervous? Does it make you less likely to go out and say, buy, buy, buy in terms of the stocks that you're adding to your portfolio?

BUFFETT: I — anything I bought at $80.00, I don't like as well at $100.00, but if you ask me whether stocks are cheaper than other forms of investment, in my view the answer is yes. We are buying stocks now because — we're buying them not because we expect them to go up, we're buying them because we think we're getting good value for them.

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

JOE: I had a quick follow up Becky. Since we got such a non-answer about Herbalife. So...

BUFFETT: Hey, wait a second.

(CROSSTALK)

JOE: ...I'm just — there is an expert on Herbalife, his name is Herba Greenberg, and he messages...

(LAUGHTER)

JOE: ...Warren you own a multilevel marketing company called Pampered Chef. Did you know that?

BUFFETT: Well, it, yeah. It does not make money by selling to the — to the people who represent us.

JOE: Right, but it's a multilevel — I mean, is there a problem with — with the whole notion — I mean I guess they're all different, but you have some experience at least with that business model, or something similar, right? Not exactly.

BUFFETT: Well actually — yeah — no, I — it — I — I think — I think where you look for problems is where you actually make your money by loading up the sales person, whether they make any sales or not. But you know Wall Street has multilevels. I mean you have sales managers who get a portion of the commissions on — on the — on these sales representatives that work beneath them. You have that in the mutual fund industry. You have that — you have tiered layers of supervision where people get overrides on those — you have that in life insurance.

The real question is whether you have it so that — so that if you just sell the guy a kit of something, and — and he never makes another sale, whether that's satisfactory for the business, that you've made your money on selling the kit.

JOE: Well it sounds like you...

BECKY: So you're talking about the accounting?

JOE: ...yeah, and it sounds like you're — that's what — you're say9ing that Pampered Chef is different than Herbalife. And Herbalife might sell a bunch of stuff to people who never sell it to anyone?

BUFFETT: I don't know whether that's the — I know it is not the case at Pampered Chef. I do not know what the situation is at Herbalife. I — I've read assertions about that, but I really don't know what takes place at Herbalife.

JOE: OK. All right.

BECKY: All right. So you don't know enough to — because it did sound like you were almost calling it a pyramid scheme too.

BUFFETT: No, I've never read their 10-K, and I've never — I've never asked anybody that's in our direct selling operation what their techniques are.

JOE: You know Ichan can crush Ackman, but you could crush Ichan. I mean if you want to just get into it, I mean...

(LAUGHTER)

JOE: ...that money — Ichan can — you know he — he — there's not enough — Ackman doesn't have enough to withstand this, but I think you could do the same. I mean I — if you jump in here, Warren, this could — you know this could be fun. No?

BUFFETT: Shall we split the profit or loss, Joe?

(LAUGHTER)

JOE: I've already tried to get — you know I — one of my — now I'm getting a bottle of ketchup is the latest thing that I — and I'm waiting for it, by the way.

BUFFETT: Yeah, yeah, just be patient.

(LAUGHTER)

BUFFETT: You may wish you hadn't gotten it when you did get it.

(LAUGHTER)

BECKY: If you're good, you may get ketchup.

BUFFETT: Yeah.

BECKY: Guys, we're going to — we're going to slip in another quick break. Warren Buffett is with us all morning long. We've been taking your questions in. Up next, he's going to be answering a number of those questions, so go ahead and keep sending them to us. We'll have more of his responses when we come right back. As we head to a break, by the way, check out the futures this morning. As Joe mentioned, they have been weaker this morning, and probably see right now where things stand.

As we head out for a break, red arrows across the board.

(COMMERCIAL BREAK)

BECKY: Welcome back everybody. Again this is a special edition of "Squawk Box". We are live with Berkshire Hathaway Chairman and CEO, Warren Buffett all though the morning. We've been soliciting questions from you, and we have received plenty. We'd like to take the chance right now to try to catch up with some of those questions, and Warren, we did receive a lot of questions this year related to Berkshire, and just some of the things that are going on there.

Let me start with one that comes from Jay Shath. He asks, "You've been critical of LBOs and private equity in the past, leveraged buyouts and private equity in the past, yet you are partnering with 3G and leveraging Heinz. Does this indicate a change in your view on LBOs and on private equity?"

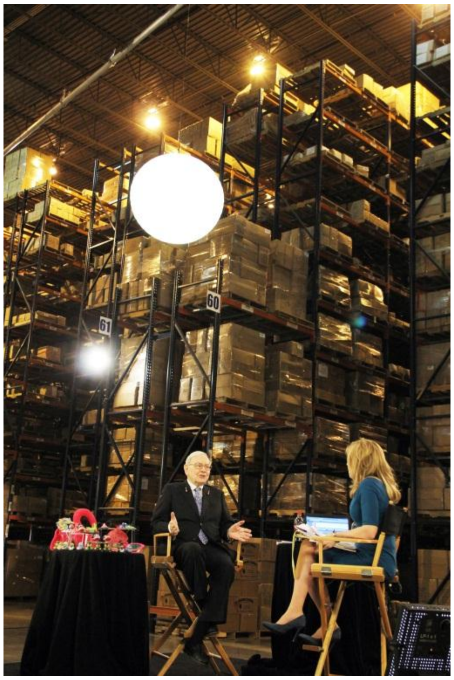
BUFFETT: This is a — a partnership that's buying a business to keep. And our partners like the idea of some leverage in it. We don't like leverage as much so, in effect our preferred stock is providing some leverage to their common. So instead of having loads of debt providing the leverage, we have our preferred stock, which is equity and carries no threat to the capital structure. But it is not a private equity deal.

This is — this is a business to own. Berkshire will own Heinz 100 years from now, and — and there's no thought on Berkshire's part of — of sharing its shares. There may be a few people in the Triple-G group that decide that they want to sell at some point. And if they do, I hope we get a chance to buy more of it, but — but Heinz is forever as far as we're concerned.

BECKY: In your letter, you pointed out that the preferred shares have more than just the higher yield that they're bringing in. I mean this is also something that brings you warrants to buy more the stock?

BUFFETT: Yeah, we get — we have a 9 percent preferred, an $8 billion issue. We have a call price on that preferred, and eventually it will get called, and that provides some extra yield because the call is a premium. It probably provides another point a year. And then on top of that, we get 5 percent of the fully diluted common, basically for nothing, for buying the preferred. It — it's — it's a deal that — it's a very fair preferred, but it does create extra leverage for our partners, 3G, meaning they only have to put up $4 billion for their half the equity, and they get more play.

If Heinz works out as we expect, they will get a return higher on that common than we get on the preferred. But we'll do very well on the preferred. And by having that preferred in there, we — we minimize the amount of debt leverage. So this is not something that's — that's — adds debt to the ceiling on it.



BECKY: Several people have written in about how this is different than your usual acquisition by partnering up with someone. Normally you look at a business where you want to keep the management that's there. And you look at that, and it's a long time to add in. Why — why do this with 3G?

BUFFETT: Well, 3G — I've known Jorge Paulo Lemann for a dozen years, I know his associates. I think they may be the best managers in the world, so — and incidentally, they're getting no extra ride for managing it. So, there's a 3 percent carve out for management if they meet certain — certain performance targets, but I would love to have that group manage any business that we have. And — so they are the managing partners, we're the financing partners. And to me it's a dream. I mean we — we get terrific management with them. Management I couldn't buy. And they get somebody that can finance it with a phone call, which makes it very easy from their standpoint.

BECKY: Is the 3 percent of — of annual net income, or something?

BUFFETT: No it — it's — the ability to buy 3 percent of the common, if certain performance levels are...

BECKY: OK.

BUFFETT: ...met.

BECKY: OK, let's get to another question. This one is from Jeff Verdun. He writes in, "With the recent purchase of Heinz, are you worried that Berkshire will ever become too diversified, and will end up having to sell off companies, like other former diversified companies including; Coca-Cola, and General Electric, because they strayed too far off of the core business?"

BUFFETT: They are — they...

BECKY: They strayed too far off of their core business...

BUFFETT: No, we...

(CROSSTALK)

BUFFETT: ...we — we — we have managers that are running their core businesses. At the railroad, we have Matt Rose, that is his core business. That — we have Greg Abel at the energy business, that is his core business. So we have — before this deal we had eight different companies, each of which would be a Fortune 500 company if — if owned separately. And they have Fortune 500 type managements. And those people are managing the businesses they want to manage. That's the same situation we're going to have at Heinz.

So we — we couldn't run Berkshire from the top. It — it's not designed that way. It's designed to have a group of businesses that are run by people that love them, and that know how to run them. And it's — it's their goal in life to run those businesses. So, their goal is not to run Berkshire. Their goal is to run the railroad, or whatever it may be. And so — it's — it's an ideal situation. I just stay out of the way.

BECKY: OK, let's get to another question. This one comes in from Bill Breach who writes in, "Regarding the unusual Heinz options activity prior to the announcement of the acquisition, can Mr. Buffett describe Berkshire's procedures to try and prevent premature leaks of insider information regarding prospective acquisitions?" There have been a lot of questions about that.

BUFFETT: Yeah, well we try to minimize who knows about it, and — and — but you're always going to have — your lawyers know about it. Our auditors don't know about it. We don't — we don't consult them. Our CFO is going to know about it. My assistant is going to know about it, so — and that's true with the other parties as well. In this particular case you had four investment banking firms, you had two commercial bankers, and you had people at our place, at 3G and — so a lot of people ended up knowing about it — about it.

That's why I like to push these things through as fast as possible. And obviously, I will guarantee you that that person that bought it on Wednesday, bought those options, I mean that is — that is inside trading. I mean they're going to nail that guy at — and they should. We were doing great up until that point. If you — if you looked at the Heinz stock behavior, it did not outperform the market or anything. I thought we were going to get there.

And even on that Wednesday, the day before we announced, the stock I believe was actually down, but that options trading clearly reflected somebody that knew something, and it will be very interesting to see who it is. We've never had a big problem. We — you know we had the situation in — in Lubrizol, but that was a — that was a different sort of a situation. We've never had anybody at Berkshire that — with all the deals that we've had, that has been involved in — it's aggravating.

BECKY: You know very quickly on that point, let me bring in other question from a viewer. This is from Harvey Cohen, it's number 13 control room. He asked, "What was the total legal bill to close the Sokol affair?

BUFFETT: That's a good question. I can't tell him the answer, but it — it was more than I would like. Because we had our own legal bills, we had his legal bills, and — and it's not totally done yet in terms of legal bills. But if I had to guess — I'm really guessing here, I would — I would guess maybe $4 million, or something like that.

BECKY: Have you spoken with Dave Sokol since the affair?

BUFFETT: I have not spoken with Dave Sokol for a couple of years.

BECKY: OK. Joe, I know you had some questions too.

JOE: Right. Yeah I did. I was just watching Warren with that answer. I mean $4 million is — you know is not a lot obviously for Buffett — or for Warren not a lot of money, but I — I saw the pain on his face. Because $4 million to him...

(CROSSTALK)

JOE: ...as he has mentioned, I mean...

(LAUGHTER)

JOE: ...$400,000 would have easily — I can see him just — Warren, so...

BUFFETT: You're getting closer. You're getting closer, Joe.

(LAUGHTER)

BUFFETT: Keep going.

(LAUGHTER)

JOE: In — in the past you have made the point that it's better to buy a great business for a fair price, than a — a fair business for — for a great price, and I — I know that Heinz probably fits into that again, but you know Warren, Heinz — when was it founded, 1870 or something — 1869?

BUFFETT: 1869. Yeah, they went broke, and then — that company, but the successor — that was founded shortly thereafter. Well it's been a great business for a long, long time. And I don't know about your price. I — I guess you probably paid a fair price, but I'm just wondering you know, sooner or later you have so much money at Berkshire that you have to deploy, and you find companies like Heinz. But you could have made this acquisition any time in the last 20 or 30 years and probably gotten a fair price. I think that your Brazilian — your partner definitely made a big difference here.

BUFFETT: Yeah, he did. He did, you know? There's no question about that. But we would not have done the deal if we hadn't been partnership with Jorge Paulo.

