Warren Buffett Sees Bright Future as the Economic Club Celebrates Its First Quarter Century

Warren Buffett
Chairman
Berkshire Hathaway Inc.

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Excerpts from Mr. Buffett's Remarks

Early Aspirations: I loved just analyzing securities. I just spent hours and hours and hours just turning the pages of Moody's. You had no Internet then or anything else, so you had two sources of information, Moody's and Standard & Poor's. And we happened to have these sets of Moody's; they were in aggregate, probably about 8,000 pages, about five different manuals. And I went through those page by page.

Buying Stock and Companies: When I buy 100 shares of XYZ Company, I look at it as buying a whole company. And so I've always looked at buying stocks as buying businesses, so it really wasn't a different situation. Now, if I owned the stock, I couldn't change managements, which I could if I owned the whole company. But it was basically the same approach. I'm a better investor because I'm a businessperson, and I'm a better businessperson because I'm an investor. They cross over.

Berkshire Hathaway Team: We're now up to 24 [employees]. We're on one floor. We're never going to leave one floor. I tell them they can hire all the people they want, but we're not going to leave one floor.

Regret Not Giving Away Money Earlier in Life? No. My wife regretted that. She thought I should – she liked the idea of giving it away. We both agreed on giving away all the money. I mean, once we had everything we wanted – and we've had everything we've wanted – I mean, the surplus wealth I have has no utility to me. It has all kinds of utility to the rest of the world, if used properly. So, we agreed on that early. She would have liked the idea of giving away more of it earlier. And I felt that I was going to be a better compounding machine than most places and that there would be a whole lot more to give away later on. So I told her: I'll pile it up and you unpile it, you know.

Being a Liberal Democrat: Yeah. But I'm not a card-carrying Democrat. I support certain Republicans, and I have. And actually this year I gave some money to a Republican Congressman.

Buffett Rule (Mr. Buffett's tax rates should be at least as high as his secretary's): I couldn't get a disease named after me, so I had to settle for a tax….The interesting thing is, people speculated about how much money she made, but the tax rate actually above $106,000 for most people goes down if you take the aggregate of payroll and income taxes, because the payroll tax is the most regressive of all and quits at that point. And so, actually between, say, $106,000 and $200,000, in most cases the rate would go down.

Our Deficit and Debt Problems: I would take the plan that 90 percent of the people here would come up with to get to 19 percent of revenue and/or to get to 21 percent. That can be Simpson-

Bowles, it can be a bunch of different things. And no one's going to agree 100 percent on every point, but I think we do agree on the fact that we probably should be raising 18 ½ percent to 19 percent and we should be spending 21 percent or thereabouts. And that means getting more from taxes and it means cutting expenditures. And the problem is that, you know, the Democrats don't want to talk about what expenditures they would cut and the Republicans don't want to talk about increasing revenues.

Investing in the U.S. or Abroad: I'm comfortable any place I understand the business well, and to some extent the rules that they operate in, and where I've got the right management. And so, we will buy a business, you know, in any one of 40 countries tomorrow if it's the right kind of business. But most businesses I hear about are in the United States. We're on the radar screen here to a greater extent than around the world.

Best Investment: Well, the one I'm probably the most emotionally attached to is Geico, because of a bunch of reasons, but it goes back to a day in January of 1951, a Saturday. And what Lorimer Davison did for me changed my life. And he didn't have to do it; I mean, I walked in there, some 20-year-old kid on Saturday. And he spent 4 hours educating me, and then he became a friend for life.

Worst Investment: I made a lot of terrible deals. And the worst – probably the worst deal will be one I make in the future.

Goals in Life: Well, in terms of personally, sure, I want Berkshire -- I mean, that is my painting in life. I've been painting it all my life virtually, and I want to keep painting it and have it become even more of what it already is. And so that's what I love, and anything that works positively for Berkshire in terms of adding better businesses, you know, having wonderful managers – anything that makes them be in a position to get their full potential from their companies, I love. And I'll do that as long as I can. I like the idea that, basically, the fruits of that, you know, will be used by some very intelligent people to improve the lot of a whole bunch of people who didn't get the lucky straw in life like I got.

When Investment Talent Showed Up: You couldn't love anything as much as I loved investments and not get fairly good at it. I read every book in the Omaha public library on it. This was by the time I was 11, and we moved back here. And as soon as I got back here and my dad was in Congress, I said, get everything in the Library of Congress; I want to read it.

Investment Advice: The American economy has done wonderfully. I mean, if you take the 20th century, the Dow started at 66, and it ended at 11,400. Now, think of that. How could anybody get a bad result on investing starting at 66 and go to 11,400? But a lot of people do because they jump in at the wrong time, or they think they know this stock versus that stock. But the average person should just consistently buy equities, which to me are by far the most attractive investment choice around, and put it in and not think about it for 20 or 30 years; they'll do very well.

Any Regrets in Life? Not really, no.

If the President Asks for Advice? If he wants to ask me anything, I would certainly always be glad to help. But that would be true of any President under any circumstances.

On the Future of Our County: It's a cinch. We haven't lost the secret sauce. When I was born in 1930, the Dow was 252 the day before…. It was going to go down to 42.…Look at what has happened since that time….we went through a terrible war. We went through a terrible Depression. We went through 25 percent unemployment. We went through thousands of banks closing – six for one, you know. We're not smarter than the people in 1930. We don't work harder than the people in 1930. We've just got a system that works. It's been working, you know, since 1776, and it will keep working.

DAVID RUBENSTEIN: Welcome members and guests of The Economic Club of Washington. Welcome to this celebratory dinner, at the Washington Marriott Wardman Park, commemorating the first 25 years of the Club's existence. I'm David Rubenstein, President of The Economic Club of Washington….

Thank you very much to our distinguished speaker, Warren Buffett, for coming this evening and honoring us. I think it's fair to say that you are the most respected investor in the world, and I think – [applause] – the most respected businessman in the world, not just because you've made a great deal of money, but because you've done it with enormous integrity and humility and, as people will see tonight, with an enormous sense of humor.

