

BN Buffett Says Economy on Floor: Charlie Rose (Transcript)
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Oct. 2 (Bloomberg) -- Billionaire Warren Buffett talked with Charlie Rose yesterday in San Diego about Berkshire Hathaway Inc.'s \$3 billion investment in General Electric Co., debate in Congress on a \$700 billion financial-rescue package and the outlook for the U.S. economy and financial markets. ("Charlie Rose" airs weeknights on PBS. Source: Charlie Rose)

(This is not a legal transcript of the interview. Bloomberg LP cannot guarantee its accuracy.)

CHARLIE ROSE, ANCHOR, PBS: We are in San Diego, California this afternoon for a conversation with Warren Buffett. He is the man Congressional leaders, the administration, and the Federal Reserve want to talk and talk to. He is a legendary Chairman and CEO of Berkshire Hathaway. Its success has made him the world's richest man. He's admired for his investment results over a long period of time.

He is trusted for his common sense and the fact he has warned over the years in his annual letter to stockholders about some of the things that are contributing to the crisis facing America and the global economy.

For all those reasons, we have come to see him in San Diego, where he is attending the 'Fortune' magazine's most powerful women summit. Later, he will be interviewed at that conference by the 'Fortune' reporter and long time friend Carol Loomis.

We come this evening from the studios of our public television affiliate in San Diego, KPBS. I thank my friend Warren Buffett for taking time in a busy schedule to talk to us.

WARREN BUFFETT, INVESTOR: My pleasure, Charlie.

ROSE: Let me talk with the news today. You have announced an investment of \$3 billion in General Electric, along the same terms as the Goldman Sachs.

BUFFETT: Almost identical.

ROSE: Why GE?

BUFFETT: Well, I got a call this morning from a friend of mine at Goldman Sachs saying they might be interested in such an investment. I'm familiar with the company. I've known the management, the current management, Jack Welsh, before Jeff Immelt. I've known him for decades. So I

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understand their businesses. We do a lot of business with them.

And GE is going to spend - I think it's the longest running stock in the Dow Jones Industrial Average. It will be 100 years now it will be around. I hope I'm around then too.

And it was an attractive investment. And we've had a lot of money around over the last few years and we're seeing some things that are attractive now.

ROSE: Are you looking at other things?

BUFFETT: I look at everything, Charlie. That's my job. I really do, every day. I think about everything.

ROSE: Cash is said to be king now. Are you sitting on a lot of cash so that this is the time for Berkshire Hathaway and Warren Buffett to look carefully at a lot of opportunities?

BUFFETT: Yes. We want to use cash. The reason we haven't used our cash, two years ago, we just didn't find things that were that attractive. But when people talk about cash being king, it's not king if it just sits there and never does anything. There are times when cash buys more than other times, and this is one of the times when it buys a fair amount more. And so we use it.

ROSE: There's a time accumulate and a time to spend.

BUFFETT: Absolutely. You want to be greedy when others are fearful. You want to be fearful when others are greedy. It's that simple.

ROSE: Where are they now?

BUFFETT: They're pretty fearful. In fact, in my adult lifetime, I don't think I've ever seen people as fearful economically as they are right now.

ROSE: And why is that?

BUFFETT: Well, it's because they have seen the credit market seize up. They've gotten worried about money market funds, although the latest proposition from the government should take care of that. They've seen 8 percent of the bank deposits in the United States get moved, very skillfully, I might say, within the last couple weeks from institutions that they thought were fine a few months ago to other institutions. They're not wrong to be worried.

ROSE: Is it being felt, as people often point out, on

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Main Street?

BUFFETT: I read about auto sales today. If you're an auto dealer, you're feeling it. If you're a furniture retailer, like we are, you're feeling it. If you're a jewelry retailer, you're feeling it. I know some of these businesses because we're in them. Yes, it's being felt, but it will be felt big time more if we don't do something about it, what's going on.

ROSE: The Senate will vote sometime this evening. Are you satisfied with that rescue plan?

BUFFETT: Well, I don't think it's perfect, but I don't know that I could draw one that's perfect. I would rather be approximately right than precisely wrong. And it would be precisely wrong to turn it down. We need - we have a terrific economy. It's like a great athlete that's had a cardiac arrest. And it's flat on the floor, and paramedics have arrived.

And they shouldn't argue about whether they put the resuscitation equipment a quarter of an inch this way or a quarter of an inch that way. Or they shouldn't start criticizing the patient because he didn't have blood pressure tests or something like that.

They should do what's needed right now and I think they will. I think the Congress will do the right thing. I think that they've gotten into certain arguments and then they start worry about assessing blame and there's a little demagoguery. But in the end, something this important, they'll do the right thing. This is really an economic Pearl Harbor. That sounds melodramatic, but I've never used that phrase before, and this really is one.

ROSE: Go through why that is true, beyond the fact that there's a freeze on credit, beyond the fact nobody's making loans, beyond the fact that banks don't lend to banks, beyond the fact that Treasury bills are at a low.

BUFFETT: When 40 billion of Treasury bills are sold, like they were last week, seven day Treasury bills, at a yield of 1/20th of 1 percent, that means the whole country is basically at the point, virtually - or a lot of the country is at the point of putting their money under the mattress. You're only 1/20th percent away from where it's better to put it under the mattress.

You don't want 300 million Americans putting their money under the mattress. This economy doesn't work well without the lubrication of credit and trust. And that's been lost and it's a huge problem.

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What you have is you have the major institutions of the world all wanting to de-leverage. They want to take down their assets and liabilities. What seemed so easy to borrow against a year ago now looks like rat poison to them. So they're trying to de-leverage. There's only one institution in the world that can leverage up in a way that's at all a countervailing force to that. And that's the United States Treasury.

ROSE: Are you approving of what's been taking place along the stages that got us to where we are now. Whether it's Bear Stearns or Lehman Brothers or AIG, Freddie and Fannie, or what you've done with Goldman Sachs and the rest?

