FULL CNBC TRANSCRIPT: Ask Warren Buffett on CNBC's Squawk Box

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This is the full preliminary transcript of Warren Buffett's 'Ask Warren' appearance on CNBC's Squawk Box on Monday, March 1, 2010.

Announcer: This is a special presentation of SQUAWK BOX. The world's most famous investor live from Omaha, Nebraska; you ask, Warren Buffett will answer. A unique, interactive three-hour-long conversation not to be missed as SQUAWK BOX begins right now.

BECKY QUICK, co-host: Good morning, everybody and welcome to SQUAWK BOX right here on CNBC. I'm Becky Quick, and we are this morning at Piccolo Pete's restaurant in Omaha, Nebraska. This is a favorite hangout of Warren Buffett. He's going to be talking to us for the next three hours. Of course, Joe Kernen and Carl Quintanilla are back at CNBC's world headquarters live this morning. And, guys, we have plenty to be talking about this morning. We are joined by the "Oracle of Omaha" himself this morning, Warren Buffett. And he made it here early, guys, he is sitting down and he is ready to go. He is ready to take questions. So good morning, everybody.

JOE KERNEN, co-host: It's 4 AM?

QUICK: It's--yeah. It's 5 AM here.

KERNEN: It's 5 AM.

CARL QUINTANILLA, co-host: Yeah.

QUICK: It was 4:45 when he showed up, yeah.

KERNEN: Five AM, wow.

QUICK: Five AM here.

KERNEN: Wow.

QUICK: So he's ready to go.

KERNEN: What is...

QUICK: He is ready for your questions this morning, too, guys.

KERNEN: What is...

Mr. WARREN BUFFETT: Omaha's in--Omaha's in the middle of the country, Joe. That's why it's 5, yeah.

KERNEN: Middle, because Colorado's right around there, right?

QUINTANILLA: Right. We're a little farther west.

KERNEN: A little further and that's two hours, right?

QUINTANILLA: Mm-hmm.

Mr. BUFFETT: It's 4:00 in Colorado, right, 4:00 in Colorado.

KERNEN: It's so complicated, isn't it?

QUINTANILLA: Yeah.

KERNEN: What is Piccolo Pete's--what is the real specialty there? Is it appetizers? Is it big portions?

QUICK: I...

KERNEN: Is it drinks?

QUICK: No, I'm glad you--I'm glad you asked. This is a steak house, and they've got great steaks, they've got great Italian food that they bring alongside it. And Piccolo Pete's is a place that Warren's been coming for many years and also bringing some of his big out of town guests into as well. In fact, Joe, if you stick around for a minute, I want to show you a few pictures of people who have been to Piccolo Pete's. You wonder, you know, they come to Omaha, they want to see Warren, so they want to come down and get a good meal, and this is where he brings a lot of his people.

KERNEN: But he never--he never bought it.

QUICK: People like A-Rod, who's shown up.

KERNEN: He never bought it. He never just decided, `I like this business, I...'

QUICK: Do you buy? Oh, the business, itself. I thought you meant buy dinner for everybody when they come in.

KERNEN: I know--I know he...

QUINTANILLA: I think--I think he generally picks up the tab.

Mr. BUFFETT: (Unintelligible)

KERNEN: I don't think he does pick up the tab.

QUINTANILLA: Really?

KERNEN: Unless you pay $700,000. I think he'll sit down with you, but, otherwise, he won't even get the tip, really. Do you? I mean, you're frugal. You're known to be fairly...

QUINTANILLA: That's how you become a billionaire.

KERNEN: You're known to be fairly frugal, which is--which is--but why not buy it?

Mr. BUFFETT: Jeff and I sat--Jeff and I sat here for two hours, each waiting for the other to pick up the check.

QUICK: Jeff, you know he's talking about, Joe, who's in town just a few weeks ago and also who, I think, had dinner with him then, too. So we're talking A-Rod, Jeff Immelt, who have come in, you're talking Bill Gates, you're talking Charlie Rose.

Mr. BUFFETT: Yeah, yeah.

QUICK: Ben Stein was here.