In addition to being a businessperson that everybody would aspire to be, he has in recent years become, with Bill Gates and Melinda Gates, the largest philanthropist in the world. [Applause.] I think his net worth might be a little bit higher than mine, I'd say – [laughter] – about $50 billion more or less, and he's committed to give 99 percent of that away, and he's in the process of doing so. So thank you on behalf of the country and everybody else for doing that.

Your background is pretty well known, but some people may not know that you actually spent much of your formative years in Washington, D.C. Your father was elected to the Congress, so you moved here; you went to Alice Deal Junior High School, got a lot of C's and D's, as I understand. [Laughter.] And then you went to Woodrow Wilson High School – [cheers, applause] – finished 16th in your class, but you were…

WARREN BUFFETT: A class of 17, we might add.

MR. RUBENSTEIN: Right. [Laughter.] Well, you had your work, you were delivering papers in the morning and delivering papers in the evening and so forth.

And my question, really, to begin, is that many people grow up in Washington, love living here, and they want to stay here, so they hope to aspire to be the head of a lobbying firm someday or to head up a congressional staff or something. Do you ever have any regrets that you might have made something of yourself had you stayed here? [Laughter.]

MR. BUFFETT: Well, I'm still young, David. I may come back, all right? I went out to Alice Deal today, first time I'd been there in 65 years. And I met the principal. I went to Wilson also today, but at Alice Deal I tried to get my record expunged, but I had no luck. [Laughter.]

MR. RUBENSTEIN: Well, you told me earlier today that you lived in Spring Valley.

MR. BUFFETT: Yeah, I lived – I lived at 49th Street, between Van Ness and Fordham Road.

MR. RUBENSTEIN: And so today with a camera crew, you knocked on the door of the person who was living in your house. What did that person say?

MR. BUFFETT: Well, we had a good time. I mean, the house seemed to have shrunk, but – [laughter] – she was a wonderful woman. She's lived in the house for 30-plus years, and we got along very well. And then we retraced my paper route.

MR. RUBENSTEIN: So when you were growing up in Washington, you were already a businessperson.

MR. BUFFETT: Well, I thought so. I didn't get a lot of public recognition as such, but – [laughter] –

MR. RUBENSTEIN: Well, so you were making money. As I understand it, you filed your first tax return when you were 14 years old.

MR. BUFFETT: Yeah, it was for the year when I was 13, and I filed it when I was 14.

MR. RUBENSTEIN: OK. [Laughter.] And did you think the tax rates were too high then, or not? [Laughter.]

MR. BUFFETT: It hurt more in those days. [Laughter.] I did deduct my bicycle and my watch as business expenses [laughter]. Apparently, I'd never use my bicycle for pleasure or my watch. I never looked at my watch, except when I'd go deliver papers. [Laughter.]

MR. RUBENSTEIN: So after you graduated from Woodrow Wilson, you then went to the University of Pennsylvania for a year and a half.

MR. BUFFETT: Correct.

MR. RUBENSTEIN: And then you transferred back to the University of Nebraska. Why did you leave Penn? It was a great business school. Why did you leave?

MR. BUFFETT: Yeah, I wanted to quit after one year, to give you the honest answer, my father kind of talked me into going into college in the first place. And then he talked to me into going a second year, but he said if I went a second year, then I could drop out. And so then I went back to Nebraska. That way I got out of college in 3 years, and so it sped things up. And I planned to live in Nebraska.

MR. RUBENSTEIN: So when you graduated from the University of Nebraska, you applied to Harvard Business School and were rejected.

MR. BUFFETT: That's true.

MR. RUBENSTEIN: Has Harvard ever announced that they've regretted that? [Laughter.]

MR. BUFFETT: I understand the development officer is kind of unhappy. [Laughter, applause.]

MR. RUBENSTEIN: So, rejected by Harvard, you went to Columbia Business School, and then you met the man who you really idolized, Ben Graham. And when you took his class, was he as great as you had thought he was going to be?

MR. BUFFETT: He really was. He only taught one semester, one class. I mean, he came up from Wall Street and taught this class. That's the reason I went to Columbia. And I'd already read all the books and everything, but it was inspirational just to be around him, and it made a real difference in my life.

MR. RUBENSTEIN: So when you graduated, you wanted to go work for him and his firm, and then he rejected you for an interesting reason. In those days, I understand that there were Jewish firms and non-Jewish firms, and his was a Jewish firm, and you weren't Jewish, so he said because you weren't Jewish, he didn't hire you. Is that right?

MR. BUFFETT: That's true. I was ready to convert, believe me. [Laughter, applause.] I think they might have thought I was a little phony at the time. It was true that there were very few firms in Wall Street that would hire Jews at that time, and Ben only employed five or six people. But he told me to the extent that they were able to employ five or six people, they really felt that the Jews could not get into most jobs in Wall Street, and that they were going to employ only Jews.

MR. RUBENSTEIN: And his name was Ben Graham, but actually his name was…

MR. BUFFETT: Ben Grossbaum. Well, it was – yeah, his parents changed that.

MR. RUBENSTEIN: Right, they changed his name.

MR. BUFFETT: My son is named Howard Graham Buffett, named after Ben, and he's very glad that Ben's papa changed his name. [Laughter.]

MR. RUBENSTEIN: So you moved back for a while to Nebraska, but then he ultimately changed his mind, and you went to work for Ben Graham.

MR. BUFFETT: I kept pestering him, I made a real pest of myself. [Chuckles.]

MR. RUBENSTEIN: And in those years, what did you aspire to do? Did you aspire to become a very wealthy person? Would you want to be buying stocks? Would you want to buy companies? What was your aspiration in those early days?

MR. BUFFETT: loved just analyzing securities. I just spent hours and hours and hours just turning the pages of Moody's. You had no Internet then or anything else, so you had two sources of information, Moody's and Standard & Poor's. And we happened to have these sets of Moody's; they were in aggregate, probably about 8,000 pages, about five different manuals. And I went through those page by page.

MR. RUBENSTEIN: Well, that must have been exciting. [Laughter.]