BUFFETT: Yes, I think basically the right things have been done, but no one saw the tsunami coming fully. And so when Bear Stearns came along, it looked like if you stopped the flood at that point, you didn't have to worry about being down stream from it. And I think the Fed did the right thing there.

And I really thought that would probably halt runs on other major institutions, but it didn't. We have seen wave after wave. And admittedly, there has been somewhat of an ad hoc response to there. I would rather have an ad hoc than no response at all.

And I don't think the Treasury could remotely have gone to Congress three or four months ago and laid out the scenario of what's happened and been credible and gotten the necessary tools. I think it took a crisis like this.

ROSE: And asking for the powers asking for and the levels it was asking for.

BUFFETT: They wouldn't have gotten it. So I think it's been kind of like a tragic play to this point. But at this point, I think it's clear and will be clear to the majority of the Congress, and I think it's clear to the American people, that there is only one countervailing force to a world where financial institutions are trying to sell instruments every day, and where credit is dried up. And that's the United States Treasury.

ROSE: But at the same time, there has been, and Congressmen and women will tell you this, a resistance across the country because they think, as you well know, it's a bailout of Wall Street, and that they are sitting there in their own economic life, and nobody's coming along to say we're here to help you; we're from the government.

BUFFETT: Well, the patient that's on the floor with the cardiac arrest is not Wall Street. It's the American economy.

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ROSE: Do you think they understand that yet?

BUFFETT: I think they probably don't and I think any time you couple the term Wall Street with bailout or something like that - you know, I don't like what's going on in Wall Street. I don't like what's going on in executive compensation. But I don't want to give a lecture to this body that's out there having had the heart attack. I want to get it back functioning.

And as a practical matter, if you were at Bear Stearns and you were a shareholder, you lost 90 to 95 percent of your money. Good many lost their jobs. They lost very cushy lives, many of them. If you were at Lehman, the same thing happened. If you were at AIG, the share holders are getting creamed on these things.

And those share holders are not just a bunch of big shots on Wall Street. Those are pension funds. Those are investors all over the country.

I wouldn't worry too much about that. Justice won't be perfect on it. You may be very mad at some guy who walked away with a huge golden parachute, but that really isn't the important thing.

If Pearl Harbor came along, you could have said the planning was wrong by the military ahead of time, or maybe the battleship shouldn't have been in the harbor and all of that kind of thing. It doesn't make any difference. It's Pearl Harbor.

And you better not spend weeks and weeks trying to assign blame or deciding on a complete plan for fighting the whole war, and letting a committee decide where the battleship should go and all of that. You better spring into action with the best people you have.

ROSE: You have never seen anything like this in your life?

BUFFETT: No, I haven't.

ROSE: There are those who argue that we're headed for a recession, you know, and they look at Depression as the great fear.

BUFFETT: Sure.

ROSE: Is that a possibility if this plan doesn't work.

BUFFETT: Yes, it's a possibility. We have about 6.1 percent unemployment now. We've been in a recession by any

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common sense definition, because if you look at the American public, they've got \$20 billion - \$20 trillion, I should say, worth of residential homes. They've got \$20 trillion worth of stocks, very roughly. Those are the two big assets of American families. They're both down dramatically for different families.

But 95 percent of the people, at least, are worse off in terms of their residential wealth plus stock wealth from a year ago or two years ago.

That is bleeding into the real economy. I mean that's bleeding into auto sales and jewelry sales and furniture sales and all that. But that wave is just starting to hit. And if the paralysis we have in the credit markets, if every company continues to feel all we want to do is get our balance sheet down, sell assets, it's just the start of what can happen.

Unemployment is going to go up under any circumstances. The 6.1 is going to go higher. But whether it goes and quits at seven or whether it quits at ten or 11 or 12 depends on, among other things, the wisdom of Congress and then the wisdom of - in terms of carrying out the plan that Congress authorizes.

ROSE: Would you say that this plan, which you have argued very strongly the Senate ought to pass and the House ought to pass, is simply the plan that we have and I don't have a better idea, but it's essential for the confidence of the nation and the system?

BUFFETT: Yes. I just worry about whether it's enough but -

ROSE: Enough what?

BUFFETT: Every day that goes by - if you don't react to Pearl Harbor for a week or two weeks or three weeks, you're behind in the war that you otherwise would have fought. But it's very important that the determination of the U.S. Congress to do what is needed be made evident this week, and by the actions of most of the members. You're not going to get total assent.

ROSE: What makes you confident that this plan will work?

BUFFETT: I think you've got - I don't think you could have a better secretary of the Treasury than Hank Paulson. He is in there at the wrong time. He probably should haven't taken the job. He's a friend of mine. But he knows markets. He knows how corporations work. He knows money. And he's got the interest of the country at heart.

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And so you've got the right - you've got a wonderful person with Sheila Bair. Most of the viewers have never heard of Sheila Bair. Sheila Bair, in the last two weeks, has taken 8 percent of the deposits of the United States and seamlessly moved those over to sound institutions, which in turn have gotten more capital. It's been a magnificent job, 8 percent of the deposits of the United States, tens of millions of depositors.

Nobody has ever heard of her. She'll never get a golden parachute or severance pay or anything. She's done a great job. We have some great public servants. We have, I think, the right people in there to get the job done and they need more tools.

ROSE: And those more tools might be, in addition to what's in this plan?

BUFFETT: Well, they need plenty of money, and they really need plenty of flexibility to carry out this plan. They also need, in my view, to very much tie it to market prices.

I have said, Charlie, that the \$700 billion, if they buy mortgages related securities or mortgages themselves, at current market prices, they're going to make money over time because the United States government has staying power, and it has a low cost of borrowing.

And if I could take 1 percent of that \$700 billion pot and take the gain or loss from it and be their partner, and they would buy the stuff at market, I'd make a lot of money.

No, it's - I mean, you have hedge funds and people like that buying these assets to yield 15 or 20 percent. I mean, that's the buyer for these people that are trying to unload them. The U.S. Treasury has got borrowing costs like nobody else has. They can borrow basically unlimited amounts. They can stay there for years and years. These assets will be worth more money over time.