Mr. BUFFETT: Ben Stein. Yeah. Everybody comes here. And last Friday I had 189 students from seven schools here. I bring--I bring the schools that come in for the day, we come down here for lunch and I get more letters, frankly, about how good the food was than how good the teaching was.

QUICK: All right, so gentlemen, we are here this morning, and we've got three hours to do it, plenty of things to talk about, so why don't we start right off the top. We've got a lot of questions from viewers and we're going to get to as many as we can through it. But, Warren, we're here because you came out with your annual shareholders letter...

Mr. BUFFETT: Right.

QUICK: ...and--over the weekend, and this is a little different. You were addressing about 65,000 new shareholders this time around, added to the 500,000 you already had on the books because of the acquisition of Burlington Northern. So this shareholders letter was really written as a how-to guide, an owner's manual, if you want to call it, for owning Berkshire-Hathaway. Why'd you set it up that way?

Mr. BUFFETT: Well, it was--it was a freshman orientation course, in effect, because we not only gained at least 65,000, maybe quite a bit more from the Burlington deal, but we also gained--during the year, we think we gained almost 100,000 now. In another couple of months, I'm going to actually run something with street name holders to find out how many holders we have. But I--it looks to me like we're gaining really many tens of thousands a month because the A is getting converted into B and it--that would indicate that's going on.

QUICK: Because the B shares were split 50 for one, so you've got a much lower price point for people to be able to get into this stock.

Mr. BUFFETT: Right.

QUICK: Also, it was added into the S&P 500.

Mr. BUFFETT: Yes. We--we'll know in a couple of months exactly how many we have, but I know we--I know that there's probably 150,000 people reading the report this year that haven't ever read it the report before. So I wanted to go through sort of the basics of Berkshire and make sure that everybody was on the same page.

QUICK: You know, a lot of people will wonder what happened with this new influx of shareholders who are there. You've always said that you don't want people to be short-time investors.

Mr. BUFFETT: Right.

QUICK: You're not interested in people jumping in and out of the stock, that you want them to be long-term holders, but how much of a risk is there to the culture when you have such a sea change in the investors who are coming in?

Mr. BUFFETT: Well, that's my job. I mean, I am there to tell them what sort of a restaurant it is. I mean, it--you know, when we come to Piccolo's, we know what kind of food is going to be here; and if they were serving fancy French food or something like that, I'd be very disappointed when I got inside. So I come for this very basic food, and that's--and I'm satisfied when I walk out. I do--I want to do the same thing with Berkshire. I want--I want to make sure that people know the kind of organization they're joining, what our goals are, what our time horizons are and all of that. And then I have to deliver. But at least they're in sync with me when they enter the door, and that's true of all the new shareholders that are coming in, too.

QUICK: You know, we have a lot of questions from shareholders that have been coming in and many of them have questions about Berkshire, some very basic things and some very thoughtful ideas that they put through. We're going to get to a lot of those questions through the show, but why don't we start out this morning talking a little bit about where you see the economy. When you sat down and talked to us, I guess it was back in the fall of 2008, you talked about how we were in an economic Pearl Harbor. Where do you see things right now based on all the businesses that you have?

Mr. BUFFETT: Well, we got past Pearl Harbor, but we will win the war, but--and it's going slightly our way at the present time, but the spill-over from the financial panic into the real economy was huge and particularly things like housing had to stop because we had this huge over supply. I--we've got about 80 businesses now, and I get figures on them on a very real time basis. And I would say that there's a few businesses that really have had a fair amount of bounce, in terms of electronic components and that sort of stuff...

QUICK: Mm-hmm.

Mr. BUFFETT: ...which we distribute. There's others that've had no bounce at all. And I would say that, if anything, it's getting better but at a very, very slow rate.

QUICK: Is it the consumer businesses that are struggling the most?

Mr. BUFFETT: Consumer businesses are struggling. The--they're--the American public is deleveraging to some degree. They can't refi anymore. I mean, they have a whole different mindset about buying things than they had a couple of years ago and that means that business in many areas is slow. It's particularly--you have to be a little careful about the comparisons now because if you're into February and March, you're comparing with a period when we were in free-fall last year. So I compared it two years ago, and our businesses are not doing as well, in--on average, are not doing anywhere near as well as two years ago.