JOE: And it made sense just in terms of — of being a global — a brand that you can just leverage globally. And he's the guy that can then leverage it globally. So it does, it — it makes sense that way to me. OK, I got it now. It doesn't seem that profound to me to buy a — you know to buy a brand name ketchup — because I can give you a — like probably 10 or 15, you might as well buy Twinkies too while you're at it. Get in the — the auction bidding for that too.

But you know just as far as a brand name company at a fair price, there's — you know — you got a whole shopping list.

BUFFETT: Yeah they're not — there are not too many that are big, but you're right. You know well we've owned Coca-Cola, but we have only owned 9 percent of it now for, I don't know 25 years or so. But you're right, we would not have — we would not have done this — we would not have done this at this price without being partners with Jorge Paulo. No question about it.

JOE: All right. Will you throw Bloomberg under the bus once and for all? You mentioned Coke again, I mean for that ridiculous — I mean you — you can't even order a pizza with a party and — and get a Coke, and a 2 liter bottle. I mean it's just — if that is not — you know a — a nanny state run amuck. If you won't say that for me, I'm — I don't know if I'm going to ask any more questions.

BUFFETT: Well there's two — there's 200 calories in that 16 ounce bottle that he will tolerate, but he doesn't want to tolerate more than 200 calories. I — I have seen certain people, unnamed public officials who have eaten more than 200 calories of dessert at one time without having to order a second serving. The real question — you know I — I can eat 2,700 or 2,800 calories a day and I've been picking those 2,700 or 2,800 all my life, and it seems to work reasonably well, and — and I — if I had eaten broccoli all my life, you know I'd probably be in some mental institution.

JOE: Andy — Andy loves salt. Andy loves salt. Andy flies around you know the big carbon footprint and it just — it just looks like, let them eat cake. It looks like I'm here, you know like — like a king and I'm...

(CROSSTALK)

JOE: ...listening at my subjects. What? Yeah I'm a king and my — my subjects have to live differently than I live because they're too stupid to make their own decisions. It gulls me, Warren.

BUFFETT: I mean, I — I think you should pick — whatever your metabolism rate is, then you should pick 2,700 or 2,800 calories...

JOE: Right.

BUFFETT: ...and you ought to have the...

JOE: I'll eat Filet of Fish's if I want. I'll eat — I'll eat 2,800 calories of McNuggets if I want or — or Twinkies.

BUFFETT: Or ice cream, I — I do that — some days I just go through a whole gallon.

JOE: Wow, all right.

BECKY: What are you eating for breakfast this morning?

BUFFETT: Well hear, yeah I'm having a Cherry Coke here. There — there's a — and there are about 200 calories in this, but — but if — oh and I have some Oreo cookies here.

JOE: What size is that bottle, Warren? What size is that bottle, Warren?

BUFFETT: This bottle looks like 16 ounces, I...

JOE: No, it's bigger.

BECKY: No, I think that's — I think that's a 20 ounce.

BUFFETT: If it's a 20 ounce bottle...

JOE: You can't have that. Put that down — back. You know where you can have it? Myanmar. But you can't have that in Manhattan.

BUFFETT: Yeah, well we can have it in Omaha.

(LAUGHTER)

BUFFETT: And we'll continue to have it in Omaha.

BECKY: Gentleman, we are approaching the top of the hour, 7:00 am on the east coast, 6:00 am here in Nebraska, so we are going to slip in a quick break. When we come back, we are going to get Warren Buffett's take on the economy. His businesses tell him an awful lot about what's happening. By the way, he's answering your questions this morning, so keep sending them. More of his responses when we come right back. As we head to a break right now, again take a look at the futures.

And after the market's been hanging in there for some time, even with sequestration kicking in, you can now see that the Dow futures are down by about 38 points below fair value, S&P futures are down by about 5 points. Again, we'll be back with Warren Buffett right after this break.

(COMMERCIAL BREAK)

ANNOUNCER: Warren Buffet, in his first television interview since releasing his annual shareholder letter, answers your questions. Investments, the economy, politics, and much more, hour two, with the Oracle of Omaha begins right now.

JOE: Good morning, and welcome to this special edition of "Squawk Box" on CNBC. I'm Joe Kernen. Andrew is on assignment, and Becky Quick has made her way to La Vista, Nebraska, where she is speaking with one of — it says here, I think maybe the greatest I've seen, but all right, we'll call him one of the greatest investors of our time, Warren Buffet.

We'll get to her in just a minute. First though, a check on the futures, which have been meandering around. They've improved a little, they're down more than 50 now, down a 38 or so. Here are your morning headlines, the ones that Lisa has chosen for this batch. A new survey of economists say the U.S. budget deficit needs to be cut, but indiscriminate spending cuts are not the way to do it. The national association for business economics says more than 70 percent of its members are against the so-called sequester cuts that began taking hold on Friday.

And Las Vegas sands is lashing out, at what it calls indiscriminate and misleading reports, it's calling out the New York Times in particular, for a headline that said "Casino Companies — Company, Says that it Likely Cheated". The story stems from an SEC filing in which it said the company likely found in violation of accounting provisions.

And Jack the Giant Slayer did debut at number one at the box office, $28 million in North American sales, but there are those that said that it should have done double that, to be a hit. It was lower than what Warner Brothers had hoped. The movie had reported a budget of $200 million , actually just under $200 million , so I guess if you had to chalk it up, you'd probably call that about a four or five on a scale of one to ten, Becky.

BECKY: Yes, OK. Joe, thank you, and we're going to jump right back in with Warren Buffet, the chairman and CEO of Berkshire Hathaway. Warren, we've talked about a lot of things this morning, but we have not gotten your take on the economy right now. We'd like to talk to you about this, because your businesses give you a really good idea about what's happening across a broad sector of the economy.

So you laid out some of these things in the annual report, but why don't you talk to us about the powerhouse five. These are the five divisions of the company outside of the insurance holdings, that are the big, big biggies, in terms of what they bring in. And Burlington Northern Santa Fe probably …

BUFFETT: That's the biggest probably …

BECKY: The biggest, yes.

BUFFETT: … by far, and it's — the car loadings were up in January, car loadings were up in February, but our car loadings have been behaving somewhat better than the other three big railroads. So car loadings, or the four largest railroads, have been fairly flat. They've been, they've been up in the intermortal (ph), they've been down in the traditional.

Coal continues to be down. In our case coal is pretty flat, but I think you'll see a small increase in car loadings this year, and I think, I think Burlington's going to do quite well on it, because we're well-situated in respect to where oil has been found.

BECKY: Right.

BUFFETT: So, we're carrying more and more oil, we're carrying about 10 percent of all the oil that's moving in the lower 48 continental United States.

BECKY: That's kind of unbelievable, 10 percent of everything produced in the lower 48?

BUFFETT: Yes, and we've got seven unit trains a day, and a unit train is about 100 cars, and there's 600 or 700 barrels per car, and we have seven of those a day moving. But that number of unit trains is going to increase as production comes on, further in the market particularly.

Rail has turned out to be a very good way of moving oil in this economy because there's such differences in what oil is worth at given refineries, and oil is obviously far more — rail is far more flexible than pipeline, in terms of moving oil around.

BECKY: You know, you bring that up, and I'm looking quickly to try and find some of the questions that came in from our viewers, but the whole idea that rail is more efficient, that's something a lot of our viewers kind of caught on to, and keyed in, and wondered what your thoughts are on the XL pipeline, and if you were opposed to it, because you would like to see more traveling on Burlington Northern, on your own railroad.

BUFFETT: No, the Keystone pipeline or …

BECKY: Yes.

BUFFETT: … is coming — that'll be bringing heavy oil down from Canada, and there's plenty of places for pipelines, and we're not anti-pipeline at all. But the oil producers are going to figure out what is in their best interest. There's these huge differences in what crude is worth in different places, and with rail, you're more flexible in that rate. Incidentally, oil moves faster on trains than it does in pipelines. That may be a little counter-intuitive …

BECKY: Yes.

BUFFETT: … but — and it certainly moves in a more flexible manner. So I think if you talk to the oil producers, that they're quite happy with the rail service they're getting, and we've spent a lot of money on infrastructure, to make sure that in terms of loading and all that sort of thing, that it's done very efficiently.

BECKY: But just to clarify what you said a moment ago, you are not anti-pipeline, you are not anti-Keystone, the Keystone XL?

BUFFETT: No, I can't imagine — you know, I'm not an environmentalist in terms of knowing what — but it just seems to me there are an awful lot of pipelines in this country, and there hasn't been a lot of damage done, and the heavy crude up there, the tar sands, it's going to move some place, so I do not have any objection to the Keystone pipeline.

BECKY: All right, beyond what you're watching in terms of the rail car loadings, and what's been happening, what's your general sense of the economy, based on what you see from housing, based on what you see from manufacturing, based on what you see from retailing.

BUFFETT: Yes, well housing is getting better. I mean our brick business is better, our carpet business is better. I was just talking to people at USG Wall where business is better. Now, this is from a very low base, and it's not galloping back, but it's moving back. And what we see with our real estate brokerage firms, is that houses are moving.

So we're — we continue to have a slow recovery, that started in the fall of 2009. I mean it's three and a half years old now. It continues to be slow, and certain parts come on faster than others, but it hasn't taken off, but it hasn't stopped either.

BECKY: You know, we spoke with Sam Zell recently, and talked with him about it, and he's in an interesting perspective, because he's been putting money into rental properties, and thinks that in some ways, this resurgence in housing may have been overplayed by the media a bit, that when he really looks at it, he still believes rentals are a great place to be, for some time to come, and he is investing in that manner. Is there a way that both sides of this coin can be correct? Again …

BUFFETT: They can both be correct, yes. And I know you'd — you have had this situation where five years ago, 69 percent of people were in single family homes, and that's dropped down to 65, so — fraction, I believe. So the rental properties have gotten a disproportionate amount of the new household formation in terms of people going into them.

But you're seeing, you're seeing it in single family homes now, and I still think for your viewers, anybody that's going — who knows where they're going to live for the next 10 or so years, and finds a house that they like, I think they should buy it today, and I think they should mortgage it out for 30 years today. I think they will do very well.

BECKY: So that has not changed. There are several people who wrote in question about that, and we'll get to some of those a little bit later this morning. If you look at the other areas, Iscar, Marmon, again, some of the big businesses that you've been following, what are you seeing in terms of manufacturing, let's say, on a worldwide basis, which is what Iscar does?

BUFFETT: Yes, well worldwide, you know, I sense is doing better than many parts of the world. So if you look at an Iscar, which sells to manufacturers all over the world, the United States is one of the stronger places for an Iscar. And the United States, it's not galloping at all, but we are making progress bit by bit. And everybody would love to see it faster, but it's not going into reverse, and I do not think the sequester will cause it to go into reverse.

BECKY: Mid-American energy, I mean you've talked to us back in 2008, 2009, when you really saw the downturn, it was energy usage, energy demand was down, where do things stand right now? Mid-American is in what, nine of the different states?

BUFFETT: I think 10 states.

BECKY: Ten states.

BUFFETT: Yes, we're I think maybe second in that, in terms of number of states. Electricity usage has not come back like you might think. I mean there's no resurgence in the use of electricity.

BECKY: From the …

BUFFETT: This is a slow recovery.

BECKY: Is that from the consumer, or from the business?

BUFFETT: It's from the business. You would think, with the growth of population and all of that, that you'd be seeing a little bit better trend, (INAUDIBLE) hours for our residential than you have. But residential and commercial, none of it's been that vibrant.

BECKY: OK, so you're talking about a returning economy, not generally stronger. And is that different than, do you think, than Bernanke's view of the economy is?

BUFFETT: Well I think that's why he's doing what he's doing. I think he's saying the same thing, and he feels it's his job to juice it a little, and he's doing it. He — I think he would feel — I shouldn't speak for him, I think he would feel that absent his juice, we would be — might be dead in the water.

BECKY: Would you agree with him?

BUFFETT: I think there's some chance he's right on that, yes. No, I think very cheap money makes things happen. It makes asset values higher, and when asset values are higher, people do have a greater propensity to spend. So there's these second order effects and third order effects.

But no, I think Bernanke has sort of carried the load himself during this period, and there's no question that stocks are higher, because interest rates are essentially zero, than they would be otherwise. There's no question that there's even more activity on buying companies, because you can borrow money so cheap, junk bonds are ridiculously cheap. So he's having an effect.