So when Merrill Lynch sells a bunch of mortgage related assets at \$0.22 on the dollar, like they did a month ago, the buyer of those is going to make money and he's going to make a lot more money if it happens to be an institution like the U.S. government, which has very, very cheap borrowing costs.

ROSE: So you are saying to those tax payers who are worried about what's going to happen to \$700 billion, chances are good that when these securities are purchased and sold, you will get a lot of your money back or all of your money back, and maybe something else.

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BUFFETT: I would bet on it. If I got a chance to take 1 percent of the deal either way, I'm going to make that bet. When Berkshire Hathaway laid out \$3 billion for GE today, we didn't spend it. We invested it. When the federal government buys the mortgages, they're not spending it, they're investing it.

Now they're investing it in distressed type assets, but they're buying them at distressed prices, if they buy them at market. It's the kind of stuff I love to do. I just don't have \$700 billion. Maybe we can go in it together. With your money and my brains, there's no telling how far we can go.

ROSE: Whatever. I'll take the deal, whatever you want to do. There is this, though, in terms of alternative; some people have suggested, for example, that why don't we - why isn't America doing what Berkshire Hathaway is doing? Why isn't that a better deal for America?

BUFFETT: I don't think it would be crazy to have a model - an entity modeled on the Reconstruction Finance Corp. That goes back to 1932, although it was really implemented in '33 under Jessie Jones. And it invested in mostly banks, initially, and preferred stock and that sort of thing.

So there is - there are two things needed in the system. The one that's needed overwhelmingly is liquidity. When people are trying to de-leverage, there has to be somebody there to buy. And they don't have to buy at fancy prices, but to buy.

And then there's also a capital problem with some of the institutions. We have provided capital here with a couple institutions recently. The federal government did that in the '30s for the RFC and I think there could well be a proper role for government in that.

ROSE: Would that have been a better idea today?

BUFFETT: It wouldn't have been big enough today. You couldn't have - if you set up an RFC today and you gave them \$100 billion to invest in the capital, there would be a very cumbersome type of application process and everything. These assets are getting shoved out day by day and loans are coming to - commercial papers not being renewed.

The commercial paper market, when that dries up, that's just like sucking the blood out of the economic body of the United States. And that's happening.

So I would say that an RFC like thing might make sense. I probably would do it myself, but I don't think trying to

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combine that with what's going through now - I think what's needed now is liquidity.

ROSE: Right. There are those who - you just said you would do it yourself - there are those who believe, and it has been suggested, that this is the time for Warren Buffett to answer the call of his government in a country that's been very good to him. What are you prepared to do yourself beyond run Berkshire Hathaway well?

BUFFETT: That's my job. Any time I can be of help to the government, in terms of giving advice - I've given a little advice, actually.

(CROSSTALK)

BUFFETT: Trouble is it gets when it really counts. But anyway, obviously, I'm here tonight talking about this for that reason. It isn't going to do anything for Berkshire Hathaway. That isn't really true.

Anything that enables this economy to run in the manner that it should - we've got the same plants out there we had two years ago. We got the houses. We've got people that are more productive than they've ever been in the history of this country. We've got a wonderful economic formula in this country. But right now it is being - it's been brought to a halt by -

ROSE: By?

BUFFETT: It's the de-leveraging that's going on right now that has caused the credit crisis.

ROSE: I mentioned earlier in this introduction to you, if you read your letters to your stock holders, which you write and Carol Loomis edits every year, and you think of your sister as a person -

(CROSSTALK)

ROSE: You have talked about derivatives. Derivatives are, in part, at the core of this problem. Yes?

BUFFETT: AIG would be doing fine today. It was one of the ten largest companies of the United States in terms of market value, over \$200 billion, the most respected insurer in the world. If they never heard of the word derivatives, they would be doing fine. Everybody would be going to work in the morning and they would have no troubles.

But they - it was very easy to do, because very tempting to write numbers on little pieces of paper, and you can kind of report the profits you want to, and there's no

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limit on it. I mean, there's no capital requirements to it or anything of the sort.

And basically I said they were possibly financial weapons of mass destruction and they have been. I mean, they destroyed AIG. They certainly contributed to the destruction of Bear Stearns and Lehman, although Lehman had other problems too.

ROSE: I'm interested in this, because people are asking me, did people get away with murder here? Were there people who simply gamed the system and took advantage and made huge amounts of profit and we had excesses that inevitably led to where we are today?

BUFFETT: Well we had all of that. But I would say the biggest single cause was that we had an incredible residential real estate bubble. You can go back to tulip bulbs in Holland 400 years ago, human beings going through combinations of fear and greed and all of that sort of thing, their behavior can lead to bubbles.

And they've had an Internet bubble at one time. You've had a farm bubble, farm land bubble in the Midwest, which resulted in all kinds of tragedy in the early 80s.

But we've had 300 million Americans, their lending institutions, their government, their media, all believed that house prices were going to go up consistently. And that got built into a \$20 trillion residential home market. Lending was done based on it. And everybody did a lot of foolish things.

And where people really behaved in a fraudulent way or something, they'll go back and find the culprits later on. But that really isn't the problem we have. That's where it came from, though.

We leveraged up. And if you have a 20 percent fall in the value of a \$20 trillion asset, that's \$4 trillion. And when \$4 trillion losses land in the wrong part of this economy, it can gum up the whole place.

ROSE: And it continues with respect to the housing market.

BUFFETT: It continues.

ROSE: And some will argue that we have to do something about that, in terms of the long-term recovery of the American economy.

BUFFETT: There's no question we have an excess stock. The good thing is we have household formation in this

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country. We have a country where - I don't know whether it's a million households a year or more, but get formed (ph). So we can eat off an inventory.

But the inventory is too big and house prices just soared beyond reason in many places. And they got financed in silly ways and people lied about loans, all kinds of excesses entered into it. But that is the single biggest cause of why we are here.