MR. BUFFETT: Oh, yeah. It's a little strange. I mean, you know, I actually went to Amazon a few years ago, and I found an old 1951 Moody's. Now, everybody else is going there for Playboy magazine – [chuckles] – but I'm ordering the old Moody's. [Laughter.] You've got a strange guy here. [Chuckles.]

MR. RUBEINSTEIN: Well, when you were working in New York, you were attracted to one of the companies that Ben Graham was involved with, which was Geico.

MR. BUFFETT: Absolutely.

MR. RUBEINSTEIN: As I understand, you came down and knocked on the door of Geico, and you just started talking with them and –

MR. BUFFETT: Yeah, it was really a lucky day. I was at the Columbia University library, and I looked up Ben in "Who's Who in America," and it had a whole bunch of things, but it said, "Chairman, Government Employees Insurance Company." So I asked the librarian, how can I learn more about this? I'd never taken any courses in insurance. And he said, well, there's this big BES manual, and if you read that, you can find out about the company. And there was one page on Government Employees Insurance.

So that Saturday I got on the first train, and I came down to Washington, and I went to the headquarters of what was then called Government Employees Insurance. And to my total surprise, the place was locked. I mean, people don't want to work on Saturday. People from Washington didn't seem to work on Saturday. [Chuckles.] So I kept pounding on the door, and finally a janitor came. And I said to the janitor, is there anybody here I can talk to except you? Now, he didn't seem to get offended at that – [laughter\ – particular introduction, so he said, there's a fellow up on the, I think, sixth floor, and he's the only one here.

And he was a man named Lorimer Davidson. And Lorimer Davidson changed my life in a big way. He was a wonderful, wonderful man. And he talked with me for maybe 4 hours on a Saturday and gave me an education like I'd never gotten in school.

MR. RUBENSTEIN: And so you liked it so much you eventually bought the whole company, right?

MR. BUFFETT: It's one of those things, right. [Laughter.]. It took a few years.

MR. RUBENSTEIN: So when you were starting your investment partnership, I think you started around 1956 with a partnership, right?

MR. BUFFETT: That's correct.

MR. RUBENSTEIN: And as I understand it, if somebody had put $10,000 in in 1956 and it stayed with you and kept that stock, that when you liquidated some of the partnerships, that $10,000 would be worth roughly $500 million today.

MR. BUFFETT: That's about right.

MR. RUBEINSTEIN: Wow!

MR. BUFFETT: Yeah.

MR. RUBENSTEIN: So those people are very grateful to you who did that, right? [Laughter.]

MR. BUFFETT: No, I was grateful to them, though. I mean, they were betting on a 25-year-old, you know, who looked about 20 and acted about 12 and, actually, they were mostly relatives. I mean, it's my father-in-law and sister and her husband, my aunt.

MR. RUBENSTEIN: So your investment partnership started and you started buying companies and buying stocks. And one of the companies you bought was Berkshire Hathaway, and though your company is now very famous – it's named Berkshire Hathaway – that was not one of your best investments, was it?

MR. BUFFETT: It was really dumb. Yeah. [Laughter.] I mean, it was what I used to call Graham's approach on buying very cheap stocks that weren't very good companies "cigar butts" because it would be like walking down the street and finding a cigar butt that there was one puff left in, and it didn't cost anything, and it was kind of disgusting, but it didn't cost anything. [Laughter.] But I thought Berkshire Hathaway was that kind of a company. [Laughter]. And it wasn't much of a puff either. [Laughter.]

MR. RUBENSTEIN: So, you know, your company is named Berkshire Hathaway. Did you ever think of changing the name?

MR. BUFFETT: No. I don't do much of that. [Chuckles.]

MR. RUBENSTEIN: OK. So when you started, you originally were buying stocks, you picked stocks. But then you started buying whole companies.

MR. BUFFETT: Yeah.

MR. RUBENSTEIN: Was that a different skill set? And how did you learn to buy and operate these companies?

MR. BUFFETT: Well, when I buy 100 shares of XYZ Company, I look at it as buying a whole company. And so I've always looked at buying stocks as buying businesses, so it really wasn't a different situation. Now, if I owned the stock, I couldn't change managements, which I could if I owned the whole company. But it was basically the same approach. I'm a better investor because I'm a businessperson, and I'm a better businessperson because I'm an investor. They cross over.

MR. RUBENSTEIN: But today, Berkshire Hathaway has how many different companies that are part of the –

MR. BUFFETT: Got about 75, but some of those own more companies.

MR. RUBENSTEIN: So you have 75 companies. You have about…

MR. BUFFETT: 270,000 employees.

MR. RUBENSTEIN: 270,000. How do you manage it all? You have a very small office. How many people do you have in your office managing all this?

MR. BUFFETT: Well, we're now up to 24. We're on one floor. We're never going to leave one floor. I tell them they can hire all the people they want, but we're not going to leave one floor. So if they want people sitting on their lap, go to it, you know. [Laughter.]

MR. RUBENSTEIN: So do you sit in your office during the day looking at new ideas for companies? Is that how you spend your time or –

MR. BUFFETT: I like to read a lot. So I read a lot. I read newspapers, and I read all kinds of financial information. And basically, I'm looking for one good idea a year.

MR. RUBENSTEIN: And do people send you letters over the transom. Do any of those ideas ever work?

MR. BUFFETT: Occasionally, but not very often. But I only need one a year.

MR. RUBENSTEIN: OK.

MR. BUFFETT: And we're in June incidentally, David, if you want to help me out. I mean… [laughter].

MR. RUBENSTEIN: All right. OK. We have a couple companies we'd like to sell to you, but – [laughter] – but you don't pay high prices. Do you have a computer in your office that you use?

MR. BUFFETT: Not in my office, but other people in the office have them. [Laughter.]

MR. RUBENSTEIN: So I know you're not a famous technology person, but do you have an iPad or do you do…

MR. BUFFETT: No.

MR. RUBENSTEIN: Internet things?