QUICK: Does that mean this idea that people think jobs are going to start coming back, do you think that's further off than other people are forecasting at this point?

Mr. BUFFETT: I think they'll be slow to come back. But we're going to hire more people. We let go a lot of people last year. If you take our carpet business, we're going to sell a lot of carpet over the years, but our employment from the peak is down 6,500 people. Now that's a lot on a base of around 30,000 or a little larger. I get the orders every day on carpet and see what they are. When we get--when the orders come in, we will hire people. I mean, we're dying to hire people, but we're not going to hire people if--to stand around. So jobs will respond to demand, and that's why, in effect, the government in typical, you know, Keynesian fashion, feels you have to kick-start demand. Jobs don't come--I mean, you can have various jobs, programs and offer me a tax credit of $1,000 or forgive payroll taxes or something of the sort, but that's not really a good reason to hire somebody. The reason to hire somebody is because you have a customer out there that needs that somebody.

QUICK: Is the government doing the right thing? You say it's a Keynesian response, but the jobs bill that they've just passed, is that the right way to get jobs moving?

Mr. BUFFETT: We're doing the conventional things, but that doesn't mean that they'll have huge effects or instant effects. I mean, it is important that the government step in with demand when private demand falls off, but it's no miracle worker. And we're going to be testing Keynesian principles pretty severely here. This is not exactly like anything we've had before. And we don't have anything better to go with, but we should not expect miracles.

QUICK: Carl has a question as well. Carl.

QUINTANILLA: Yeah, Warren, I--looking at your letter over the weekend, a lot of various things made their way into the headlines. You talk about some of your construction businesses bouncing along the bottom, as you put it, but you also say that in a year, the worst of our housing troubles may be behind us. Can you sort of elaborate on where you see housing and how that effects the rest of the broad economy?

Mr. BUFFETT: Yeah. Residential construction, we got way ahead of ourselves a few years back. We built more houses than there was true demand for and it was fueled by financing and all that sort of thing. And that just--that--you might call that an inventory correction that's needed. We have to use up that inventory, and we're creating households every day in this country, and those households are going to want places to live. So with housing starts down to 550,000, that chews up the inventory, but it takes time. You know, we build inventory for years, so you don't create--you don't correct the inventory situation in a day or a week or a month, but we are correcting it in a very significant way. We will still have at the high end supply and demand situations way different than if you get into medium-priced and lower-priced houses, and there's a few areas of the country that are going to still be very over built a couple of years--a year from now, but I would--my best guess is that within about a year, for 80 percent of the housing market, you're going to have a reasonable balance between supply and demand. That doesn't mean prices are going to shoot up, but it does mean that houses will be moving and there won't be further deterioration.

QUINTANILLA: Right. Unless, as you say...

QUICK: But what about if interest rates are rising?

QUINTANILLA: I mean, I was going to say, unless, I don't know if you read this, Joe, in the letter, unless we let teenagers cohabitate, in which case household formation goes to the moon, right?

Mr. BUFFETT: Well, yes. Yeah, I--yeah--and actually I--that may have started a trend when I wrote about that. I didn't realize the degree at which that would get picked up, but I'm getting a lot of support for that idea.

QUICK: Warren, what about the idea, though, that interest rates are very likely going to be rising; they're not going any lower. And if you start to see the housing tax credits go away, if you see interest rates rise, will that put a crimp into this recovery in housing?

Mr. BUFFETT: It has--it will have some effect, but there's some doubling up that occurs during a recession. I mean, but...

QUICK: Doubling up in households, you mean? Where...

Mr. BUFFETT: Yeah. But if your in-laws are moving in with you, I mean, you may want to get them out of there as fast as you can, too. So basically, it's household formation measured against the inventory of houses and the new ones that are being created that determine it, but there's no question if interest rates go up, it makes it tougher. It means you can buy a little less house. And, in the past, we let people buy houses they couldn't afford to stay in on the theory they'd refi them or something like that, but that day is probably over for quite a while. So if you buy--if you're going to buy a house and you're going to devote 31 or 32 percent of your income to monthly payments and interest rates go up, you can't buy as much of a house. And, of course, in the last year, the Federal Reserve has bought over a trillion dollars worth of residential mortgages. Now, if you think about it, normal--in a normal year, there's only a couple trillion created. So that--they've been a huge factor in the market, and they've announced that they're not going beyond a certain point.