ROSE: And should wise people have known better?

BUFFETT: People always should know better. People don't get - they don't get smarter about things that get as basic as greed. And you can't stand to see your neighbor getting rich. You know you're smarter than he is and he's doing these things and he's getting rich. And your spouse is getting unhappy with you because you aren't doing. Pretty soon, you start doing it.

And so you get what I call the natural progression, the three Is - the innovators, the imitators and the idiots. Everybody just kind of goes along and you look kind of silly if you disagree.

You can have these crazy Internet valuations in the late 1990s, but they proved themselves out in the market. I mean, the next day, they were selling for more than they were the day before. And people said, you're crazy if you don't get in on this. So it's very human.

Now with housing, it's something even more dramatic than that, because most people aspire to own their own home. And if you really think that housing prices are going to go up next year and the year after, you feel, if I don't buy it this year, I'm going to have to buy it next year. That's not true of an Internet stock, but it is true of a home.

And then when somebody makes it very easy for you to do it, by saying you don't really have to put up any money or you can lie about your income a little, or we'll give you 100 percent mortgage, you're going to do it, because everybody that's done it has been proven right. It's what they call social proof. And you're going to feel like an idiot if you didn't do it. And next year, the house costs more.

ROSE: It's found money.

BUFFETT: It's found money, sure.

ROSE: So when you look at where we are going, there seem to be two issues that are apparent, to me at least - risk and leverage. We just lost sight of risk and leverage

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of what was appropriate.

BUFFETT: People will do it, again, because it pays off for a while. I mean, you can lose leverage and it's the only way a smart guy can go broke, basically. If you owe money, you can't pay them off. You just pay for everything and if you do smart things, you eventually get very rich. You can do smart things and use leverage and if you do one wrong thing along the way, it can wipe you out, because anything times zero is zero.

But it's so reinforcing when the people around you are doing it successfully, you're doing it successfully. And it's a lot like Cinderella at the ball. You know at midnight everything's going to turn to pumpkins and mice. Right? But as the evening goes along, the guys look better all the time, the music sounds better, it's more and more fun.

You think why the hell should I leave at quarter of 12? I'll leave at two minutes to 12. But the trouble is, there are no clocks on the wall. Everybody thinks they're going to leave at two minutes to 12.

ROSE: And you're having a good time.

BUFFETT: Sure.

ROSE: So if this plan - you hope it will do what? It will loosen credit? It will stop the slide and the panic? People will have more confidence?

BUFFETT: Confidence is key. Confidence is key. You're not going to put your money - you're not going to leave your money with me unless you're confident I'm going to give it back to you. And at this point, when Treasury bills, like seven-day Treasury bills at 1/20th of 1 percent, it's not because people want to earn 1/20th of 1 percent. It's because they trust the fact that the Treasury will give it back to them next week.

And I'm sitting with \$6.5 billion we're going to use to close the (inaudible) deal October 6th. I've got to hand over that \$6.5 billion on October 6th. Now I have to be very careful about where I leave it between now and then, because they're expecting me to show up.

But I lose confidence in other people, all kinds of institutions. And there are plenty of them that I've lost confidence in. Then they get - their funds aren't available. They don't have it for the next guy. The whole economy just comes to a grinding halt.

Confidence in markets and in institutions, it's a lot like oxygen. When you have it, you don't even think about

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it. It's indispensable. You can go years without thinking about it. When it's gone for five minutes, it's the only thing to think about. The oxygen has been sucked out of the credit markets and confidence. And there has to be - it's got to be given a jump start, basically.

ROSE: And that's what this - ?

BUFFETT: And that's what I hope gets done.

ROSE: And if it doesn't work?

BUFFETT: You turn the spigot. But you don't get - I've argued with the senators and Congressmen I've talked to, you don't want to be too little, too late. Now they're being somewhat too late, in my view. But I'm glad - but that's okay.

We're going to argue for a few weeks after Pearl Harbor to decide whether it was really the Japanese that attacked and whether we should commit a few battleships. But the too little part, it could be a mistake. I mean, this has to be done.

ROSE: Too little, meaning in terms of dramatic steps or the amount of money you're spending?

BUFFETT: It's whether people think it's too little, when you get all through it. In the end, \$700 billion is a lot of money, and it will buy a lot of distressed property. And if you buy them at the right price, you may be buying \$2 trillion of face value. The one thing you don't want to do - doesn't make any difference what the guy paid for it that you're buying it from, or what is carrying value is. You've got to buy it at market.

And one way to do that is if some institution wants to sell you a \$1 billion worth of mortgages, they might have to sell \$100 million in the market, and then you'll buy the other \$900 million on the same terms.

Now, the very act that you're - the very fact that this has been authorized or will be authorized, I hope, will firm a up the market to some degree and that's fine. But you don't want to have artificial prices being paid.

ROSE: What do you believe might never be the same?

BUFFETT: Oh, I think confidence will come back. I will tell you this, this country is going - will be living better ten years from now than it is now. It will be living better 20 years from now than ten years from now. The ingredients that made this country, the miracle of the world. We had a seven for one improvement in the average American's standard

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of living in the 20th Century.

We had the Great Depression. We had two World Wars. We had the flu epidemic. We had oil shock. We had all these terrible things happen, but something about the American system unleashed more and more of the potential of human beings over that 100 years, so that we had a seven for one improvement.

You have centuries where if you got a 1 percent improvement, then there's something. So we've got a great system. And we've got more productive capacity now than we ever have. The American worker's more productive than he's ever been. We've got more people to do it. We've got all the ingredients for a sensational future. It's just right now the athletes on the floor. This is a super athlete.

ROSE: And what's the impact of the athlete being on the floor around the globe?

BUFFETT: Plenty, plenty. And we're finding that out. And the same things happen to quite an extent around the globe. The European banks were doing what the American banks were doing.

ROSE: They're failing now.