MR. BUFFETT: Oh, I do Internet things, yeah. I love the Internet. I mean, it's fascinating to me, because it's probably affected my life, you know, almost as much as, say, Bill Gates. When Bill and I appear together, sometimes we use a trick question of, aside from email, which one of us is on the computer more? And the answer is me.

MR. RUBENSTEIN: Because you play bridge…

MR. BUFFETT: I play bridge on the Internet. [Laughter.]

MR. RUBENSTEIN: And every night you spend…

MR. BUFFETT: Yeah, a couple hours a night.

MR. RUBENSTEIN: And after all these years of doing it, are you a champion?

MR. BUFFETT: No. I'm not even close. [Laughter.] I just have a good time, you know, it's the most interesting game I've found.

MR. RUBENSTEIN: And do people know that they're playing with you over the Internet?

MR. BUFFETT: I use the name "T-Bone" and that's – it's gotten around that I am "T-Bone," yeah. I used to put my age as 103 so when I did something dumb, people would say: Poor guy, 103. He's not bad. But – [laughter] …

MR. RUBENSTEIN: So you met, over the years, Bill Gates.

MR. BUFFETT: Right.

MR. RUBENSTEIN: How did you first meet Bill?

MR. BUFFETT: I met him on July 5th, 1991. Meg Greenfield, who some of the people here probably knew, had a house out on Bainbridge Island right there in Seattle. And she had called me in the late '80s and she had said: Warren, I love Seattle, do I have enough money to buy a second place? And I said: Meg, anybody that calls me and asks does have enough. It's the ones that don't call. So she bought this house and she wanted to show it to me then in 1991.

So actually Kate Graham, I, Raleigh Evans, maybe one or two others went out there and visited Meg. And then Meg knew the senior Gateses, so she called up Bill, Sr. and Mary Gates and said: I've got this crew out here and could we drop down? And Mary said: Fine. And then Mary called up Bill and said: Warren Buffett's coming down and would you like to come down? He said: Hell no. He said: What do I have in common with that guy? You know, he doesn't understand technology. You know, he's hopeless. And Mary was very determined and she said: You know, you're going to come, Bill. And so they negotiated a while and finally they got down to where he said he'd come down for, I don't know, an hour and 27 minutes or something. [Chuckles.]

MR. RUBENSTEIN: Right.

MR. BUFFETT: And he came down and we hit it off. And we were still talking 10 hours later and we became good friends.

MR. RUBENSTEIN: But he never convinced you to buy Microsoft stock or buy technology companies?

MR. BUFFETT: He didn't – he didn't try to. He tried to get me to use a computer.

MR. RUBENSTEIN: Did that work?

MR. BUFFETT: Eventually. When I learned I could play bridge on it, I got interested. [Laughter.] I still don't understand what happens with it though. I mean…

MR. RUBENSTEIN: Well, I thought he originally said: I'll get the most beautiful woman working at Microsoft to come and install it for you.

MR. BUFFETT: That's what he did. But he was engaged to her so – [chuckles] – Melinda.

MR. RUBENSTEIN: Oh, OK. All right.

MR. BUFFETT: So it didn't work.

MR. RUBENSTEIN: So as you got to know Bill better, did he influence your views on how to make investments or influence your views on philanthropy?

MR. BUFFETT: I wouldn't say too much. We have a group of maybe 50 people that started getting together in 1968. We'd meet every other year. Don Graham was here tonight as…

MR. RUBENSTEIN: That's the Buffett Group.

MR. BUFFETT: Yeah. And then, at those meetings, we would talk about various subjects, and philanthropy was an important subject. So I think it was maybe in 1993 or something like that we had a meeting; I think it was in Ireland at that time. And I actually brought along the *Gospel of Wealth* for everybody to read. We discussed it then. So our thinking sort of evolved together in a way.

MR. RUBENSTEIN: But have you ever regretted not getting involved in giving away money earlier in your life or you didn't…

MR. BUFFETT: No. My wife regretted that. She thought I should – she liked the idea of giving it away. We both agreed on giving away all the money. I mean, once we had everything we wanted – and we've had everything we've wanted – I mean, it – you know, the surplus wealth I have has no utility to me. It has all kinds of utility to the rest of the world, if used properly. So, we agreed on that early. She would have liked the idea of giving away more of it earlier. And I felt that I was going to be a better compounding machine than most places and that there would be a whole lot more to give away later on. So I told her: I'll pile it up and you unpile it, you know. [Laughter.]

MR. RUBENSTEIN: All right. Now your father was a very conservative Republican Congressman.

MR. BUFFETT: Right.

MR. RUBENSTEIN: And you were probably a liberal Democrat. Is that a fair?

MR. BUFFETT: Well, yeah, but I was very conservative back….

MR. RUBENSTEIN: Always? You were conservative – or when he was alive and then you later moved further to the left? And is it fair to say you're a liberal Democrat now or…

MR. BUFFETT: Yeah. But I'm not a card-carrying Democrat. I support certain Republicans, and I have. And actually this year I gave some money to a Republican Congressman.

MR. RUBENSTEIN: And you've become famous recently in Washington for, among other things, the Buffett Rule, which says that tax rates should be at least as high as their secretary's.

MR. BUFFETT: Yeah. In terms of aggregate of payroll and income taxes. I couldn't get a disease named after me, so I had to settle for a tax. I mean – [laughter].

MR. RUBENSTEIN: And have any of your friends suggested that you compensate your secretary in capital gains kind of things so she could pay a lower rate?

MR. BUFFETT: She's been suggesting that lately. Yeah, right. [Chuckles.] [Laughter.] She's always on the phone with some tax adviser now. [Laughter.] The interesting thing is people speculated about how much money she made, but the tax rate actually above $106,000 for most people goes down if you take the aggregate of payroll and income taxes, because the payroll tax is the most regressive of all and quits at that point. And so, actually between, say, $106,000 and $200,000, in most cases the rate would go down.

MR. RUBENSTEIN: But your financial acumen's pretty well-known. So we now have in our country $15 ½ trillion of debt in our federal government and a $1 trillion a year or so adding up. What would you do if you were able to wave a wand and try to fix our debt problem or deficit problem?