QUICK: Not going to buy.

Mr. BUFFETT: Yeah.

QUICK: Joe:

KERNEN: Thanks. Warren, I read something kind of disturbing over the weekend about what's still on the average bank's balance sheet, that one out of--I think it was one out of 10 dollars earned bad loans or something like that and I'm just wondering whether you describe an economy now that obviously is better, but it's not gangbusters. Do you buy into this new normal idea that it's really going to take a while and that there will be a line drawn during the financial crisis that from there on out for at least 10 years we're going to have sub-par economic growth? Or is this going to be like everything else, and we come back quicker than we thought?

Mr. BUFFETT: Well, it's going to come back a lot quicker than 10 years, Joe, but it--I don't think it's going to bounce back fast. The banks are in better shape than they were a year or two ago. Although a lot of smaller banks have got troubles. They've got particular troubles in commercial real estate. So the FDIC puts out this list of problem banks and that list, we had 140 banks fail last year, we'll probably have more than that fail this year. To put that in perspective, there are about 7,000 banks, so about 2 percent of the banks failed last year. I think that number will be up some this year. It's mainly concentrated in smaller banks that themselves got very concentrated in bad areas of lending, particularly in commercial real estate. But I don't--the banks are in a lot better shape than they were a year, a year and a half ago.

QUICK: You also said in the past, though, that this was a great time to be a bank because you're being handed money, essentially, free...

Mr. BUFFETT: Yeah.

QUICK: ...and turning around and loaning it. As rates go up, does that change the outlook for some of these banks?

Mr. BUFFETT: It doesn't. It probably won't change the spread much because most banks, particularly larger banks, tend to be fairly asset and liability neutral. They have about as much that's going to fluctuate in terms of rate on the asset side as they have on the liability side. So, if their liability side goes up 100 basis points in terms of what they're paying for deposits, the chances are the loan side is about that much is getting adjusted as well. So it has an effect to a moderate degree, but it's not a big element.

QUICK: Joe...

Mr. BUFFETT: It's tougher--it's tougher for the customers, though...

QUICK: It is.

Mr. BUFFETT: ...the higher the rates go, obviously.

QUICK: It is, it is. Joe:

KERNEN: Thanks. Like I think back to the--what--some of the stuff you said, Warren, about how you wish you had done even more, and I guess you're talking about in the investment in Goldman, I think about that, the investment in GE, but I think about all the ones you passed up. You passed up some companies that are gone, and it would've been bad if you bought Bear Stearns, some of the falling knives, Lehman Brothers, things like that.

Mr. BUFFETT: Yeah.

ANNOUNCER: This is a special presentation of SQUAWK BOX. The world's most famous investor live from Omaha, Nebraska. You ask Warren Buffett, we'll answer. A unique, interactive three-hour-long conversation not to be missed, as SQUAWK BOX begins right now.

KERNEN: Yeah, there's orange on top of our SQUAWK BOX logo. It used to be blue--it used to be blue. There's orange there. And good morning, and welcome back to SQUAWK BOX here on CNBC. I'm Joe Kernen, along with Carl Quintanilla. Becky Quick reporting life from Omaha today. More from Becky and Warren Buffett in just a minute. First, though, a check of the SQUAWK Newswire, as only Carl, I think, can do.

(News headlines followed by discussion about new Squawk Box set elements)

QUICK: No, I haven't seen that one.

QUINTANILLA: This one right here.

QUICK: No, oh, OK, you're right, that's spooky.

QUINTANILLA: Yeah, that's all new.

KERNEN: That is new. That's cool.

QUICK: That is new.

KERNEN: But the...

BUFFETT: Joe, if you're unhappy you can get--if you're unhappy, get some Benjamin Moore paint. We'll have it fixed for you today.