BUFFETT: Yes. They were getting a mortgage from some guy in Omaha, you know, securitized a couple times. You have all these types from Wall Street. They had advanced degrees and they looked very learned. And they came with these things that said Gamma and Alpha and Sigma. All I can say is beware of geeks bearing formulas.

ROSE: Have we learned something about decoupling or the American economy in terms of its impact? For example, China, a place where you've had investments and you know well.

BUFFETT: Yes. We just made a new one a couple days ago.

ROSE: What was that?

BUFFETT: A company called BYB, may develop a really good electric car, I hope.

ROSE: Is there operative narrative to the kinds of investments you're making, other than you look at and you buy on value. You look at management. You look at a place that can absorb the amount of money you want to invest. And you look at its prospects. And you look at price.

BUFFETT: They have to be pretty good size for us now to move the needle. But we look for fairly large situations. We look for things I can understand. A lot of businesses I

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don't understand. So some guy may know how to make money in Coco Beans, but I don't. So I just let him have that.

But it's got to be something I understand. It's got to be a business with fundamentally good economics. There has to be a management that I like and trust and admire. And there's got to be a price that makes sense.

ROSE: Price makes sense.

BUFFETT: Prices make a lot more sense now, yes

ROSE: Is it -

BUFFETT: And I'm not worried at all about the investments we make. This country, we've got \$46,000 or \$47,000 of GDP per capita now. We've done darn well. We'll do better in the future. I'm not worried about the country. I'm just worried about anything that gums up the potential of the country and right now it's pretty gummed up.

ROSE: Okay, but we do this emergency, urgent rescue. Come January, we have a new president. We have a new Treasury secretary. We have a new legislature. What's their imperative? What will be the challenge for them, because they then can take a little bit of a longer-term look? Maybe the patient's getting up off the ground, but you want to get him or her moving faster.

BUFFETT: Yes. Well, I think it will get moving faster once - I mean once you get - once credit flows. Now, the recession is going to get worse. I mean, I don't want to hold out false hopes that by some magic moment that things will turn around in a couple months, because they won't, Charlie.

It's a big mistake to try and mislead people. They will turn around. I don't know whether it will be six months or whether it will be two years.

ROSE: More likely two years than six months.

BUFFETT: I don't know. It isn't going to be one month or two months, no matter what happens.

ROSE: You can imagine six months from now it's beginning to turn around, with conditions that you know?

BUFFETT: That's sort of the best case. Yes. That's sort of the best case

ROSE: And the worst case?

BUFFETT: The worst case is a long time.

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ROSE: Five years or -

BUFFETT: If we don't do the things we should do, it could be five years.

ROSE: Beyond where we are now, what are those things?

BUFFETT: Well I would say this - if it becomes evident that - I understand the latest bill, they're talking about 350 billion early and then going back. But we need to throw the resources at this. Like I say, we're not spending the money.

If we buy these assets intelligently, the United States Treasury will make money. I mean, it's borrowing money. It's just a few percent a year and these assets are better than that.

ROSE: Okay. That's a very big if.

BUFFETT: The Treasury Secretary.

ROSE: That's the important question, in terms of whether we buy these assets wisely.

BUFFETT: I would say it's more important who the Treasury Secretary is than who the Vice President is. If you want to have a debate here, I would like to debate between two potential treasury secretaries than the vice presidential candidates.

ROSE: It might be a good thing for the presidential candidates to tell you who it is they're going to be listening to and who might be a potential Treasury secretary.

BUFFETT: Well Presidential candidates will tell you they'll listen to you.

ROSE: I assume they're telling you that, aren't they?

BUFFETT: It's not their job to narrow the candidacy field.

BUFFETT: When all these people call you up, what are they asking you? You're hearing from your friends and people at the Fed. You've been through this before too. I mean, you were that long-term capital. A lot of other times, you have had to face difficult crises.

BUFFETT: I've seen a lot of things happen.

ROSE: So they come to you and they say, you've fought

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wars before, Warren, we'd like to talk to you. But what's the questions they're asking? What is it they want to know? And I'm talking about smart people who are charged with fixing it.

BUFFETT: Well, lately they've been asking will this work.

ROSE: Right. And you're assuring them that if they do it, it will.

BUFFETT: I said, if they do it - I don't know who the next Treasury secretary will be. I would say this - I would - they hate this term in Washington, obviously, but I would hand something pretty close to a blank check to a fellow like Hank Paulson.

ROSE: Would you really? A blank check, \$700 billion, go spend it.

BUFFETT: Yes. Go invest it.

ROSE: Invest it.

BUFFETT: Put a little of your own money beside it. I might ask Hank to co-invest with me.

ROSE: That's right.

BUFFETT: But no, I think that trying to invest through 535 people is a tough job. So I would give more latitude. That isn't going to happen. And I am -

(CROSSTALK)

BUFFETT: I think oversight is great. And I think that oversight ought to be devoted almost entirely to the question is this being done at market, you know. In other words, you want to make sure that the government isn't investing foolishly, but you don't want to care about which Congressional districts it goes to or whether banks get favored over -

ROSE: How do we determine whether it's being done wisely? That's a big question.

BUFFETT: I think you will have plenty of scrutiny as how the money's invested. Just like the RFC; when the RFC operated, people knew which institutions they were buying preferred stock in. And it worked very well.

ROSE: But is this different from the Resolution Trust Company because they're talking about securities and not real estate?

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BUFFETT: Well Resolution Trust Company was set up to liquidate a bunch of assets that the government had inherited because the Savings and Loans went broke. So the Savings and Loans went broke, the government stepped in, paid off depositors. And now they're left with this mass of assets to sell.

We're not talking about selling here. We're talking about buying intelligently. They were selling what they got handed to them by a bunch of savings and loan operators that had, in many cases, had done some very dumb thing. But their job was to liquidate. They liquidated it. This is an entirely different proposition.

ROSE: You have said to me before that capitalism is not a perfect system. It may be better than all the other systems, but it's not a perfect system. You've talked about it in terms of some of its failings.