MR. BUFFETT: Well, I think I would do what everybody in this room would do. I mean, if you asked everybody here how much the federal government should be raising annually or in aggregate over the next 10 years, the answers would come in somewhere between 18 ½ percent and 19 ½ percent, which is close to what's been the situation since World War II. If you asked them how much the government should be spending, they'd probably come in at 21 percent, some would come in at 20 ½ percent or 21 ½ percent. Incidentally, you can have a 2-percentage point deficit relative to GDP and the debt-to-GDP will not grow. I mean, in fact, it probably will shrink just a touch, so you can have a couple percent deficits on average.

And I would take the plan that 90 percent of the people here would come up with to get to that 19 percent of revenue and/or to get to 21 percent. That can be Simpson-Bowles, it can be a bunch of different things. And no one's going to agree 100 percent on every point, but I think we do agree on the fact that we probably should be raising 18 ½ percent to 19 percent and we should be spending 21 percent or thereabouts. And that means getting more from taxes and it means cutting expenditures. And the problem is that, you know, the Democrats don't want to talk about what expenditures they would cut and the Republicans don't want to talk about increasing revenues.

MR. RUBENSTEIN: So would you be in favor of increasing the capital gains tax or no?

MR. BUFFETT: Yeah, I would be in favor of that. But we're raising, we'll say, you know, $2.4 trillion, $2.5 trillion now. But we have to raise, you know, probably $300 billion or $400 billion more than that. And that can be done. I mean, we've done it straight through.

MR. RUBENSTEIN: Right.

MR. BUFFETT: I mean, I've operated under all kinds of tax rates, including 39.6 percent on capital gains. And the country has grown under all these approaches. Our country works. But somebody has to step up and say where it comes from. And just talking about reform doesn't solve anything on either the expenditure side or the revenue side.

MR. RUBENSTEIN: Right.

MR. BUFFETT: I mean, you've got to get specific about it. And like I said, I'll bet if everybody in this room designed a plan, I could sign on to 90 percent of them.

MR. RUBENSTEIN: And today the economy in the United States is thought to be growing about 2 ½ percent a year. Do you agree with that? Do you think there is any chance of a recession in the near term?

MR. BUFFETT: I think it's very low unless events in Europe develop in some way that spill over here big time.

But incidentally, if the economy grows 2 percent a year and population grows 1 percent a year, that means each generation is living 20 percent better than the generation before, and that means in a century people are living three times as well as they lived at the start of the century. So, I mean, our rates of gain in the way people live have been dramatic. In my lifetime – I was born in 1930 – there are six times the real GDP per capita as when I was born, six times in one person's lifetime. We have a system that works. And it'll keep working, you know. It may not work up six times for the next 80 years, but it'll work – it'll be two and a half times or three times.

MR. RUBENSTEIN: And are you worried about the euro going away? Do you think Europe would allow the euro to go away, or…?

MR. BUFFETT: That's the big question. I mean, you know, Lincoln said that, you know, a house divided cannot stand, and half slave, half free wouldn't work. And we've got a system where they're half in and half out. I mean, they're in on the common currency and they're not in on common fiscal policy or common culture or common labor practices. And that house will fall, but that doesn't mean it has to. It means that they have to reconcile some of these things. It can't be half slave, half free.

MR. RUBENSTEIN: Now, you invest most of your money, I guess, in the United States.

MR. BUFFETT: Yeah.

MR. RUBENSTEIN: Have you increasingly been investing outside, particularly in the emerging markets, or are you not as comfortable investing in the emerging markets?

MR. BUFFETT: I'm comfortable any place I understand the business well, and to some extent the rules that they operate in, and where I've got the right management. And so, we will buy a business, you know, in any one of 40 countries tomorrow if it's the right kind of business. But most businesses I hear about are in the United States. We're on the radar screen here to a greater extent than around the world.

MR. RUBENSTEIN: So I understand that somebody from Israel sent you a letter over the transom, a one-and-a-half-page letter, and you ultimately bought that company that person was talking about for $4-plus billion. Was that…

MR. BUFFETT: Well, we bought 80 percent of it for $4 billion. And he wanted me to go see it. He told me what a wonderful place, the plan he had, and everything, and I said I'm not going to go see – you know, I don't go to Iowa, you know, as far as I was concerned. [Laughter.] He said, no, you've never seen a plant like this. And I said, you know, I love your business, I love you, you know, I'll give you $4 billion, but I'm not going to – I'm not going to go to – you know, I'm not going to start crossing oceans or anything crazy like that. [Laughter.] So he said, well, if you buy the business, will you come? And I said yes. So we bought the business. And then I went to Israel, and it was everything he said. And he was very pleased. And I said – yeah, I said, if I'd seen this thing, I'd have paid you more money, so – [laughter]. That's why I don't go visit businesses. [Laughter.]

MR. RUBENSTEIN: So what about China? Do you invest much there? You go to China very much?

MR. BUFFETT: I was sitting in 2002 or 2003 reading a report done for China. And it was fortunate it was in English. [Laughter.] And I put about $500 million into PetroChina. The government of China owned about 90 percent of it. We owned 1.3 percent. So between the two of us, we controlled the company. [Laughter.] And we made quite a bit of money out of it. And it was a very, very cheap company – I mean, one of the huge oil companies in the world; the whole company was selling for $35 billion in the market, and that was ridiculous.

MR. RUBENSTEIN: Now, one of your most famous investments is Coca-Cola. You bought it relatively cheaply.

MR. BUFFETT: It's very good for you, everybody. [Laughter.] I don't care whether you drink it; just pour it on your neighbor, but open the can. [Laughter.]

MR. RUBENSTEIN: Now, when you were a young boy, you were addicted, I was told, to Pepsi. How did you switch to Coke?

MR. BUFFETT: Well, I would like to say, of course, that I just finally grew up. When I was a kid, Pepsi was 12 ounces for a nickel and Coke was 6 ½ ounces for a nickel. And if you have any insights into my personality, you'll know which I bought. [Laughter.]