BECKY: But even though you agree, potentially, with his assessment of the economy, and even though you think that he is probably holding up the lion's (ph) share of all this, you don't necessarily think that he should continue expanding the Fed's balance sheet?

BUFFETT: Well, he's expanding the balance sheet right now.

BECKY: Right.

BUFFETT: But I would say that there are — everybody that's involved in managing money is waiting for the moment when they think that he's going to go in the other direction. And so I'm sure he's going to try to do various things, to sort of ease that in, and be a little, a little confusing, maybe, as to whether he has done it.

But there are all kinds of people with portfolios — not Berkshire, but there are all kinds of people with portfolios, who will take a signal from him that he's going to go the other direction, as a signal to them to do a lot of things with bonds and stocks. And you can see a big, a big reaction. You saw this — I don't know if you saw this the other day, when they sort of coughed a little at the …

BECKY: The (INAUDIBLE) units.

BUFFETT: Yes, they just, you know, all of a sudden, a couple hundred points. It will be a very interesting day when it becomes crystal-clear that the Fed has reversed direction.

BECKY: OK. We're going to have more from Warren in just a little bit, but Joe, right now I'll send it back over to you.

JOE: Thanks, Beck. Forbes is out with the 1,500 richest people on the planet. And just looking through here, I'm on, like, number 200, it's really interesting. I'll tell you, Warren I think is three or four, or something, he's doing, he's doing OK for himself, doing well. Man, a lot, a lot of Russians, a lot of Chinese, a lot of Indian people on the list. This is a global — my favorite was Steve Ballmer, is like $20 billion. He's like an employee, isn't he?

BECKY: Wow. Well, not exactly.

BUFFETT: He got 10 percent of the company money — he got 10 percent of the company when he went there.

JOE: Jeff Bezos, like tenth or something, I mean huge, and now. I didn't ask for that. I didn't ask for that. But that was good. But it's fascinating, and I'm on David Geffen now, 198, and the prince was in here, Al-Waleed bin Talal, a bunch of hedge fund guys, I mean Pepper (ph) is in here, Becky, in the top 200.

BECKY: I bet.

JOE: Amazing.

BECKY: I bet.

JOE: Yes. I'm not envious at all, really, I don't think, that's not what I'm feeling at all right now.

BECKY: You don't sound it.

JOE: No.

BECKY: No.

JOE: Michael Dell, 40 years old.

BUFFETT: Joe, most of them — many of them are not living as well as you are.

JOE: They're not happy, they are not happy. Money does not buy happiness.

BUFFETT: What's — for some a dozen, some a dozen.

JOE: Would it kill you just to put me in the top 1,500. I mean that would, that would be nothing. I mean all the philanthropic stuff you — never mind, I know there's no chance.

BUFFETT: How about just for a day, how about …

JOE: Becky, let's check the futures. They're not happy. It's all about family, it is, family, wives, kids, stuff like that. Down 41 points or so. A lot more with Warren Buffett in just a couple minutes. Up next — I said it's about wives, like you have more than one — it's about a wife, (INAUDIBLE). The subsidiary of United Technologies reportedly finds itself in a nettle mess, that story after the break.

ANNOUNCER: Got a comment or question about this morning's show with Warren Buffet? E-mail us, squawk@cnbc.com is our address. You can also tweet your question to the show, @squawkcnbc is our handle, and be sure to include hashtag #askwarren. More "Squawk Box" and the Oracle of Omaha, right after the break.

(COMMERCIAL BREAK)

JOE: Welcome back to "Squawk Box", more from Warren Buffett in just a couple of minutes. Time for a look at some headlines. HSBC is reporting a full-year pre-tax profit of $20,650,000,000, but at this forecast which were about $23,billion, the shares are dropping in pre-market trading. HSBC CEO Stuart Gulliver, says that the bank faced a challenging operating environment in 2012, with low economic growth, and changing regulations.

And the Wall Street Journal says United Technologies unit, Pratt & Whitney, uncovered a fraudulent scheme of testing engine parts, by another unit of the company. Pratt officials say metallurgical tests were doctored, so engine forgings appeared to meet extra stringent standards. The FAA has launched a formal investigation, after being informed by Pratt of its probe. United Tech's Carmel Forge unit, in

Israel, is the unit in question, and metal parts were used in engines were used in engines made by Pratt & Whitney's Canadian operations, and apparently do not pose any safety hazard according to the Journal.

Becky, I'm in the — I made it to the mere mortals here now, and check this, Sumner Redstone's here, Henry Kravis …

BECKY: That's considered mere mortals? How much money do these guys have?

JOE: $5 billion. LeFrak was in here …

BECKY: Yes, that's still way outside our …

JOE: I'm a buddy to LeFrak, wonderful man, nice man, he's in the — he was up in the hundreds actually. But yes, I call these, call these mere mortals.

BECKY: You're crazy, you're crazy if you call these guys mere mortals.

JOE: Well you'd be — you know what you'd be surprised, Becky, how many are either guest hosts, or guests on the show, or write in …

BECKY: Yes.

JOE: … or whatever, it's really weird how many of these people we actually know. There's Les Wexner I see now, anyway, I'm going to …

BECKY: It's like the seven degrees of separation, right …

JOE: That's right. It's really true

BECKY: … we know a lot of these guys …

JOE: … it's really — oh here's someone from — no, that's a different Heinz, but I'm sure the Heinz heirs are here — you know who else was on here? Steve Jobs' widow. Steve Job's widow was way up there, like $11 billion or something. So a lot of interesting — interesting looking through here. I will continue to monitor this, as you talk to, like, number three, or number four. You got him right there.

BECKY: OK, sounds like a plan. Thank you, Joseph. Let's get back, Warren, to some of the questions we've gotten from our viewers. There were, again, a lot of questions that come in, and probably the types of questions, we try and put them into categories, what we've gotten over the years, more than any other type of question, are those that fall into the investing category, because people really want to know your views on the stock market, your views on what stocks you're looking at.

We just mentioned in the headlines, about the HSBC CEO saying that the bank was facing a really challenging operating environment in 2012, and one of our viewers, David Perkins, wrote in, and he wants to know, "if you could, please comment on the banks, specifically those trading below tangible book value, like Bank of, Bank of America, and Citigroup. What's it going to take for these large banks to get above book value, like their peers at Wells Fargo, USB, and J.P. Morgan?"

BUFFETT: Yes, well a bank that, a bank that earns 1.3 or 1.4 percent on assets, is going to end up selling above tangible book value. If it's earning six-tenths of a percent, or five-tenths of a percent on assets, it's not going to sell below. Book value is not key to evaluating banks. Earnings are key to evaluating banks, and you earn on assets.

Now, it translates to book value, because it — to some extent, because you're required to hold a certain amount of tangible equity, compared to the assets you have. But you've got banks like Wells Fargo and USB, that earn very high returns on assets, and they sell at a good price to tangible book. You've got other banks, like maybe the two you mentioned, that are earning lower returns on tangible assets, and they're going to sell, they're going to sell more book.

BECKY: James Arneatz (ph), guys, this is 103, I'm throwing you a curve ball on this, he wrote in and he wanted to know, "what do you think on Bank of America, does the stock still have room to run?" I noticed that you picked that stock a couple of years ago, with the preferred that you got into.

BUFFETT: Yes, well I — we have warrants that run for nine years. We're going to hold the warrants until the end of that period, eight and a half years. And, you know, we expect Bank of America, in eight and a half years, to be worth significantly more than it is now. I have no idea whether it's going to go up or down tomorrow, or next week, or next month, or next year.

But they are making progress in getting rid of a lot of things that they shouldn't have been in. They're making progress on cleaning up mortgage problems from the past, most of which came from Country — their acquisition of Countrywide. They're doing the right things, and they've got a terrific, low-cost deposit base, so over time, they will do well. But no one knows whether that stock — in my view, knows whether it's going to go up, down, or sideways in the next six months. So we just don't try to do that sort of thing.

BECKY: OK. Let me ask you about another stock. This is one that we got a lot of variations of this question. It comes from Matt Koekkoek, of Muskegon, Michigan, and Matt, I hope I'm pronouncing your last name right. But he writes in, "if you could give any advice to Tim Cook of Apple, and its shareholders, what would it be? Should they give more in terms of a dividend? Should they split the stock? Is Apple now a long-term growth stock that you would consider purchasing at its current levels?"

BUFFETT: Yes, I don't own any Apple stock, and I haven't — I did talk to Steve Jobs a few years ago, about what they did with the cash, as we've talked about earlier. But the best thing you can do with a business, is run it well. And if you run it well, it — the stock behaves fine over time. You know, Berkshire has gone from $15 a share, to $150,000, and times — four times when it's gone down 50 percent, and there have been all kinds of times when people have criticized doing this thing or that thing. But basically we've just focused on running the business, and if you run the business …

BECKY: But you've never had to deal with a hostile activist investor, like David Einhorn, who's going in after Apple right now.

BUFFETT: Well I would ignore him. I would, I would, I would run the business in such a manner as to create the most value over the next five or ten years. And, you know, you can't, you can't run a business to try and run the stock up every day.

BECKY: But if you're looking at Apple, I mean it has faced some massive fluctuations. Tech stocks tends to be a lot more volatile, than some other stocks, including Berkshire shares …

BUFFETT: Berkshire's gone down 50 percent though, four times.

BECKY: Wow.

BUFFETT: Yes, four times in its history, it's gone down 50 percent.

BECKY: And at that point, again, just focus on what you're doing.?

BUFFETT: You just — yes, if you've got money, you buy it, and you just keep working on building the value. But four times. And I heard from people at those times, that said, you know, "why don't you do this or that?" you know, usually pay a dividend, they think it might go up because of that. It would have gone down actually.

No, we just kept focusing on building value. And I think Apple's done a pretty good job of building value. They may have too much cash around. Now one of the reasons they have that cash around, is because two-thirds of it hasn't been taxed yet. And they don't want to bring it in, because they don't want to pay the tax. You know, when Steve called me, that was — it was a few years ago, you know, I said, "is your stock cheap?" And he said yes. And I said, "have you, have you got more cash than you need?" And he said, "a little bit." And I said, "(INAUDIBLE) stock," but he didn't do it.

BECKY: But, OK, you just said — what you told Steve Jobs a couple years ago, and you just said yourself, when Berkshire went down, if you have cash, buy the stock. So you're basically suggesting a stock buy-back.

BUFFETT: If you don't have uses for the money in the business, yes. Now, we're always looking to buy businesses. So — but we — when our stock went from $90,000 or thereabouts, to $40-45,000, I wrote about it ten years ago, to buy the stock. And we just didn't have any luck buying it. But if you can buy dollar bills for 80 cents, you know, that — it's a very good thing to do, unless you have some needs in the business.

BECKY: All right, let's talk about another stock. This is one of your big four investments, Coca-Cola, and Chris Kreller writes in, "why do you not increase the KO stake? The name is near eternity, and this company seems to be a never-ending cash cow." You own nine percent of the shares outstanding?

BUFFETT: Yes, we own 400 million shares, and we haven't bought ourselves any stock for 20 years. There are other things that I think are cheaper. You know, we've bought Wells Fargo this year. I think Wells Fargo is cheaper than Coke. Don't get me wrong, I think they're both wonderful companies, but — and then now, I'm giving some money to the two other managers. In fact I'm going to — I'll make news for you today. Last week I told them I was going to give them another $1 billion each.

BECKY: You're talking about Todd and Ted.

BUFFETT: Todd and Ted, I'm giving them on March 31.

BECKY: Todd Combs and Ted Weschler.

BUFFETT: Yes, they're making me look bad, so I'm going to give them another $1 billion so they don't talk about it.

BECKY: How big are their portfolios right now?

BUFFETT: Well, they're just under $5 billion right now, and they'll be around $6 billion on March 31, when I give them the next $1 billion.

BECKY: Let's talk about what you said, about Ted and Todd in the report. You talked a little bit about their performance, which you said outpaced the S&P's performance, last year, by double-digits for each of them.

BUFFETT: Right.

BECKY: Why don't we bring up — I think we have a full screen in the control room, that tells exactly what you said in the report, because it was pretty interesting the way you laid this out. It says, "Todd Combs and Ted Weschler, our new investment managers, have proved to be smart models of integrity, helpful to Berkshire in many ways beyond portfolio management, and a perfect cultural fit."