People are looking at this now and saying, excesses of capitalism, number one, markets that don't work. And there are some people in certain countries that are pointing their finger at us and saying, see? We told you, that markets was not - the markets will not always deliver for you.

BUFFETT: Markets aren't perfect - people do - as long as you have markets, you'll have excesses. People went crazy with the tulip bulbs. They went crazy with the South Sea bubble. They went crazy with Internet stocks. They went crazy with the Uranium stocks back when I was first getting started.

You're not going to change the human animal, and the human animal really doesn't get a lot smarter. Now you can have institutions that put curbs on that in various ways.

And actually with the banks, they have various capital ratios and that sort of thing. But the banks got around them. They set up sieves and that sort of thing just to get more leverage. People love more leverage when it's working. It's so easy to borrow money from a guy -

(CROSS-TALK)

BUFFETT: But if you don't get X plus one back, you still owe the X on the other side. You're in trouble.

ROSE: Are Morgan Stanley and Goldman Sachs, for example, better off in the end because they now have a holding company, because they are not standing alone (ph), because they have now listened to different rules.

BUFFETT: Well they both sent - they both converting to
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bank holding companies that I've not been (inaudible). That's probably part of a longer-range strategy, but it doesn't solve the lobbyings with the present.

ROSE: There is this too, accounting. You have strong feelings about accounting and mark to market. Tell me where you are on that issue.

BUFFETT: I - a lot of people disagree with me on this. I believe in mark to market. I think that accounting - in 1974, Charlie - it's either 1974 or 1975 - we owned a bunch of common stocks at Berkshire Hathaway. I told our shareholders what the market was and we used that.

I said, I think these things are worth a lot more than market, and I think we're going to make a lot of money out of it. But this is what they're worth today. And I don't think anybody gets hurt by telling the truth on that sort of thing.

And I think that once you start saying we're going to peg these things at some price that isn't market, God knows what a financial -

ROSE: These people who argue against you will say the assets are worth much more than mark to market says. And therefore, we're not seeing a reality.

BUFFETT: Well that is the reality, and that's the reality of what they're going to sell them to the Treasury for too. You'll get in a lot of trouble when you start putting fictitious numbers on value. You can explain the fact that these are depressed prices, you know, we think these assets are going to be worth a lot more. And I think that case could be made in certain situations.

But I think to just say, you know, we're going to say a \$1 of cash is worth \$2 all of a sudden, you know, it isn't worth \$2; it's worth a \$1 today. I think once you start putting phony figures into financial statements, you can get into a lot of trouble. We've seen so much of that in the last 20 years.

ROSE: Is it getting worse?

BUFFETT: No, I don't think it's getting worse. I think what people want to do is make it get worse.

ROSE: But what would reform about that, in terms of the accounting process? I think you'd keep mark to market.

BUFFETT: The rules get ungodly complicated. It's a nightmare to administer some of this sort of thing. But I want to tell the shareholders of Berkshire, to the extent we

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own marketable securities or things for which there are markets, even if those markets - I'm going to tell them what it's all about.

As a matter of fact, I have already written a section of the Annual Report for next year explaining why I think, in one case, that the figures on our balance sheet, as calculated, are wrong. But it's the standard way of doing it. It's holy writ. The SEC want us to do it that way, and we'll do it that way. Then I'll explain why I think it's wrong and the shareholders can read it and say whether they agree with my logic or don't.

ROSE: When you look at the prospects for this country, there are other people who argue that America, as good as it is, lives in a world today, and there are books being written, in which our supremacy, our primacy will now have to be shared, that we may still own as much of the pie as we have, but other people will own a lot more.

BUFFETT: That's great. I want our pie to grow all the time, but if some other guy's pie is growing a little faster, that's terrific. It will be good for us in the long run. And there are 6.5 billion people in this world. And it's great for 300 million to keep enjoying more and more prosperity. But I think it's terrific if the remainder do it.

I think if they can learn something from us, in terms of our system, and I think they have, they're learning more about how to unleash the potential of their citizenry to turn out more goods and services that their citizens want or that we want. I think that's terrific.

And I think it's much better to live in a world where those around you, particularly when some of them have nuclear bombs - I think it's much better to live in a world where their lives are getting better also.

ROSE: When you look at China today, and you look at some Asian countries, and the amount of American debt they have, how much does that concern you in today's economic circumstances? And are they losing some of their confidence in America? And does that pose a huge problem for us?

BUFFETT: Somebody buying these Treasury bills at 1/20th of 1 percent. We have been consuming about \$2 billion a day of goods and services beyond what we're producing. In other words, the rest of the world sends us about \$2 billion a day net of something. We've got to send them something in return, don't we? So we send them little pieces of paper.

Now, it would be nice if they stuck them all under a mattress, but they have to buy something with them.

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Sometimes, they buy our Treasury notes. Sometimes they set up sovereign wealth funds. They can do all kinds of things. They can buy our companies here.

As long as we consume more than we produce and we trade away a little piece of the country daily, they're going to own something. Now, on the other hand they can't run from American assets. I mean, every day the rest of the world's going to have about \$2 billion more of American assets than we have, as long as they sell us these goods.

ROSE: Because we're borrowing \$2 billion a day?

BUFFETT: Yes, and they want to sell us these goods.

ROSE: You don't believe that's good. You believe that an increasing current accounts deficit is bad.

BUFFETT: I think it's bad.

ROSE: And it reflects America's consumption ideas, rather than its saving ideas. But how does that change?

BUFFETT: Well, I laid out kind of a Rube Goldberg plan a few years ago, which I don't like myself, except I like it better than the alternative, which is what we're doing. But we've actually been pretty good on exports. We are exporting 12 percent of our GDP now, roughly.

That was 5 percent many years ago of a much smaller GDP. So the rest of the world really likes our stuff pretty well. It's just we buy so damn much of what they produce. And I think that should be something addressed by - I don't think it's the most pressing problem now at all.