MR. RUBENSTEIN: So of the investments you've made over the years at Berkshire Hathaway, which one would you say was the single best investment? Is there one that you really are most proud of?

MR. BUFFETT: Well, the one I'm probably the most emotionally attached to is Geico, because of a bunch of reasons, but it goes back to a day in January of 1951, a Saturday. And what Lorimer Davison did for me changed my life. And he didn't have to do it; I mean, I walked in there, some 20-year-old kid on Saturday. And he spent 4 hours educating me, and then he became a friend for life. And then subsequent people, like Jack Byrne and Tony Nicely, who's here tonight – I mean, it's just been a wonderful association, whether we made any money or not. But we've done pretty well on the investment, too. But beyond that, it has a special meaning to me.

MR. RUBENSTEIN: Are there investments that you really wish you had never done? What's your worst investment?

MR. BUFFETT: I made a lot of terrible deals. And the worst – probably the worst deal will be one I make in the future.

But the current title – I bought a company – and incidentally, I did it. I mean, we do not have PowerPoints around or people explaining this stuff to me; I just go out and do them. And we bought a company called Dexter Shoe. George Mitchell is here tonight, he knows the company, and we paid $400 million for it, which went to zero, but we paid $400 million in stock. And the stock we gave up is probably worth maybe $3 billion or $4 billion today. So whenever Berkshire goes down, I'll feel better about that deal. [Laughter.]

MR. RUBENSTEIN: What about the deals you passed on? You famously passed on Intel when it was getting started, I thought, and other…

MR. BUFFETT: Yeah. I knew Bob Noyce pretty well. And we bought the converts when they were private, just because of Bob. We bought them at Grinnell College, and the endowment of Grinnell College went from $8 million to $1 billion in about 12 or 14 years, and Intel was a help on that.

But I – you know, in the end, I don't worry about things I don't understand. I mean, I think it was Tom Watson, Sr., said I'm no genius, but I'm smart in spots when I stay around those spots, you know. [Laughter.] And there is a lot to that. And knowing your circle of competence, where that perimeter is, is enormously important. And, you know, the fact is, there are all kinds of things I can't do, and there are plenty of companies I can't analyze, but I don't have to worry about that.

MR. RUBENSTEIN: Of all the companies you bought, maybe the one that bought you – brought you the most trouble -- was Salomon. When you bought it, at one point it almost, in effect, put into bankruptcy and you had to go and run the company. Was that the most difficult experience you had at Berkshire Hathaway?

MR. BUFFETT: I would say that probably was, yeah. I was their CEO for 9 months and 4 days, and it was 20 years ago. I think I remember every day of it. [Laughter.]

MR. RUBENSTEIN: So today when you have all these managers running your 75 different companies, do they call you every day and say I got this problem or that problem? Or how often do you talk to them?

MR. BUFFETT: No. No. No, if they need to call me, they're in trouble. [Laughter.] We buy businesses where the managers come with them. And there are some managers that I don't talk to once a year, and there is one I talk to almost every day. But after the one that I talk to almost every day, I would say the next highest frequency will be maybe once a week. But they always call me; I don't call them.

MR. RUBENSTEIN: Now, when you want to make an investment, you have a board of directors. Do you ever ask them? I've heard that you will buy a railroad for $20-some billion and not tell your board of directors.

MR. BUFFETT: I told a few of them. [Laughter.]

MR. RUBENSTEIN: A few of them, OK.

MR. BUFFETT: That was an exception. [Laughter.] Part of why we're able to make the deals is because we can act fast. They know we have the money. They know we'll do the deal. We closed on October 6, 2008, on a $6 ½ billion investment in Wrigley in conjunction with Mars. And they knew we would have the $6 ½ billion and that we would close on it. People weren't closing on anything. And so it's a real advantage to be able to pull the trigger. And if we have to go through lots of presentations and everything – I mean, I've been on 19 corporate boards, and, you know, every deal works on the PowerPoint, you know. And it's a show-and-tell-type thing, and I don't really participate in it.

MR. RUBENSTEIN: So it recently came out in court discussion that the insider trading thing that's going on related to an investment you had made in Goldman, it came out that you had set the deal, and you told the investment bank that this is the deal, and they had to get back to you, but you said, don't call for a few hours because you're going to Dairy Queen with your grandchildren. Is that right?

MR. BUFFETT: That is true.

MR. RUBENSTEIN: You didn't want to be disturbed on a deal?

MR. BUFFETT: Well, I just knew what I would do. And I told them what I would do. And if they wanted to do it, fine; if they didn't want to do it, fine. I mean, we don't really negotiate at Berkshire. It's just, I don't have enough time, you know, to spend the rest of my life negotiating with people. So I tell them what I'll do. And if it works, fine; if it doesn't work, fine.

MR. RUBENSTEIN: Now, famously, people wonder who will be your successor. And I wonder if tonight you wanted to give us any insights into that. [Laughter.]

MR. BUFFETT: Well, I have left the directors a Ouija board, and I plan to keep in contact with them. [Laughter.] I don't want to disappoint you, but you're not on the short list, David. [Laughter, applause.]

MR. RUBENSTEIN: Can I be on the long list? [Laughter.]

MR. BUFFETT: So we're in perfect shape for it, though. I will say that. We've got successors that in most ways are better than I am.

MR. RUBENSTEIN: But you expect that Berkshire will be around for 20, 30, 40 years?

MR. BUFFETT: Right, right. It's built to be forever. It has a special culture; it has directors who are committed to that, and managers. We have an organization that would reject anybody who tried to tamper with that culture, and I think it is special and it can stay special.

MR. RUBENSTEIN: So today, having achieved all that you have achieved, you've got the admiration of virtually everybody in the world for what you've done. What kind of motivates you to keep going? What are your aspirations over the next 5 years or so?

MR. BUFFETT: I'm having the time of my life. I mean, I get to do every day exactly what I like to do with people who I love and who seem to like me pretty well, and it doesn't get any better than that. I tell the students that come to see me – and I have 48 universities come out every year – I tell the students, take the job you would take if you didn't need a job. And I've got the job that – but I don't need a job, and I've got that job.