You go on to say, that each of them have outperformed, "we hit the jackpot with these two. In 2012, each outperformed the S&P 500 by double-digit margins." And then in much smaller print, again, this is what you did in the annual report, "they left me in the dust as well," I can barely read it from across the room.

BUFFETT: I'm disappointed that you could read it, actually. I kept trying to make it smaller. They did a terrific job. And it's sort of interesting, because here these two fellows are, they ran hedge funds before, but they want to work for Berkshire, and you know, the standard arrangement in hedge funds is 2 and 20. Well, with them managing now $6 billion, they get $120 million each, just for the two.

Now look at their expenses. We have one woman, Stacy Godshall (ph), she takes care of three people there, in terms of their article (ph) stuff, here in Omaha. Ted has one assistant in Charlottesville, Virginia, Todd has two people working in New York, for channel checks, and things like that. Believe me, you can cover that for a lot less than $120 million.

They would have made, last year, $400 million plus, under the standard 2 and 20 arrangement, and they would have gotten carried (ph) interest (ph) treatment on it, but you know, instead they get a very decent payment from us, based on meeting the S&P, and it's all ordinary income to them. So it's an interesting example of how the chips fall in the business. And they, and they love working for Berkshire, and they'll be working for Berkshire 20 years from now.

BECKY: Let me ask you another question that came in, this one came in on Twitter, from @mystcrich, "my stcrich" I guess is how you say that. He wants to know, "what is the likelihood of Berkshire adding another investment manager to the two already on board?"

BUFFETT: It's quite unlikely, because I'm so happy with the two. I mean I'd rather just give them more money. And I know — you know, it's like getting married, I mean, you know, you know more a month afterwards than you do 10 minutes before. And this has worked out terrifically.

In fact, there's a third, there's Tracy, who does not manage money, but manages businesses, so we've got the three T's, Ted, Todd, and Tracy, and they're all home runs. And they, they're not just smart, they are devoted to Berkshire, they like, they like being part of it. And they'll all be with us, in my view, 20 years from now, and they couldn't be better.

BECKY: One of the other changes you noted in the annual report, was that of the stocks that you break out, and the investment holdings, there was a new one added to the list, that was DirecTV.

BUFFETT: Right.

BECKY: And you only put stocks on this list that you have over $1 billion invested in. This is the first time that someone besides you has invested enough money to make it onto that list.

BUFFETT: Right.

BECKY: DirecTV was the biggie again, and that was because both Todd and Ted are putting money into this?

BUFFETT: They both, they both have put money in there. And I do not include the pension fund moneys they manage, and there would be another one there, if that was included. In fact, there would be more DirecTV, because they had some of that in pensions too. They concentrate their investments, just like I do.

One of them has, I think, only five stocks. The other may have 11 or 12, and they don't check them with me ahead of time. I look at some reports at the end of the month, and so I know what they buy or sell, but they — we just make sure the things where we'd have to file a 13D or something, we make sure that that's coordinated. But other than that, they have total carte blanche, they could put it all in one stock.

BECKY: Was it just a coincidence that they both invested in DirecTV? They didn't check with each other first?

BUFFETT: I think they're both smart. No, I don't think they checked.

BECKY: They don't balance it off or anything, right? It just happened that way.

BUFFETT: No, and as you know, a small part of their compensation is based on what the other fellow does …

BECKY: Right.

BUFFETT: So they've got every reason to be cooperative. But they do not — they were quite independently. We all go to lunch on Tuesday and then — but, they each have their own portfolio just like I've got my own portfolio.

BECKY: OK, you tried to slip this through. You mentioned that there would be another stock that would have made the list of over a billion dollars if you were looking at the pension —

BUFFETT: —Right.

BECKY: — pension (INAUDIBLE) they run as well. What was that stock?

BUFFETT: DaVita.

BECKY: I'm sorry, what —

BUFFETT: — DaVita.

BECKY: DaVita?

BUFFETT: Yes, yes.

BECKY: Wow, OK. There a little bit of news for us as well. Warren, if you'll stand by, we're going to slip in another quick break.

BUFFETT: Right.

BECKY: OK, and Joe, we'll send it back over to you.

JOE: What is that dialysis stuff, Warren?

BECKY: Yes what is DaVita?

BUFFETT: Yes, it is dialysis, right.

JOE: Who pays for lunch?

BUFFETT: I think we actually own maybe 13 percent of the company or something like that.

JOE: Well who pays for lunch on Tuesday — those other guys pay don't they?

BUFFETT: No, I pay for lunch and Berkshire does not pay for lunch. I pay out of my own pocket.

JOE: Whoa. Whoa. Can they get an appetizer?

BUFFETT: It depends on how they performed.

(LAUGHTER)

JOE: (INAUDIBLE). Well, what is about really wealthy — it's just fun to call them cheap, isn't it? Really wealthy people. And they like it. They do. It's like they don't you know, — they relish it.

Anyway, more from Becky and Warren Buffett in just a moment. Here's a quick look at this morning's headlines. The Dow ended last week about 75 points from its all time closing high so we'll see where we open today. Stocks gained ground in just past week despite the failure of lawmakers to reach an agreement to avoid the sequester which triggered a series of across-the-board federal spending cuts, but the sun came up both days over the weekend.

And Irish drugmaker Elan is offering its shareholders 20 percent of the royalties from its best selling multiple sclerosis drug. Remember this one? Tysabri. Five or six years ago, all the controversy. That part of — that's part of an effort to stave off a 6.6 billion dollar takeover bid from U.S. Investment firm, Royalty Pharma.

And President Obama will nominate Wal-Mart Foundation head, Sylvia Matthews Burwell to be his next budget director. She previously served as deputy budget director during the Clinton administration.

If you have comments or questions about anything you see here on Squawk, e-mail us, squawk@cnbc.com is our e-mail. You can also follow us on Twitter @squawkcnbc is our handle. And keep those questions for Warren coming. We'll try to do our best to get to as many as we can on the air.

You can ask. You say it there, it'll come out here. Up next your morning headlines and much more with Warren Buffett. Stay tuned.

(COMMERCIAL BREAK)

BECKY: Good morning again everyone and welcome back to the special edition of "Squawk Box". We are in La Vista, Nebraska, which is a suburb of Omaha, and home to Warren Buffett's Oriental Trading

Company. This is a company that he acquired in the fourth quarter back in November, relatively quietly, virtually never put out a share. Or never put out a price for this acquisition but it was reported to be around a half a billion dollars.

This is the company that you probably know from catalogues — if you have kids at home, this is the company that does arts and crafts. And again, it is an Omaha company that has been here for a long time. Warren Buffett is our special guest this morning, and we've been fielding a lot of your questions for him all morning long, things that have been coming through. And Warren for the people who are just tuning in we talked in the 6 am hour, 6 am Easter hour about your thoughts on the sequester and where we stand right now.

This is the first business day after the official sequester process. People may have not noticed a lot of changes yet but there could be some coming as soon as April 1 when things really kind of kick down. In your opinion, is the sequester a good idea?

BUFFETT: Well, it's probably — it's a terrible way to go in terms of cutting expenses, but that doesn't mean that cutting expenses is a good idea. We've done two things this year to reduce the deficit. Which means reducing stimulus. We've had huge stimulus in this country. We had a bill we called stimulus, but any time the government runs at a big deficit, that stimulus (INAUDIBLE) would be proud of us.

And we have increased taxes. The payroll tax went up a lot. Eighty to a hundred billion. And we've increased taxes on the very rich. And then now we are cutting expenses. So we've taken a shot of a couple hundred billion in terms of reducing the deficit. But we still will have a deficit of a trillion or a little less.

It's a terrible way to go about it. I mean it's — the idea that a year and a half ago you creates a monster and then you say this monster is going to be so scary that we're bound to be able to work together with that hovering over us. And then you let the monster kind of loose. I mean it is crazy but the whole negotiating situation really is out of control when you've got people negotiating (INAUDIBLE) and when you've got at least one side unable to deliver for any commitment he might make.

BECKY: There was a question that came in from LinkedIn, Jim Guerra, Jr. (ph). This is number 180 control room. He wrote in if you could explain the explosive atmosphere in politics today as to what it was 10 to 15 years ago. Is it really worse than it was 10 or 15 years ago?

BUFFETT: It's probably worse. It's —you know, my dad was in Congress, you know, if you go back 60 — or 70 years. It's always contentious. I mean — you've got people that believe strongly and very different things. But now you've seemed to have gotten in a position where the real goal of almost each side and certainly one side in my view, is to block what the other guy wants to do.

And it — and you have — you may have four political parties. And you may have the extreme right and the regular Republicans and you may have the extreme left and the regular Democrats. And when contests are being fought in primaries and when people are playing to those primary audiences throughout the entire two years that they're there, it makes it very hard for leadership to deliver their entire party.

And, I mean, — it seems to me that's the real problem in the House is that you don't have two-party — referee parties. And John Boehner, who I admire what, you know, what he's done. But I do not think he can deliver his group and we saw that when we got to plan B and all that at yearend.

BECKY: Joe, I know you have a question too.

JOE: I have a lot, Becky. As many as we have time for Warren. I think in the latest — in the latest results, your puts that you sold here, you just got to be feeling like what a great move that was. Not just on you — not just on the S&P, but you have done that around the world, just betting on higher stock prices over time, I guess. And then it ended up boosting your results by billions of dollars didn't it?

BUFFETT: Yes, but net to this point, Joe, has actually hurt them by a couple of billion. If you take the cost of undoing those puts — if they come due on December 31, they would have cost us three and a fraction billion. But we put the liability up, I think, at six and a fraction billion.

So we still show a liability on our books that is higher —

JOE: Is that — but what's your strike on those? —

(INAUDIBLE)

JOE: What?

BUFFETT: The strike — on the strike we would have a profit if they were settled today.

JOE: Yes, you know what you're doing. And it's just mark it — you probably did that for tax reasons or something. I know how you operate. Would you write — would you add to your positions around the world in terms of just staying long — the equity markets around the world using that strategy using derivatives?

BUFFETT: We would except for the fact that now you have to post collateral. And Berkshire will never get itself in a position where if the Federal Reserve is closed tomorrow and the whole world is paralyzed and the stock exchange isn't open and there's been some kind of a nuclear, biological, or chemical attack, we have to be able to operate the next day.

And you saw on October 19 and 20 of 1987 — on October 20, the specialists firms were all broke. We are just never going to get in a position where we have to post a lot of money on 24 hours notice. So we will — we just won't engage in those kinds of transactions. No matter how profitable they may appear.

JOE: Frank you need to asteroids now too. I mean you've got to add —

(LAUGHTER)

BUFFETT: Yes, well we can take an asteroid or two.

JOE: Not a big one. (INAUDIBLE). I mean I'm afraid to go to bed. I'm afraid —

BUFFETT: —Well listen you live up there where we had Sandy. We had 46,000 cars we paid off on. That was five or six hundred billion dollars. —

JOE: — Yes, my heart bleeds for you with your insurance operations, Warren. I want to talk about that too. I don't know how you're doing that with insurance. You know you got to be charging too much because you're not paying out enough because you're making so much money with your insurance operations, right?

BUFFETT: Well let me ask you this then. People are calling us up at Geico and we're now getting the highest closure rates. They've improved dramatically lately now. Nobody is calling us up and taking out insurance with us if their prices go up. So we are selling it below whomever they're insured with now and probably by an appreciable amount. Because if we're going to save them 10 bucks they're not going to shift. —

JOE: — Yes, great advertising.

BUFFETT: Well right now —

JOE: — Great — you've said that. You've done this with a great ad agency and buying more commercials and it's paid off. It's like printing money.

BECKY: And a little overhead.

BUFFETT: But the ads can get them to call us. But the only reason you buy is to save money. And our closure rate right now is the highest — Geico is shooting the lights out now. And we — in February, we added net — close to right at 165,000 or 170,000 policies and, you know, nobody is doing that.

Our pricing is what does that.

BECKY: Geico was profitable even with what you paid out for Sandy, correct? Which was —

BUFFETT: — Oh sure.

BECKY: Which was (INAUDIBLE) —

BUFFETT: — Sure. —

BECKY: — How much bigger was that than Katrina?