We are trading away a little bit of our country all the time for this excess consumption that we have over what we produce. That is not good. I think it's terrible over time. But our country's productive capacity grows enough so we actually can do that and will still be better off. We just won't be as well off as if we hadn't done it.

ROSE: What's all this going to do to the price of the dollar?

BUFFETT: It could be very tough. Inflation could be a very - is a likely consequence on what's going on now. Right now, we're, in effect, making - to some extent, making a choice between future inflation and getting off the floor. And we're likely to have more inflation in the future as a consequence of the things we do to fight the present situation.

ROSE: Senator Obama, who you support, I think, and I

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don't want to be clear on this, but made an economic speech today - talks about another stimulus program. Is that essential at this time?

BUFFETT: I think the biggest thing we need now is to unclog the credit markets. And we may need other stimulus. If we do, it should go to the lower and middle income people.

The truth is, I have never had it so good in terms of taxes. I am paying the lowest tax rate that I've ever paid in my life. Now that's crazy, you know.

And if you look at Forbes 400, they are paying a lower rate, counting payroll taxes, than their secretary or whomever around their office, on average. And so I think that actually people in my situation should be paying more taxes. I think the rest of the country should be paying less than the 95 percent that Obama talks about, or maybe even a little higher than that.

But I think that a stimulus plan should really be geared to the people. You've got, what, 24 million households - one fifth of the households of the United States, you have earning \$21,000 a year or less, an average of close to four people or three people in those households, two and-a-half people actually probably. But just imagine living on \$21,000 a year, Charlie, \$22,000 a year. You have 20 percent of the population doing that.

So they don't have to worry about guys like me. I would push purchasing power. You push out \$1,000 a person to those people, it's going to get spent. And it needs to be spent. They need it. It should come, to some extent, from guys like me.

ROSE: So you're recommending, A, changing, as Senator Obama had and Senator McCain is not, in terms of supporting Bush's permanent tax cuts, and Senator Obama would talk about it different - tax involve people over whatever it is, \$200,000. And reduce impacts (ph). But what about the capital gains tax?

BUFFETT: The capital gains tax is 15 percent now. So I sit there in my office and I make a lot of money by capital gains and I pay 15 percent, and I pay no payroll tax on it. The woman that comes in to take the waste basket away, she's paying 15.3 or whatever it is, just payroll tax alone. I mean, it is - I never had it so good.

ROSE: But so therefore the capital gains tax should be changed to 18, 20, 25, 30?

BUFFETT: I think it's terrible for people, in effect,

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to say that income from investments should be taxed at a much lower rate than income from labor. I just think that - we're going to spent \$3.1 trillion or something like that. We only going to raise about \$2.6 trillion. You're going to raise it from somebody, you know.

Now, who are you going to get it from? You going to get it from me and you, or are you going to get it from the people that drive the taxi that brings me here or whatever it may be? You've got to get it from somebody. And you know, everybody's against paying taxes themselves. I feel the same - everybody feels that way.

If you want a government that's going to do the things we ask our government to do, you've got to get it from somebody. And over the years, particularly the last six or eight years, they've taken less and less from a guy like me.

Now everybody likes to talk about how the top 1 percent pays this percent in income. But the income tax will say \$1.3 trillion. The payroll taxes are over \$900 billion. That \$900 billion, that doesn't come from me. I mean, I pay it on the first \$100,000 or something like that. But that comes from the people in my office, and they are paying \$900 billion.

Nobody ever talks about that when they talk about how the 1 percent is paying. They love to tell how I'm suffering, because 1 percent, we're paying 25 percent of the total. We're not paying 25 percent of the total taxes on individuals. We're paying maybe 25 percent of the income tax.

But the payroll tax is over a third of the receipts to the federal government. And they don't take that from me on capital gains. They don't take that from me on dividends. They take that from the woman who comes in and takes the waste baskets out.

ROSE: You mentioned inflation, possibilities of inflation - are you therefore - do you have a position on what interest rates - what the Fed should do about interest rates?

BUFFETT: Well I think that's almost - for the time being, that's just put it - yes, just put that aside and we'll get to that after the patient's up and walking. It's interesting, though. I mean, what's going to happen - things we're doing are going to have some inflationary consequences. But you see interest rates at very low levels, and including the long rates.

ROSE: When we watch this - you and I are having this conversation today. The Senate votes tonight. House may vote
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- people I talk to today believes it's going to pass.
Whatever happened that changed minds.

Either the combination of what they did with the plan and tweaking the plan, or B, some people got so scared by the failure of the vote last time that it brought home the danger of not doing anything. All right, how will we measure the progress, whether this is working or not?

BUFFETT: It's going to be tough because the economy's going to be getting worse for a while. And it might fall off a cliff if this doesn't pass, but nobody will ever know that if it passes. So they will not see immediate reaction. We'll be pounding on that guy's chest on the floor.

And, you know, he's not going to just jump up all of a sudden. So it makes it tough. I mean it's tough to be in the legislature and vote for something and then people say, well, you voted all this money and it's all getting spent. It's isn't getting spent, it's getting invested. But it's all getting spent, nothing's happening, how can you have done that - you haven't done anything for me. You go through all of that. And that's going to be tough.

What it really takes is leadership that knows what it's all about and can explain what it's all about.

ROSE: But hasn't that been missing, though, leadership that can explain what it's all about.

BUFFETT: Absolutely.

ROSE: And the reason you're here and the reason I want to have a kind of fireside chat with you - it is that somehow it hasn't gotten through. The idea - go ahead.

BUFFETT: When the President of the United States goes out at 8:00 in the morning and his own party votes against him two to one in the House, you know that somehow a message is not getting out.

No, it takes real leadership. I mean, Roosevelt didn't - when he came in, he didn't print any money. Actually, he may have done a little bit of that. But it wasn't like you've gotten the greatest economics professor in the world or anything else. But he did restore confidence. And they did a lot of that. And you needed it. You needed to jump start the economy.

It took a long time. The world did not change in 1933 or 1934. But we put in things like the FDIC. I think the FDIC was one of the great inventions of the American economy (ph).