MR. RUBENSTEIN: Now, you're giving away 99 percent of your wealth. You have three children, seven grandchildren, and nine great-grandchildren.

MR. BUFFETT: That's it.

MR. RUBENSTEIN: And do any of them ever say, maybe you could leave some of that to me? [Laughter.] Or they've never…

MR. BUFFETT: Well, I'm leaving some of it to them. I don't write a will very often, but when I write a will, I give it to my children first before I sign it. They all read it – they're the executors, and I want two things: I want them to understand exactly what's in it, and secondly, I want them to agree with it. If they don't, we talk it out now, and we'll figure out what makes sense. And so every, I don't know, 5 or 6 years or 7 years, whenever I do this, they read it, and sometimes there is something that they don't understand in terms of exactly what their duties might be or something of the sort. And then in terms of equating, I've got one son that likes to farm; I've got a farm that he'll get. I've got a daughter that likes a particular house; and I've got these various ways of equating that in percentages and all of that. And in the end, I think they feel very lucky in life.

MR. RUBENSTEIN: So for the average person who doesn't have your investment skills, and they want to not lose their money, would you recommend that they play the stock market, they buy mutual funds? What do you recommend to the average investor?

MR. BUFFETT: Well, playing the stock market – "playing" is not a word I would choose. [Laughter.] I would recommend that they save something every month and basically put it in an index fund. They are not in a position to make judgments on stocks themselves. They're not in the game anymore than I can prescribe them medicine or something of the sort. They will get a good result.

The American economy has done wonderfully. I mean, if you take the 20th century, the Dow started at 66, and it ended at 11,400. Now, think of that. How could anybody get a bad result on investing starting at 66 and go to 11,400? But a lot of people do because they jump in at the wrong time, or they think they know this stock versus that stock. But the average person should just consistently buy equities, which to me are by far the most attractive investment choice around, and put it in and not think about it for 20 or 30 years; they'll do very well.

MR. RUBENSTEIN: But you don't subscribe to the efficient market theory that says, basically, you can't beat the stock market? Do you subscribe to that theory that you can't?

MR. BUFFETT: Well, if I'd subscribed to that theory – [chuckles] – I'd still be delivering papers, you know. [Laughter.] No, no, I don't think there's any question that certain people who evaluate stocks as businesses can make intelligent decisions about businesses, which will enable them to do very well in the securities market. But I don't think somebody that is listening, you know, to a TV channel tell them what to do or somebody, you know, jumping around with histrionics or even some salesperson who is getting paid more money for selling them something and getting the change tomorrow is the key to it.

MR. RUBENSTEIN: Now, you gave away or committed to give away the bulk of your money to a foundation set up by other people. Why did you choose not to just have the money go to a foundation named after you that, presumably, you would control, and how did that idea come about?

MR. BUFFETT: Well, originally I'd actually planned – I thought my first wife would outlive me and that she would give away the money, so that it would have gone to a foundation that she ran. But the idea was to get the money spent. And you say it's run by other people, but, you know, if you set up the Ford Foundation or you set up the Carnegie Foundation, they're being run by other people. It's just that Carnegie didn't know who they would be, or Henry Ford didn't know who they'd be. So they are going to be run by other people if they extend beyond your lifetime.

And I picked people that I had enormous confidence in the fact that they had a similar judgment about where money should go and where I thought they would do a first-class job of administering it. And then, I mean, in the case of the Gates Foundation, I get people that are putting up their own money big time, who are very able people, who are working full-time at it themselves, who aren't charging me anything, and I've got these foundations that are run by my children that – it's been wonderful for them, and they each have a separate foundation so that they can follow their own interests and not have to sort of, you know, roll logs as to who votes for this one or that one, and it's all worked out perfectly.

MR. RUBENSTEIN: And what was Bill Gates' reaction when you called him and said, guess what, I'm giving you $50 billion eventually?

MR. BUFFETT: I think he said – [chuckles] – well, I shouldn't joke about this. [Chuckles.] I don't remember exactly what he said, but I think he was surprised.

MR. RUBENSTEIN: OK. And did he suggest you put your name on the foundation as well?

MR. BUFFETT: No, I don't want my name on anything. There are all kinds of people that do want their names on it, so if you can sell it to some other guy, why should you give it to me when you don't get anything out of it, you know? [Laughter.]

MR. RUBENSTEIN: OK, I understand. [Laughter.] So as you go forward now, are there certain things that you would like to accomplish beyond what you've accomplished? Are there certain social problems you'd like to see being solved or economic problems? Or is your goal mostly to keep your company doing well and give away the money?

MR. BUFFETT: Well, in terms of personally, sure, I want Berkshire -- I mean, that is my painting in life. I've been painting it all my life virtually, and I want to keep painting it and have it become even more of what it already is. And so that's what I love, and anything that works positively for Berkshire in terms of adding better businesses, you know, having wonderful managers – anything that makes them be in a position to get their full potential from their companies, I love. And I'll do that as long as I can. I like the idea that, basically, the fruits of that, you know, will be used by some very intelligent people to improve the lot of a whole bunch of people who didn't get the lucky straw in life like I got.

MR. RUBENSTEIN: And how old were you when you realized you were much better than other people in picking stocks and making these kinds of investments? Did you realize that as a young person, or did it take much longer before you realized you were much better than everybody else?

MR. BUFFETT: It sounds obnoxious, but I thought I was going to be pretty good [chuckles] early on. I was really bad at Alice Deal, but I was kind of working out of it at Woodrow Wilson. And I had these teachers that I caused some trouble to, but they didn't think I knew a lot about stocks. And of course, in those days, teachers put all their money in AT&T. I mean, that was the ultimate safe investment. So when I was feeling particularly obnoxious, I shorted a little AT&T and brought the confirmation – [laughter] – showed it to the teachers, made them worry a little.

But – no, I – [laughter] – you couldn't love anything as much as I loved investments and not get fairly good at it. I read every book in the Omaha public library on it. This was by the time I was 11, and we moved back here. And as soon as I got back here and my dad was in Congress, I said, get everything in the Library of Congress; I want to read it. [Chuckles.]