BUFFETT: Three times as big as Katrina —

BECKY: — (INAUDIBLE).

BUFFETT: We — we are number one in market share in the metropolitan in the New York area. We were not number one in market share in Louisiana Purchase.

JOE: I want to see — I want to see you in a commercial like adding up the results and then dancing and then have those two guys playing and singing — we're happier than Warren Buffett getting those Geico (INAUDIBLE). Do you know that commercial that I'm talking about? Where they —

(LAUGHTER)

JOE: Why won't you be part of the — seen in one of your commercials adding up the results.

BECKY: He is — wait a second, he does do a commercial with Geico.

BUFFETT: I've done some things but they seem to never make it past the cutting room floor.

(LAUGHTER)

BECKY: All right, we will have much more with Warren Buffett right after the break.

By the way, tomorrow on "Squawk Box" a special one hour event with some of Wall Street's best investors. Stanley Druckenmiller; Ken Langone; former Fed governor, Kevin Warsh; and the President and CEO of Harlem Children's Zone, Geoffrey Canada. They'll be on tomorrow to talk about the economy, the sequester, and where they're putting their money to work. That's at 8:00 am Eastern time. Oh wait, that's at 7:00 am Eastern tomorrow. At 8:00 am Eastern we welcome Arianna Huffington. It all starts at 7:00, so stick around.

ANNOUNCER: Got a comment or question about this morning's show with Warren Buffett? Email us. Squawk@cnbc.com is our address. You can also Tweet your question to the show. @squawkcnbc is our handle and be sure to include hash (ph) tag ask Warren. More "Squawk Box" and the Oracle (ph) of Omaha right after the break.

(COMMERCIAL BREAK)

ANNOUNCER: Welcome back to the special edition of "Squawk Box", live with Warren Buffett. Here now Becky Quick.

BECKY: Welcome back everybody, again. We are with Warren Buffett this morning. We've been taking a lot of your questions that have been coming in. And Warren, several of those questions include politics. People have been looking back at what's happened since the beginning of the year.

We have faced some changes. As you mentioned, there's about 700 billion dollars that have been coming in, or are expected to start coming in in new revenue because of changes to the tax code that took place after the end of the year last year. Some people have pointed out with all that you've done and said about what needs to change with taxes, with the Buffett Rule that had been proposed.

There was one question that came in, which is a question we had a lot of variations on. This one is from Terry Dower (ph). Number 32 control room. He said with the end of the 2012 federal income tax changes will you now be paying a higher percentage in taxes than your secretary or your administrative assistant?

BUFFETT: Yes, I probably will. I'll make studies when we get the taxes calculated throughout the office. But my capital gains rate will go from 15 to 23 and a fraction because of the 20 percent plus the 3 and a fraction percent in the year. But if you look at Social Security tax — payroll taxes plus income taxes — I'll be a fair amount higher — say eight or nine points higher. But the differential between me and the rest of the office — not just for my secretary but the rest of the office was greater than that.

The payroll tax — you're talking 15 or a fraction percent and then start adding the income tax onto that. So I'll be glad to give you a report after we get all the income tax returns done. It will be closer but I'll probably be the lowest paying — counting payroll taxes, I'll probably be the lowest paying tax payer in the office.

BECKY: So what happened? We raised marshal (ph) tax rate on the top two percent, and yet, it still doesn't fix the problem of the various wealthiest — very wealthiest Americans getting the — where they're paying more of their share if you want to use that phrase.

BUFFETT: Yes you will still have — when we get the figures a few years from now. You'll probably have the 400 largest people who might be making 200 or 250 million a year. You'll probably have a quarter of those at least, and probably half of them, paying less than 25 percent.

And, of course, with the payroll tax, 15 percent you get over 25. And you're way over 25 percent. And that's why I suggested a minimum tax to get to those. That way it would affect somebody making a lot of money and paying normal tax rates on it. But it would affect the carried interest people and that sort of thing —

JOE: That would affect me.

BECKY: Was this a stupid change in the tax legislation?

BUFFETT: Well I think it was a good — it was better than no change. And the minimum tax is still out there as a proposal in the Senate. And I think it makes sense. I think that — I don't want to name some of my friends that are in these (INAUDIBLE) low rates, but I think they should be paying at the rates that the people who work in, you know, in this warehouse pay and they still have a big break.

The big break is they don't pay payroll taxes. And payroll taxes are, you know, if we take in 2.6 trillion this year, payroll taxes will be a third of that roughly. They're not quite as much as individual (INAUDIBLE).—

BECKY: —Are you suggesting there shouldn't be a limit on the amount of income from where the payroll tax ends? What is it 150,000 or something right now?

BUFFETT: It's less than that. It's around 100,000. And it catches — many of the people in our office have spouses that work and they get paid and they get the payroll tax too. So on the first 200,000 for many families, 15.3 percent. You know I mean —

BECKY: — But is the unfairness that they shouldn't be paying that high of a rate? Or you think there should be no limit on that?

BUFFETT: I just — I just think that — it depends whether you change the whole code in some way. But I think under the code as it presently stands, a minimum tax on very high incomes is a start in getting more equity in the tax code.

BECKY: Did we mess up though by doing this in part-way steps? Does it make it much less likely that we get to some sort of a grand bargain, like a Simpson-Bowles plan, because we're doing this in increments?

BUFFETT: I'm not sure we get there ever, under any arrangement. It — there should be a grand bargain. I think it was very close to a grand bargain 18 months ago. I just think the problem was that when John Boehner went back to his group, he cannot get his 200 and —

BECKY: — Eighteen months ago though it wasn't just Boehner who couldn't get his side. The president changed what he was asking for because he couldn't get his base to go along with it too.

BUFFETT: Yes. He's got — you've got two people — as we said earlier, I mean, when you have negotiations the way to get things done is to have somebody on each side that can deliver. If I'm in a labor negotiation, I want somebody out from the labor union there and when he says this is what my group will take, then I know that that's good. And when I say this is what I can do (ph), he knows I'm not going to get overrun by a Board of Directors.

You can make a deal that way and you do it in private and you don't go out and make speeches, you know, about I won't do less than this and all that sort of thing. When you have tough negotiations you really need to get it down to a couple of people. And that requires being able to speak for your contingency and both of them have trouble out of that.

BECKY: Joe.

JOE: Thanks. Warren, a lot of people aren't buying newspapers. And I'm trying to figure this out. You bought 28 newspapers in the last 15 months. Twenty-eight dailies. And it wasn't a lot — it wasn't a lot of money and, you know, it's not a huge business but you seemed to really be into it. Is that you doing that? Is this personal to one of your interests, yes?

BUFFETT: Yes —

JOE: — It is? OK.

BUFFETT: Yes.

JOE: Do you want to — are you going to be like Randolph Hearst or something? Are you going to persuade public opinion or is it suddenly are dailies — local dailies that much better than the big nationwide papers which have so — I don't know if you'd be long term investors in those or not. I know you're — Washington Post, you're a long term investor. But I didn't think you liked newspapers that much and I — there must be a difference between the business models for these local papers.

BUFFETT: Yes the business model for both is not good. But the business model for the big metro paper, in my view, is far worse than for the local community paper. The local community paper is really indispensible to the people of the community or many of the people in the community. And it has a sensible Internet strategy. I think has a much better future than the big metropolitan paper.

Just to get to your William Randolph Hearst approach, I — we had 12 papers that endorsed in the presidential campaign last year. I voted for Obama. Ten of our papers endorsed Romney, two of them endorsed Obama. So it's — if I sent out a letter, nobody paid any attention to it.

JOE: Yes, all those editors have been fired. But —

(LAUGHTER)

BUFFETT: Yes, I will tell you actually — I make a point of this in the annual report — I really do, Joe. I make a point of this in the annual report because I don't want my successor to start thinking he's William Randolph Hearst. So I want to establish a pattern where our editorial people, you know, whether they're in Virginia or in Omaha, for that matter. The Omaha paper endorsed Romney.

They endorsed in the Senate race a candidate and I was for the other candidate. I mean I want to establish a pattern —

JOE: — I know.

BUFFETT: — Because —

JOE: I've never — I've never seen Rupert Murdoch, or Pinch (ph), Ponch (ph), or whatever his name is. I've never seen them take any editorial license either, Warren.

BUFFETT: Well you haven't been reading very carefully. But if you read our papers. The idea —Virtue Hathaway owns those papers. We've got 600,000 or so shareholders. Probably more of those shareholders voted for Romney than voted for Obama. So it is not up to me. If I owned 100 percent of Virtue, I would control editorial policy.

But nobody's going to own 100 percent —

JOE: — But that is — this is better. It's not just a crappy business at a great price that you're buying? You actually you think that this is a good business at a fair price? That you're seeing mantra (ph).

BUFFETT: I think it's a declining — I think it's a good business currently, it's declining. The rate of decline will depend on how indispensible we make ourselves. But it's not something — it's not like buying the Burlington Northern.

JOE: All right, great, thanks Warren. We'll have more. Beck, I got like 10 seconds.

BECKY: Yes, I know, go ahead, we got to get out of here.

JOE: We have one more hour with Warren Buffett — we know who he is, Berkshire Hathaway chairman. Everybody knows who he is. If you have any questions or comments for Mr. Buffett, we're taking them by e-mail or Twitter. And there's the two things you need to do. I'm not reading them again. You should know these by now. There's the addresses.

(COMMERICAL BREAK)

ANNOUNCER: Welcome back to a special edition of "Squawk Box". One more hour with the Oracle of Omaha.

BUFFETT: We would expect to beat the S&P in a so-so year or a down year. We expect them to beat us in an up year. But our job is to beat them over time.

ANNOUNCER: Plenty more to come from Warren Buffett. The third hour of "Squawk Box" starts right now.

BUFFETT: Our job is to beat them over time.

ANNOUNCER: Plenty more to come from Warren Buffett. The third hour of "Squawk Box" starts right now.

BECKY: Good morning, again, everybody. Welcome back to "Squawk Box" here on CNBC. First in business worldwide.

I'm Becky Quick and we are coming to you live from La Vista, Nebraska. And that is just outside Omaha where we are at a warehouse for Oriental Trading. This is a catalog-based seller of arts and crafts that Berkshire Hathaway bought last November.

Our special guest this morning is Warren Buffett. He's the chairman and CEO of Berkshire Hathaway. We have a lot more to get with him this morning over the next hour or so but first let's send it back to Joe who is at CNBC headquarters. He's got your morning headlines.

JOE: OK, thanks, Beck.

The futures are improving as the morning goes on. And less than 20 now. Fed Chairman Ben Bernanke once again warning that pulling back on aggressive policy measures too soon would pose a real risk of damaging a still fragile recovery.

We've been talking to Warren Buffett this morning. I don't know if he necessarily would agree with that.

Fed Vice Chair Janet Yellen says she sees no current cost to quantitative easing. No current cost. No current cost. I don't know what that means about future costs. That would prompt her to curtail the buying program. Those remarks came from a speech taking place right now. She also says the Fed's easing policy does pose some risk, but, so does insufficiently forceful action.

And President Obama will nominate Wal-Mart's Sylvia Mathews-Burwell as his next budget director. Actually it's a Wal-Mart Foundation that she runs. He'll make the announcement during a White House ceremony this morning. Burwell served as OMB's deputy director in the Clinton administration. She was also the chief of staff for Robert Rubin and she runs the Wal-Mart Foundation — that's retail giant's huge philanthropic wing.

And let's check the futures, just barely down more than 20 points now, 21 points after some weakness a little bit at the end of last week but nothing that significant giving — given that we did hit the sequester.

Overseas Chinese stocks are falling to their lowest level in six weeks overnight. The drop coming after Beijing hit property developers with harsher than expected tightening measures to contain housing costs.

Fascinating piece on "60 Minutes" last night, in fact, about the residential market in China.

Meantime, Japanese shares hit a 4.5 year high on monetary easing hopes, at least for more monetary easing than we've seen hit the yen but help the stock market. In Europe, we're seeing not a whole lot happening. Mixed results down a little bit, up a little.

Right now let's get back to Becky in La Vista, Nebraska, with our special guest, Warren Buffett. OK. Hey, Beck.