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ROSE: Well they've had to tweak that in terms of this bill, did they not?

(CROSSTALK)

BUFFETT: Yes. They're going the right direction, yes.

ROSE: Roosevelt also said, "The only thing we have to fear is fear itself," which is clearly the fear that exists in the country. Tell me when you worried the most, of all the things that you have seen over the last three weeks - I mean, how long in the last month. When did you say, "My God, I never knew it could get to this point,?"

BUFFETT: Well, I don't get that afraid in a sense, because I really do have faith. I know the country works extremely well. But when it isn't clogged up. And I know that Congress will do the right thing.

When I watched the House vote the other way, I wasn't afraid because I still felt something would pass. But we are going through a very, very tough period. And I did not think I would see the day when AIG would not be able to have its checks cleared.

ROSE: If AIG had failed, would Goldman Sachs have been exposed and at risk and Morgan Stanley - ?

BUFFETT: Everybody would have been exposed, Charlie, everybody.

ROSE: Why was there even a question of not rescuing AIG at that time?

BUFFETT: I think what people that understood it, they probably - well they were hoping the private sector would do it. That's the same way I would behave.

If I were the Treasury Secretary or head of the Fed, I would try to scare the hell out of the private sector and say, you better save this, because you're going down with the ship. So you guys save it. And I would wait as long as I could. If they didn't save it, I'd come in.

ROSE: Did that, in fact, happen during this crisis, in which the Secretary of the Treasury said, you better save this or we're all going down. You better put up some cash right now.

BUFFETT: I think they hoped the private sector would come in. And the private sector tried to come in until they saw the size of the problem.

There were people on that weekend that thought they had

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a solution. And then the hole kept getting bigger and bigger. And all of a sudden, it became apparent that \$20 billion wouldn't do it and \$30 billion wouldn't do it and \$40 billion wouldn't do it. So it got beyond anybody's ability to certainly to do it in a short period of time.

ROSE: There was not enough capital available from the government.

BUFFETT: It's an unknown situation. You have a derivative book called 'AIG Financial Products'. Nobody's ever heard of it, except it was terrific profit center. You could manufacture earnings and do all these things. And I will guarantee you that the top management - and I'm not knocking them for this. I don't think I could have done it. They didn't - they couldn't get their mind around it.

I bought a company called 'General Reinsurance' in 1988 that had a similar but much smaller operation, had 23,000 contracts. And I said, I have to get out of this. It cost me 400 and some million dollars in a benign situation.

But this was not a benign situation. If AIG had tried to unwind the derivative book, I don't know. It would have hit every institution in the world.

ROSE: And there was no private capital to come in and do that?

BUFFETT: Not big enough.

ROSE: Not even Berkshire Hathaway?

BUFFETT: No, not even Berkshire Hathaway. If I thought 5 or 10 billion would have bought me a good deal, and I could have done it, I'd have done it.

(CROSSTALK)

ROSE: \$10 billion was within reach, but \$85 billion might not have been.

BUFFETT: And the Feds structured that thing very, very well. I mean, they have put themselves in a position where they are very likely to get their money back, maybe more. They participate 80 percent. They drove tough terms. I mean, I want to hire the guy that made that deal. He would fit in well at Berkshire.

ROSE: A lot of people look at you and Goldman Sachs and GE saying I want to hire the guy that made that deal for you.

BUFFETT: Tim Geitner did a better job on this one.

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ROSE: So we've come down to the close of this conversation. And you have been warning us about certain kinds of things. I hear from this conversation, too, this plan is essential now, otherwise we're in a very, very difficult place. And each week we go beyond not doing something, we get deeper and it becomes more irreversible.

BUFFETT: And, yes. Whoever said, you know, an ounce of prevention is worth a pound of cure understated it. A pound of cure is delayed another six months, you need a ton of cure later on. I mean, it would be crazy not to do this. It will not produce dramatic results, though, in the economy.

That's what people have to understand. You're going to see unemployment go up. You're going to see lousy earnings in many businesses.

ROSE: You're going to see people unemployed.

BUFFETT: You're going to see more people unemployed. But the difference, Charlie, if we bottom this thing out at 7 percent unemployed versus 9 percent, that's 3 million people. That's 3 million people that, if we do it wrong, you know, lose their jobs unnecessarily, in my view.

You know, I have never been unemployed. I have never been very fully employed either. But just think of what it's like to go home with a mortgage payment and kids and everything else. My dad had that happen to him in the early 30s. You don't want to create 3 million people more - unnecessarily. But I don't think -

ROSE: That's the depression.

BUFFETT: It really is, and you can't help some increase from this point. I don't want any viewer to go away thinking a magic wand exists in Congress. So they're going to see some more bad news. But if we do this, we're doing the right thing. And the system will work over time. There's no question, and we've got a wonderful system.

ROSE: Okay, I'm going to come to that in the end. Do we need to do anything about the system, beyond the urgency of the moment, come January, about the system? Lots of talk about regulation, as you know, and finding the right balance. Lots of talk about whether government involvement is an idea we need more of rather than less of, rethinking sort of what President Reagan brought to fore.

BUFFETT: Once we get the athlete back, we can tell him to change his diet a little or exercise a little more. We can do all of that sort of thing. If I have any good ideas out of that, or I think they're good ideas, I'll be glad to

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contribute them. But the system will probably overdo some other things.

The nature of democracy is such that when there's - there'll be this revulsion, obviously, towards - that's never going to happen again. So we will probably attack it in various ways that don't make sense.

But I'm - that's what Congress is for and that's what advisers are for. And I'm all for getting the best minds to get to work on that kind of thing. Like I said, I don't think it will be done perfectly.

Maybe we'll end up with a little bit better system at the end. We had a pretty good system over time. When we went crazy, and we did go crazy on residential real estate, it set things in motion that just - the dominoes started toppling.

ROSE: Thank you for coming.

BUFFETT: Thank you, Charlie. Enjoyed it.

ROSE: Good