MR. RUBENSTEIN: Well, there's one company in Washington that we didn't mention. You obviously bought Geico, and that's one of your most famous investments, but you made a very famous investment in *The Washington Post* many years ago. What attracted you to *The Washington Post*, and how long have you held that investment?

MR. BUFFETT: Well, I love the business as such, but when I bought The Washington Post Company – this was pre-split – they had about 4.8 million shares outstanding, and the stock got down to 16, but thanks to the Nixon challenge, their TV stations and a few things, and Bebe Rebozo and the rest, the stock cascaded down from 37. So when we bought it, the whole valuation of The Washington Post Company was about $100 million. Now, if you'd asked any reporter at *The Washington Post* to go out and do a story on what The Washington Post Company's constituent businesses were worth, they would have come back and said $400 million or $500 million. So you were really buying a wonderful business run by wonderful people at 20 cents or thereabouts on the dollar, and you know, it's almost a classic investment. If you'd asked any of the people who were selling their stock to us what The Washington Post Company worth, they would have said three or four times what it's selling for. But they sold it because they thought it was going to go down the next day. And they were right for a while. [Chuckles.]

MR. RUBENSTEIN: But you've owned that now for 30…

MR. BUFFETT: It's been 29 years – I mean 39 years.

MR. RUBENSTEIN: So you are an optimist about the future of our country?

MR. BUFFETT: It's a cinch. Yeah, we haven't lost the secret sauce. I mean, yeah. Go back to that. When I was born in 1930, the Dow was 252 the day before. I was born on a Saturday; Friday it was 252. That was a high for the year. [Laughter.] It was going to go down to 42. There's no connection in this, folks.

The – [laughter] – but you know, if I had seen that my dad was going to lose his job. And he worked in a bank, and he had all his money in that bank. And it closed, and he had no money to pay his mortgage or anything. That was going to happen within a year. If you'd seen that, you'd have said, you know, go back; it'd be like the old Woody Allen movie, you know, just don't even come out.

And – [laughter] – look at what has happened since that time. I mean, you know, we went through a terrible war. We went through a terrible Depression. We went through 25 percent unemployment. We went through thousands of banks closing – six for one, you know. We're not smarter than the people in 1930. We don't work harder than the people in 1930. We've just got a system that works. It's been working, you know, since 1776, and it will keep working.

MR. RUBENSTEIN: So any regrets in life?

MR. BUFFETT: Not really, no.

MR. RUBENSTEIN: And today you are somebody who is very close to the President of the United States. If he asked you to come in and serve as an adviser, would you do that? Or –

MR. BUFFETT: [Chuckles.] That won't happen. If he wants to ask me anything, I would certainly always be glad to help. But that would be true of any President under any circumstances.

MR. RUBENSTEIN: And today Berkshire Hathaway, that a buy at this price?

MR. BUFFETT: Well, the businesses it owns are worth more than the market price. But that's true of other businesses, too.

MR. RUBENSTEIN: Well, what I'd like to do is, on behalf of everybody here, thank you for an extraordinary *tour de force* of your explanations of things. And thank you very much for coming this evening. I think everybody had an enjoyable evening; I know I certainly did. And I want to thank you on behalf of everybody here and all America for what you've done and for your philanthropy and for your confidence in America. And on behalf of The Economic Club of Washington and everybody here, I'd like to give you a few gifts, if I could.

MR. BUFFETT: You may get on that short list this way. [Laughter, applause.]

MR. RUBENSTEIN: Oh, OK. Well, this is a Woodrow Wilson High School jacket we've had made up for you. [Cheers, applause.]

MR. BUFFETT: Go Tigers! [Laughter.]

MR. RUBENSTEIN: And we have here a copy of the original map of the District of Columbia we'd like to give to you as a gift from the Club. And I'd like to give you, as a personal gift, a copy of the Declaration of Independence. When we talked about this appearance, you were at the Archives. And I think you said you hadn't been there before.

MR. BUFFETT: It was marvelous.

MR. RUBENSTEIN: And I cornered you, and you said you weren't sure what you had agreed to, but you agreed that you would do this. And I thank you for honoring your commitment to come. And this is inscribed to you, and it says, "Warren Buffett, a rare modern man with the essential traits of our Founding Fathers: great wisdom, courage and leadership, and also great wealth."

MR. BUFFETT: Ah, thank you.

MR. RUBENSTEIN: Thank you very much. [Applause.]

Warren E. Buffett

Warren E. Buffett was born in Omaha, Nebraska, on August 30, 1930. His family operated a grocery store in Omaha for 100 years (1869-1969). His father ran an investment firm and also served as a Member of Congress for four terms.

Mr. Buffett is chairman of the board and chief executive officer of Berkshire Hathaway Inc., a holding company controlled by him since 1965. Berkshire Hathaway has 75 operating businesses, with its largest source of earnings arising from property-casualty insurance and reinsurance. Berkshire Hathaway has revenues of about $130 billion.

Mr. Buffett started out as an investment salesman and securities analyst, and early in his career, he created his own investment partnership. If an investor had put $10,000 in Buffett Partnership Ltd. when it was formed in 1956 and continued that investment in Berkshire Hathaway, he would now have shares worth about $500 million.

Mr. Buffett has pledged that all of his shares in Berkshire Hathaway – about 99 percent of his net worth – will be given to philanthropic endeavors. Along with Bill and Melinda Gates, Mr. Buffett is a co-founder of The Giving Pledge that encourages wealthy Americans to devote at least 50 percent of their net worth to philanthropy.

Mr. Buffett attended Woodrow Wilson High School in Washington D.C., and Wharton School of Business at University of Pennsylvania and in 1950 received his B.S. from the University of Nebraska. He earned his M.S. in Economics from Columbia University in 1951.

Mr. Buffett was married to Susan T. Buffett until her death in 2004. They had three children: Susan, Howard, and Peter. In 2006, he married Astrid Menks.