BECKY: Joe, thank you very much. You know, you go through the headlines like that and it reminds me how fortunate we are to have Berkshire's chairman and CEO Warren Buffett with us this morning because just about every one of those headlines you just mentioned I'd like to get his thoughts on some of these things.

Warren, first of all, Sylvia Mathews-Burwell who is being nominated for OMB, she's from the Wal-Mart Foundation but you have some experience with her as well. You know who she is?

BUFFETT: Yes, I think she was in the Gates Foundation, too, and after she left working with Bob Rubin. And — now she's first class.

BECKY: OK. So just again, it's amazing, Joe, as you sit here. Buffett has thoughts or knows just about someone involved in just about every one of the headlines that you ran through.

You spoke about Janet Yellen, and Warren, we've spoken an awful lot about your thoughts on the economy this morning. Yellen is just making this speech probably not a surprise to hear many of the things that she's saying that she doesn't see any cost right now to what the Fed's doing. Do you worry about future costs?

BUFFETT: Well, there's never a problem when you're buying. I mean, the hot brothers were doing great. It's over. You're no longer buying it. (LAUGHTER)

It's the selling that could be a problem. You know, to whom. And it's got to be some kind of a problem when they unwind. Now how big a problem I don't know. But you do know that throughout the world, decisions are being made on the basis that money is basically free. And, when the signal comes that that's going to change in a major way, you're going to see a lot of activity, a lot of places.

And it — how — you know, how extreme it gets I don't know. It doesn't have anything to do with what we do. I mean, if we — if we buy Heinz, you know, we know that's coming at some point. We're buying Heinz to own it 100 years. So — but it — this will be the biggest — this will be the biggest economic event for market participants that they have seen in quite awhile when they get a strong signal that the Fed is reversing in a — in a significant way.

BECKY: You've made it very clear that you are a fan of Ben Bernanke.

BUFFETT: Sure.

BECKY: You think that he saved the global financial system back in 2008.

BUFFETT: Absolutely.

BECKY: But you've also been saying, I think for over a year at this point, that you've been concerned about how much the Fed is doing. Are you growing increasingly concerned another 85 billion dollars every month just in QE infinity?

BUFFETT: It's easy to do. (LAUGHTER)

On the upside. And like I say, you know, you could — we're running a — we're having $3.5, $3.6 billion of expenditures or trillion, and let's just say he bought the whole issue. And we had no taxes. Well, we know that doesn't work over time, right? But the Fed could do it. They could buy $3.6 trillion and they could just — set up deposits for banks and so on.

That would have enormous problems. We're doing a small variation of that. Not so small at 1 trillion. At it's — an act that Bernanke has said he doesn't want to carry the whole load himself. I think the guy has been just absolutely terrific as Fed chairman. But I don't think it — and I'm sure he's thought a lot about how he unwinds this and all of that. But I don't think it's totally predictable what will happen, what does happen.

BECKY: Let's talk about the euro very quickly. It has come under some pressure recently. And people including members of the ECB have told us on "Squawk Box" that they are concerned about what's happening in Italy. This fellow Grio who won 25 percent of the election there has said that he'd like to see a vote from the Italian voters whether or not they want to still be in the euro.

Where do you think we stand with the euro which is right at 130 right now versus the dollar?

BUFFETT: Yes. Well, we haven't — we still haven't worked out a sustainable system for the euro, we have stemmed the fear on drag, he said that he would do whatever it takes. Whenever a central banker who can print money says I'll do whatever it takes, that's very reassuring. But it doesn't solve the problem.

I mean, you — the inconsistency of the fiscal policies of people that were trying to hook themselves to a common monetary unit has to be solved in some form and we haven't gotten there yet. Europe is not going down the drain or anything. Europe 10 years from now will be producing more goods than it is today. But there are a lot of — there's a lot to work through.

Draghi headed off the immediate problem when he said, I'll do whatever it takes.

BECKY: All right. Let's get to some questions real quickly. One from — actually go ahead, Joe, why don't we let you in on the discussion.

JOE: I don't — yes. It's great to go to viewer questions. I had a big — huge philosophical question for Warren and how it's going to work its way out. Seeing what we've been through for the past couple of months, with the — with the prospect of the sequester, beck and I don't know how we should do it warren but you look at the deficits we're running a trillion dollars, and you see how hard it was just to raise taxes, you know as we did at the end of the year and then to do the 85 billion which this year isn't even going to be 85 billion and I just wonder, whether we're going to get to the point where we decide we want this much government and we just need to pay for it and that means rich people don't have enough so we'd have to raise taxes on the middle class, I guess.

I mean, do you see a way out of it as hard as it was just to cut $85 billion? We got another $900 billion a year that we somehow have to deal with, and it can't all be revenue. We can't raise taxes — do you see a way to — to do this? Politically?

BUFFETT: Joe, there's a way out of it. We — you know, we found a way out of a civil war. And a country half slave and half free. We found a way out of two world wars. We found a way out of a great depression.

This country has a lot going for it. You don't see it. You read about the headlines about what government is doing, but, we have had an economy that works very, very well. I mentioned in the annual report that I bought my first stock when we were losing the war in the pacific. And, since that time the Dow has gone from 92 to 14,000 or so.

I mean and — and the headlines were terrible. This country goes through all kinds of problems and we like to talk about them when they appear and they're in the headlines but we've got such a basically strong and good country that we will overcome the 535 people do and it will work over time. Doesn't look like an Armageddon.

JOE: But you're still —

(CROSSTALK)

JOE: Sometime I think you're a Democrat and other times I think you're a closet Republican. You think that the size of government shouldn't be above 21, 20.5, 21 percent of GDP. You're not arguing —

BUFFETT: That's —

JOE: That we should go to 25 — because, you know, maybe we should be a 25 percent to make up more fair and to give more entitlements and to take of our citizenry sort of the way Europe did. Maybe we should go to 25. But you don't — that's not — you're not —

BUFFETT: I'm not — I'm not — no, I'm not there, Joe. I'm a 21 and a half and 18 and a half on revenue. And incidentally that three points fine over time. That I mean that will not take debt as a percentage of GDP up. So it's very workable. It doesn't seem like it day by day perhaps but it's very it's workable.

JOE: Well, maybe in a good economy we don't need to cut, maybe we come down and we — with people need less assistance, so maybe we won't stay at 25 or whatever, maybe we'll get back down and get — and then maybe the revenue goes up in a good economy, and both sides shrink. Is that — is that what you think finally? We do something with means testing or I don't know, maybe we solve our —

BUFFETT: Yes, well, means testing — yes, we are the 25 right now. I mean, if you look at — if you look at $3.6 trillion of spending and $16 trillion of GDP, that is not 25. It'd be $4 trillion if it was 25. It's about 22.5.

JOE: So we're getting there. All right.

BUFFETT: Yes, we're — we'll get there.

JOE: OK.

BECKY: Let's bring in a question from a viewer, Charlie Silver, which kind of plays in to what Joe was just talking about. He wants to know if you are still as optimistic about the American economy and the stock market as you were when you wrote the op-ed piece in "The New York Times" in November of 2008. Maybe you were more positive about the stock market then.

(CROSSTALK)

BUFFETT: Well stocks were cheaper.

BECKY: Where stocks were cheaper then.

BUFFETT: Yes.

BECKY: And maybe you're more positive about the economy now?

BUFFETT: Well, I'm always positive about the economy. Long range. I mean, this country works. All you have to do is look at, you know, just in my lifetime, six — six for one on real GDP per capita. We have a — you can't see it but we have millions and millions of people out there trying to figure out how to make their lives better tomorrow and they create companies like Oriental Trading.

This was created by a young fellow here that had a couple of parents that had come over from Asia, and you know, look at it, You know, 750,000 square feet, you know, it's — we create things. Geico was created by a fellow and his wife back in 1936 that had $100,000. I mean, so, the dynamism of America is not lost.

BECKY: We're always looking for the next big thing and Jim Cramer wrote in. He's got a question about whether we're at the golden age of oil and gas. And How Burlington is cashing in on it in terms of the train to the refinery will be an eye-switch to Natural Gas Engines on its locomotives? He also asks.

BUFFETT: Well, we've got a couple of locomotives we're experimenting with this year. Yes. I mean — and we're probably not the only one. The railroads are definitely experimenting with converting to natural gas. It's not a simple matter and I can't tell you the technicalities of it. But, it's — it's real enough so we're spending real money. In fact I think we ordered a couple of units that we're working with. So it's — when you get natural gas, you know, $3.5 and you look at where oil is, you've got to look at converting any kind of an engine to natural gas.

BECKY: You know, but Jim brings up a point that we've heard from Jack Welch and others who have come on the show. I mean, Jack Welch has said he thinks oil and gas is going to be one of the next big renaissances for America, and that may be where we get a huge number of jobs from down the road.

BUFFETT: Yes, well, it's — it's huge. The job — the job factor is significant. It is — it's not like — I don't look at it primarily in terms of jobs although that's important. But it's certainly important in terms of the balance of payments which is — you know, I mean we — we can save hundreds of billions of dollars on annually as we get more self-sufficient in oil and gas. So it's got — it's got big, big consequences.

BECKY: And you did mention a little earlier what this means for Burlington Northern But it's a big Boone for them to be coming from the out. We have to bring that oil out.

BUFFETT: Yes, fortunately they discovered oil where our railroad was. (LAUGHTER)

Now it's still only about 5 percent of our shipments. We ship a couple hundred — 190,000 are a week in — and it's about 5 percent of shipments. Coal is 20 percent. So what we've lost in coal we've more or less made up in oil. But it's a growth factor. There's no question about it.

BECKY: You know, real quickly Warren, I've been getting questions via e-mail and about come comments you were making in the last hour with Joe talking about some of the newspapers and someone had written in Steve Williams, this is number 55. He says, "Is buying newspapers like collecting cars for you? Or is there a real profit motive?"

BUFFETT: Oh, it has to pencil out or we wouldn't be doing it. It's smaller than the things we do normally but we spent the $350 or so million. We will get a decent return on that unless the business is way worse than I think it is and I would say this, in the year or so that we've operated we are meeting all the projections and the local sum. We will never get superrich on it but I can almost guarantee that we will get a decent return on them. We're buying them very, very, very cheap.

BECKY: Another viewer Robert Cunningham wants to know if you'd ever something the Chicago tribune or the "Los Angeles Times" because it's been reported they're up for sale.

BUFFETT: No thanks. (LAUGHTER) They're too tough. You know, I — it's very hard to edit a paper like "the Los Angeles times," the

Chicago tribune. If you have a paper in Grand Island, Nebraska, like we do, everybody there is interested in how the high school teams are doing, whether it's in wrestling or basketball or the state tournament or anything else, if you've got the Chicago tribune, or "The Los Angeles Times," you can't talk to people about what's happening with their high schools. It just doesn't work. You need a — you need a tight community.

BECKY: OK. We are going to take a quick break right now. When we come back, we'll have more from Warren Buffett. That's in just a few minutes.

In the meantime as we head to that break why don't you take a look at the U.S. equity futures. We started out with things in the red we saw at one point those Dow futures down by more than 50 points below fair value. It's pared its losses right now. Looks like right now in the markets were to open we'd be down by about 25 points on the Dow. Down by about 3 points on the S&P 500.

"Squawk Box" will be right back.

(COMMERCIAL BREAK)

ANNOUNCER: Welcome back to this special edition of "Squawk Box", live with Warren Buffett. Here now, Becky Quick.

BECKY: Welcome back, everybody. We are coming to you live this morning from La Vista, Nebraska. That is just outside Omaha. And this morning we're live from a warehouse for Oriental Trading. That is a catalog based seller of arts and crafts That Berkshire Hathaway bought last November.

I'm here again this morning with Berkshire Hathaway chairman and CEO Warren Buffett. We And Warren, we mentioned to people earlier that we were here because this was the most recent acquisition we thought when we were trying to figure out for the show. Since then you've mentioned the Heinz acquisition. But oriental trading is a really interesting company. Berkshire did not disclose the terms of that deal. It's been reported that it was a deal for about half a billion dollars. We did have a —

BUFFETT: You're exactly right.

BECKY: We are? OK, so that's official then. We did have a question that came in from Seth who — I don't know if this can on the e-mail or on Twitter but he says, "As a Berkshire shareholder I'm curious as to why you've purchased Oriental Trading he thought it was a business that was below the size requirement and wondered if you did it to save jobs in Omaha?

BUFFETT: No, it would have continued no matter what. It's a profitable business. So somebody would have owned it. But it was a — I got an e-mail I think on a Wednesday and I was generally familiar with the business. And got some figures and we made a deal on Thursday. And the — I had a little insight into it. When I did the Bank of America deal, you may remember I did that deal in n the bathtub.

BECKY: Right.

BUFFETT: And after I announced that I got all kinds of rubber ducks and I decided that rubber ducks were a totally missed trend that people were — we could cash in on. So we now have some rubber ducks. We're going to have them at the annual meeting. I don't know whether you can see, we're having a rubber duck of myself, and Charlie, Charlie's is not selling very well. Mine we've been able to maintain price on. But Charlie's has gone from $2 to $1 to 50 cents. If you just make us an offer, we'd appreciate that. But —

BECKY: This is what Charlie gets for not being here. Right?

BUFFETT: Yes. And then we've got some rubber ducks also that we thought Joe might like, some of those are sort of evil geniuses there.

JOE: Yes. (LAUGHTER) We collect those, I swear, Warren. And you did send me some and I love those.

BUFFETT: Well, there'll be more coming, Joe. And incidentally, here's a Fruit of the Loom tie with underwear. I thought that since you've been knocking my (INAUDIBLE) tie —

(CROSSTALK)

JOE: I'm trying to figure out. You got a couple of Eveready batteries on your collars. I mean, are you — is that tie going to light up or something?

BECKY: Those are not Eveready batteries.

JOE: What are those things?

BECKY: No. Those are Heinz ketchup bottles.

BUFFETT: I'm going to pull a Marco Rubio, here.

(CROSSTALK)

BUFFETT: Maintain eye contact.

(CROSSTALK)

Here we go. Here we have your personalized ketchup.

JOE: Oh, no.

BUFFETT: We have the Kahunas ketchup and we have Preferred by Hot Dogs. I wonder what that means.

JOE: Oh, no. (LAUGHTER)

BUFFETT: I will get these off to you. (LAUGHTER)

JOE: Oh, thank you. You know what?

BUFFETT: And we will accept — we will accept orders for these, too. And we'll see — we'll just see how big a fan base you have out there, Joe.

JOE: With my brick and I've got — you know that's pretty cool. Thank you. That is awesome. That's going on —

(CROSSTALK)

BECKY: I don't think Kahuna's ketchup guy —

BUFFETT: Do you have a preference between these two, Kahunas ketchup or Preferred by Hotdogs, Joe?

JOE: You know what, can I have them both?

BUFFETT: Absolutely. Absolutely. (LAUGHTER)

BUFFETT: I know you'd say that.

BECKY: Wait a second. And do I have to be the courier? Am I carrying these —

BUFFETT: No, you — you won't be able to take them on the plane.

JOE: All right.

BECKY: OK. That's right.

JOE: So I can't see those pins, so those are Heinz — those are Heinz bottles. I thought —

(CROSSTALK)

BUFFETT: I'm going to few — I'll throw in a few pins, too, Joe.

JOE: All right. Keep the rubber duckies coming.

BUFFETT: They'll be — they'll be in the mail today.

JOE: Are we done —

BECKY: Warren, there have been a —

JOE: OK.

BECKY: No, no, wait, wait. No, no.

JOE: OK. Go ahead.

BECKY: Let's not go away yet.

JOE: OK.

BECKY: You know, but, Warren, since we're talking about acquisitions.

BUFFETT: Right.

BECKY: And since we're here at Oriental trading and since we're talking about Heinz there have been a lot of people who've been speculating that maybe you're interested in another consumer products company. You've talked about how you're on the hunt already once again that you've got plenty of money to go.

Are there other consumer products companies that you're looking at right now as potential acquisitions?

BUFFETT: Not right now. I mean I'm aware of all the consumer products companies, always have been. We owned a big chunk of General Foods 30-some years ago. And we've been in Coca-Cola and See's Candy and things like that. So I like the business. And if something comes along, and it looks like we can make a deal and the price is right, we're ready to go. There's nothing right now that we would — that — that's, you know — that's on my plate. But it's our kind of business. And at the right price, we'd be ready to buy more.

I'd be very surprised if 20 years from now we haven't — we don't have more. But whether it's going to be 20 months from now, who knows.

BECKY: But nothing on your plate in terms of consumer products companies that you're eyeing right now. Is there any other potential acquisition that you have your eye on?

BUFFETT: There's one that has been mentioned to me that I'll be looking further at. But, you know, that's always a low probability whether it's a 5 percent probability or a 10, who knows. But I get excited when I hear about possibilities.

BECKY: You want to tell us what sector it's in if it's not in consumer products?

BUFFETT: It's in business. (LAUGHTER)

BECKY: OK. We tried. Joe, your turn.

JOE: I started worrying again, Warren, after — I was happy we're getting down to 22.5 percent of GDP and then I started thinking about Obamacare. I wonder, have you thought about how much that's actually going to cost? That's a huge entitlement that we're not even dealing with at this point. All of our problems are with the entitlements that we already have. And I'm wondering, as everyone gets healthier, and the number of people over 100 is going to double by 2020, I mean there's going to be so many people that are in the health care system that — I don't see how we keep coming down from 22.5. You still think we can do it even with Obamacare.

BUFFETT: Joe, I think the real problem, even stepping back further than that, the number one problem — economic problem of the United States is the rising cost of healthcare. If you go back to 1970, there were about six countries in the world and they were all at 5 and a fraction percent, United States was one of them. Six leading countries. Now we're at 17 and a fraction and nobody else is above 11. So that's a 6 percentage point, as a percentage of GDP. Six percentage point cost we're bearing that our competitors around the world aren't bearing.

People — people say that the corporate tax is a terrible competitive disadvantage. Well, the corporate tax last year was like 1.6 percent of GDP. But here's six percentage points, and we really have to do something about it. And I'm not smart enough to know how to do it myself. What I would like to do is get the heads of the Cleveland Clinic and Kaiser, and the Mayo Clinic, and just give them the task of — tell them they've got a couple of months to do it, to lay out a plan where we can get to 15 percent of GDP as a sustainable cost of healthcare.

Or why we can't do it. But, you know, this is a tapeworm of the American economy and Obama care or anything that the government has to do with it reflects that underlying trend.

JOE: OK.

BUFFETT: But the real problem is the overall cost of healthcare.

JOE: All right. You say that. I mean Andrew brought one of those back from Africa and I just — I don't even like to hear —

BECKY: The tapeworm?

JOE: Yes. Tapeworm. (LAUGHTER) Anyway, we got to go again. We'll be back with much more from the oracle of Omaha.

Before we head to break, take a look at U.S. equity futures down about 24 points on the Dow.

(COMMERCIAL BREAK)

JOE: Welcome back to "Squawk Box". Among the stories we're following, a new survey of economists say that the U.S. budget deficit needs to be cut. That's why we need these guys. You know? Because they can figure out stuff like this.

However indiscriminate spending cuts are not the way to do it. The National Association for Business Economics says that more than 70 percent of its members were against the sequester, the so-called sequester, and those cuts that began taking hold on Friday.

As for now, let's get back to Becky in La Vista, Nebraska. If you don't know where that is, it's apparently — where is it? Northwest, east, south of — it's a suburb of Omaha?

BECKY: I believe — I only know based on — we were driving in the dark, but I think it's probably southeast of Omaha? Is that correct?

BUFFETT: It's southwest.

BECKY: Southwest. Oh, I'm sorry. Yes, I got my direction — I knew that. We came out 480. Yes.

JOE: All right. The girls and directions. Girls, I mean, we're not going to get —

BECKY: Shut up, I didn't drive. I didn't drive myself. I did get my directions.

JOE: This way. OK.

(LAUGHTER)

BECKY: How am I supposed to recover from that?

(LAUGHTER)

All right. I am back again with Berkshire chairman and CEO, Warren Buffett.

And, Warren, let's talk a little bit more about your letter and some of the things you put out this year.

BUFFETT: Sure.

BECKY: You mentioned that you're going to be doing things a little bit differently this year at the annual meeting. Last year you added a panel of analysts who asked a lot of questions at the annual meeting. Along with the three journalists who asked questions and all the questions that come from the audience.

This year you say you're still going to have one insurance analyst but you've added another analyst who will be looking at the other Berkshire companies. The other Berkshire subsidiaries or units or businesses or whatever you want to call these and you're also looking, actively looking for a bear on Berkshire Hathaway. Why did you add that?

BUFFETT: Well you start make it more interesting. The crowd can hear somebody that thinks the stock's overpriced, or that it's all a house of cards or whatever it may be. And we want the meeting to be interesting. So that person will get six questions. And we now have that person because I said it had to be a credentialed bear, preferably one who was short the stock. And Doug Kass is certainly a credentialed investor and he said he's short the stock and he'd like to do it. So Doug, you're on.

BECKY: Does he know this?

BUFFETT: No, he just knows this now.

BECKY: So Doug actually wrote in on Friday or Saturday after he wrote the note and we kind of forwarded that on. So Doug if you're watching this morning, you're it buddy. Make your plans for that weekend.

BUFFETT: Think of tough questions. See if you can drive the stock down 10 percent.

BECKY: Why? So you can buy back more shares?

BUFFETT: Yeah, that would be OK.

BECKY: Alright so let's talk about some other areas of things that you really brought up in the Annual meeting. You talked about accounting. A long section on accounting. And you admitted that at the end you'd be putting down the dentist's drill. But why did you get into accounting this time?

BUFFETT: Well accounting, I've done it before, too, accounting is the language of investment in business. And to some extent, it's not well explained in certain cases, and sometimes people draw the wrong conclusions. So I like to stick in a little essay occasionally on where I think accounting falls short and how an investor or a business person has to think differently about it in going strictly by gap accounting.

And then when I have an example that fits that, I'll write about it. I know that isn't of interest to all of the shareholders, there's plenty of people that skip over that part. But I also think it's important that people understand it. We have some peculiarities in our own accounting and I want the shareholders to understand that.

BECKY: And your problem with, the thing that brought it up this time around was the purchase of additional shares of Marmon?

BUFFETT: Well we had a situation where we actually we bought originally 64 percent of Marmon, then we bought some more, this is all pursuant to contract. And we had to immediately write it down. If we'd just bought that amount by itself we wouldn't have had to write it down. But because there was a transition between two rules we actually had to charge off this year $700 million immediately upon the purchase of something that did not shrink in value $700 million. And we just want, we want to explain that. I would want that explained to me if I was a shareholder and my management did it.

So I want the facts to be there, and admittedly, it can get kind of tough sledding there for a while for some people, but it's there, it's there to explain what goes on. And we get into it in terms of amortization of intangibles, and in the end, I, you know, I've got two very smart sisters that have most of their money in Berkshire and I want them to understand things, that affect the value of it, and I'm talking to them.

BECKY: OK. Warren, if, if you were to look around, question we got again and again, and I know we've talked about this a little bit, but for people who are just tuning in, there have been people who have been writing in who want to know if you look at the S&P 500 right now do you think that stocks are undervalued or overvalued?

BUFFETT: Well I think they're undervalued relative to other assets. In other words if I had a lot of money today I would rather own equities than own fixed dollars, long-term government bonds, junk bonds, farmland, you know, REITs. They will be affected, if interest rates go up dramatically, all assets will go down in value. Because interest rates, to investments are like gravity is, you know, basically to physics. Everything goes off of interest rates. But the cheapest thing around — I wrote that a year ago. I've been writing it for year after year. They're not as cheap as they were four years ago. But you get more for your money and that's why we like buying businesses and we like buying stocks. You get more for your money there than you will get the one thing that the dumbest investment you know, in my view, is a long-term government bond.

I think a single family house is a good investment for people where it fits their living pattern and What they're going to do, I think that makes it, and you can finance it extraordinarily favorably, and I think that makes sense for people.

BECKY: OK, great. Warren we're going to continue this conversation in just a moment. Joe?

(COMMERCIAL BREAK)

BECKY: Welcome back again everyone. We are here this morning with Berkshire Hathaway Chairman and CEO Warren Buffett. We are live in Lavista, Nebraska, which is just outside of Omaha at the headquarters of Oriental Traders, Trading, I should say at the warehouse of Oriental Trading. And Warren, I wanted to ask you a question that comes from Andrew. He's on assignment today but he's been speaking with a lot of private equity people this morning and they had a question that they wanted to pass on to you.

He said that over the years you've been critical of private equity and the dangers of adding leverage to companies. Your partner in the Heinz transaction 3G is a private equity firm and includes considerable leverage funded in part by Berkshire. Have you changed your views on private equity and would you consider partnering with other firms like KKR in the future?

BUFFETT: Well we are partnering with, it is a partnership. It's a permanent partnership. We have, we will not sell our interest. So it has no connection with the private equity people that essentially buy and then resell businesses. So we are not in the buying and reselling of businesses which private equity is. We are not charging anybody a fee of any kind. There's no 2 percent, there's no 20 percent, there's no nothing. So there's no, we are getting no cut on anybody else's investment.

The people at 3G, most of that, most of that money is probably their own money. So it is not primarily designed to get a return on other people's money. It's a design as a place to put their own money and if you know Jorge Paulo Lemann you know he's got plenty of money to put it in.

So it is a partnership. And it we put $18 billion of equity in and there's $12 billion of debt basically. It has no relationship to the kind of enterprises where people take funds, have to get the money out, are getting two and 20. Imagine if we were getting 2 percent on our $12 billion, you know, that we're investing $240 million a year just for staring at ketchup bottles.

That is not what we're doing. We've got our own money up. We're getting no carry on anybody else's money. It is not a private equity deal in any way, shape or form.

BECKY: OK, we've got some other questions that have come in from viewers. Some of these are general business questions. Just some of the things we've seen happening in the headlines.

David from Puerto Rico writes in, he says, I'm a big fan and a regular attendee to your shareholder meeting in Omaha. Last year I made an investment in JC Penney stock and bonds despite being aware that you once said when a management with a reputation for brilliance tackles a business with the reputation for bad economics it's the reputation of the business that remains intact.

What's your take on JC Penny and their new CEO, Ron Johnson? Is this a turnaround or a failure?

BUFFETT: Well I've got rooting interest in JC Penney. I worked for JC Penney. I sold men's clothing. I sold men's furnishing. I sold children's. I worked there in high school, I worked there in college, got the minimum wage, 75 cents an hour.

But, you know, when you start arguing with your customers about what they want, it's not a bad idea, and, you know, it's, they've got a very, very tough game to play from this point forward. They've obviously turned away a very significant percentage of their customers, and the thing about retailing is your competitor's always moving. So it isn't enough to just catch up from, you know, some distance from behind, because he's moving all the time.

Amazon is — they're moving all the time. And so I think it's a very, very tough game ahead of them. And that quotation, incidentally, when I met the fellow, the CEO, Bill Johnson runs Heinz that's the one quote he remembers from — I wrote that 30 years ago.

Every business person remembers that quote, because it just gets demonstrated time and time again.

BECKY: OK. Another question came in on Twitter from@matt solen who says what are your thoughts on the decision by Yahoo CEO Marissa Mayer to end telecommuting? I don't know if you've been paying attention to the news.

BUFFETT: Yeah I've read about how she's got her own nursery there right next to her. I, you know, I don't know the specifics of how Yahoo operates. Almost all of our people would work in the office. I mean we've got 24 in our Home Office. But on the other end, Ted Wexler could operate from Charlottesville. He's there three days a week or two to three days a week and two to three days a week with us.

I do not care whether Charlie is in the office or not. He's thinking about Berkshire all the time.

BECKY: How often do you talk to Charlie, by the way?

BUFFETT: Not as often anymore. About once a week. I mean we've been married so long that we know each other's thoughts. We used to talk every day for hours. But now we just grunt at each other and that takes care of things.

BECKY: All right let's get to another question that came in. This one came from Camilo (ph) Ramirez (ph) who asks if you could travel in time to when you were 20 again, starting to build your partnership and you could meet yourself and tell him that you would be successful in business as you dreamed at some cost what aspects or decisions of your personal and professional life would you advice young Buffett to change?

BUFFETT: I wouldn't change much. No. It worked pretty well and it worked well for the family. I feel very good about my three children, and so it certainly worked fine for me. So I do not think I would change.

BECKY: OK. Another viewer on twitter wrote in, this is @rbridge4 have you ever been fired or laid off and if so, how did you bounce back?

BUFFETT: Was I fired? I wasn't fired from Penney's. I, when I worked for Graham Newman, they were closing down the place to some extent. But I quit there ahead of time. I wanted to come back to Nebraska. I mainly worked for myself and I don't fire myself.

BECKY: You're pretty good at staying in with that.

BUFFETT: I really like my boss.

BECKY: All right well Warren, we're going to take a quick break. When we come back we have many more questions. Joe?

JOE: So he wouldn't change anything. He's only number four in the richest man in the world. No mistakes, Warren? (LAUGHTER)

BUFFETT: Well you could say I made a mistake —

JOE: Nothing you could have done better?

BUFFETT: If I hadn't given away the $18 billion I'd be a little higher I guess.

JOE: And then Becky that question from Sorkin was the same, didn't we have that exact question in the 6:00? Did he not get up — you've answered that —

BECKY: First of all I will give Andrew a break because he is in a different time zone. And the difference — this was a slight —

JOE: Some average viewer asks the same question!

BECKY: A slight variation on that question.

JOE: What was the variation? Poor Warren's answering the same —

BECKY: It was a variation because it asked specifically if he'd do deals with other private equity firms.

JOE: He better get up earlier. I mean some viewer already asked that same question on there. All right. When "Squawk Box" returns, some final thoughts from Warren Buffett. Stick around.

(COMMERCIAL BREAK)

BECKY: Welcome back, everybody. Let's get some parting thoughts from our special guest today, Berkshire Hathaway's Warren Buffett.

Warren, we're here again today, because of the annual letter to shareholders that you put out. Reading through that report or that letter over the weekend, one of the things that really jumped out is what you said about insurers.

Obviously Berkshire has several insurance businesses, but what you pointed out are the low interest rates that we're in right now. Those could pose a serious problem for insurers down the road.

BUFFETT: They do.

BECKY: Will you talk a little bit more about that?

BUFFETT: Well insurers make their money two ways. They either make an underwriting profit, and most of the time they don't. And they make money from the investments they hold, which are partly float and partly their own capital.

And when interest rates go down and they own a lot of bonds, like most of them do, they may be getting decent rates from the bonds that they bought a few years ago, but those keep rolling over. And generally speaking, the insurance companies don't own really long-term bonds. So that they get them rolled over fairly fast.

And when you roll over bonds now, whether you're a life insurer or property casualty insurer, you're get a whole lot lower rate than you anticipated a few years ago you'd be getting. So in effect, the profitability will go down because of that.

BECKY: Do you think investors have figured that out yet, in the valuations for these insurance companies?

BUFFETT: Well I think the professionals in the insurance field probably are pretty cognizant of it. It affects us less because we do less conventional things with our money. But it still affects us. I mean the $47 billion we had around at year end was earning nothing. And six or seven years ago, it would have been earning five percent, that's a couple billion dollars a year, just in terms of that money that we have as a reserve fund.

BECKY: OK let's get more questions from viewers, because we are getting towards the end of our three hours. This is a question that comes from Connor Keyhoe (sp) in Ireland. Who writes in, if you could keep one company that Berkshire owns, either a wholly-owned subsidiary, or a company that Berkshire owns a common equity in, which company would you keep and why?

BUFFETT: I would keep, for sentimental reasons, I would keep Geico. Because it goes back the furthest. 62 years ago it changed my life. It's also a wonderful company. So I would have both things going for me.

But that — if I hadn't of gone to Geico when I was 20 years old and had a fellow there explain the insurance business to me, my life would be vastly different. So I just have to — I'd have to choose Geico.

BECKY: OK let's get another question. This is number 200, and this from Steven (sp) Tugenack (sp) in Lakeway, Texas, who's writing about with all the continuing airline industry consolidation, do you ever see the potential for a Berkshire acquisition of one of the U.S. major passenger air carriers?

BUFFETT: Well, I have this number I call, if I wake up at midnight with the urge to buy an airline, I call up this airlines anonymous and then they talk me down. No, the airline business has been a terrible business over time. If they ever got down to where there was one airline, it would be a very good business. Maybe if they could get down to where it's two. But it's got all the ingredients of a bad business.

BECKY: We have another question that came in. This is number 42. It's from someone named C. Fisher. And Warren, there's been a lot of talk about average investors, average retail investors feeling like they can't get a fair shake. Part of that comes from concerns about the flash crash.

Fisher writes in and says, please comment on the high-frequency trading in the flash crash. In particular, what are the implications for main street investors?

BUFFETT: it doesn't mean a thing. I mean if you own a McDonald's stand, would you be worried if someone would come along and said the value of the stand has gone down 50 percent? No business was affected by that. Every business we own, it didn't make any difference.

Now if you own things on margin, then you've got a different problem. But if you own things outright, if the stock market closed for three or four years, it wouldn't make a difference. When you buy a farm you don't get a quote every day. When you buy an apartment house, you don't get a quote every day.

The fact that you can get quotes should be an advantage, but people turn it to a disadvantage because they think it's telling them to do something all the time. And so, you know, they can have a flash crash every day and I'll just put in orders below the market to buy and we'll see what happens.

BECKY: But do you think, and I ask this because there have been so many scandals, that people think about Libor, and they think about a lot of the deals behind the scenes that have been dragged out. And a lot of main street investors think that they can't get a fair shake on Wall Street. Can they?

BUFFETT: Well, they pay a lot of expenses in many cases. They don't need to. They can buy a low-cost index fund and they can participate in the growth of America over the next 20 or 30 or 40 years and they'll do fine.

But if they're paying high fees to achieve that same result, they're going to get hurt. And they should look very carefully at costs. But they should own a diversified group of really high-class companies which you can do by buying an index fund and then they should forget it. They should just pretend the stock market closes for five years and they shouldn't look at prices every day.

BECKY: Did you see a story over the weekend from "The New York Times" that focused on JPMorgan and their wealth management business?

BUFFETT: Yeah I saw that. It took a look at, or at least it talked to some disgruntled former wealth asset management bankers, who said that JPMorgan was kind of pushing them into their own products instead of maybe looking at a more diversified bunch.

BECKY: I know you probably don't know any of the specifics about this, but when you look at Wall Street in general, are there still big conflicts of interest?

BUFFETT: Sure there are. But I'm not speaking of that one specifically.

BECKY: Obviously.

BUFFETT: But the people selling you securities are often selling you things they make a lot of money in. The first question you should ask of anybody selling securities is how are you getting paid and how much are you getting paid?

And the truth is, you can own index funds with a very, very low cost. And you will end up getting the same performance that you get from people who charge you a lot more. So you'll always want to look at costs.

And when somebody comes around to you and says, I'm going to sell you this wonderful security but there's this big chunk in it for me, get suspicious. As they say, when a person with experience meets a person with money, the person with the money gets the experience and the person with the experience gets the money.

BECKY: OK. Warren any last thoughts, very quickly, we have just about a minute left? Anything else you'd like to really reach out?

BUFFETT: I think that, you know, we live in the best country in the world, and we will solve our problems, and the people that own equities, purchased over time, not just when they get all excited about it, in a low-cost manner are going to do fine.

JOE: Hey Warren, have you noticed that that ketchup bottle was kind of already shaped like a ukulele? Have you thought about like a custom-made, I mean, you could have one easily made and then when you play the ukulele, you could be pushing your products, like with the pins —

BUFFETT: I tell you what we're going to do. We're going to see how this one sells. And if it performs like I anticipate, they probably will put me in charge of new product development.

JOE: Ready-made, that is my favorite I decided, when I looked at both of them. (INAUDIBLE) I do like the — what's it say? Perfect for hot dogs?

BUFFETT: It says, preferred by hot dogs, and then it has your picture.

JOE: That I like.

BUFFETT: We're in business, Joe.

JOE: All right. Warren, and Becky, great job. Warren, thanks so much for all your time. Phenomenal as usual.

BUFFETT: Thank you.

JOE: We appreciate it. Becky, get home safe. We'll see you tomorrow. Make sure you join us tomorrow. But for now, "Squawk on the Street" is next.