KERNEN: You are--you are...

QUICK: Ever the salesman.

KERNEN: ...you are unbelievable. It's a good idea, though. Let's get some Benjamin--all right.

QUICK: Well, we do want to ask you about another one of your companies, Warren. Coca-Cola came out and surprised a lot of people with this news that it's going to be buying the North

American bottling operations. This is different than what they'd been talking about in the past.

BUFFETT: Right.

QUICK: And it follows what Pepsi did about a year ago; in fact, follows very closely what they'd been doing. What do you think about this deal?

BUFFETT: Well, I think on balance I like it. I mean, Muhtar Kent has done a fabulous job with Coke, and there's a lot of execution problems in doing anything like that. Pepsi will have them and we'll have them at Coke. But with Muhtar, I feel confident in the fact that it will get carried off right now. The bottling business is very different than what they call the concentrate business, which is making the Cola-Cola concentrate, gets turned into syrup, gets turned into Cola-Cola. The bottling business is very capital intensive and has low margins. The concentrate business is not capital intensive and has very wide margins. Literally, Coca-Cola with 5 billion of capital could make 8 or 9 billion pre-tax just from the concentrate business. But the bottling business is an entirely different business. So long-term, I like being in the concentrate business much more than the bottling business. But the bottling business, Coca-Cola has what they call a fountain division that sells direct. They have the bottlers. Any time they get a new product there's a question of how it comes under this contract that originally goes back to 1899. It needed rationalization and this move is a big, big step toward rationalizing it, make it so it's more--it's more friendly to the big box retailers of Walmart or some--Costco or somebody like that. And it--but it will--there will be some real execution time involved in it and over time, you would hope that Coca-Cola would have less money involved in the bottling business, because it's a less attractive business.

QUICK: Obviously, you're a long-term shareholder, but when you say that there are very likely to be come execution steps, some difficulties along the way, maybe some stumbles, how much patience do you have as an investor? You talking about year or two?

BUFFETT: I--well, no, I just say that--whenever you're doing anything this big you better--you have to have a lot of confidence in the management and I have confidence in Muhtar to carry this off.

QUICK: You know, that brings us to one of the shareholder questions that came in. This is from Carlos Alvarez in Houston, Texas. He says, "Can Berkshire really be another Coca-Cola in the sense that even a ham sandwich can run it after you're gone? What kind of checks and balances will you leave in place to prevent major mistakes by the next CEO?"

BUFFETT: Yeah. Well, the culture's all important and the culture of Berkshire, I think, is more embedded than you could find in any--in any company virtually in the world. You've got managers by the dozens that have bought into it when they sold us the business. You have directors who have bought into it who've come on board because they believe in that culture, not--

they get directors fees of $900 a year. So they are not there to collect directors fees or for importance. They're there because they think of Berkshire as something special and they'll keep it special. On top of that, at least for a while after I die, my A shares will represent a huge voting piece of the company, and I hope that a member of the Buffett family is involved. Not in management, but just as a--as a custodian of the--of the culture, as a non-executive chairman. There's all kinds of things in place that will--that will keep it running the way it's run. It would--the organization would thrust out anybody that tried to go in a different direction, just like they would have thrust out anybody that tried to take Walmart in a different direction after Sam Walton died.

QUICK: Speaking of who would be running the place after you, The Wall Street Journal had an article over the weekend that focused on Dave Sokol, and says many people are betting that he is the lead candidate to be running the place after you're gone.

BUFFETT: Well, there are three candidates that the--we spend over half our time at every board meeting talking about who runs it after I'm gone. It's a little morbid. I mean, it's like they look at me and they think "who's going to run this place tomorrow?" But the--and we discuss the strengths and weaknesses of those three. If something happened to me tonight, tomorrow morning the board knows exactly who they would put in charge and they feel very comfortable with it, I feel comfortable with it. I just don't feel comfortable with it happening tomorrow morning. But--and actually as we acquire companies, that pool of outstanding managers even grows. So we have--there is no problem finding somebody who not only has got all the abilities to run this place after I'm not around, but basically he has the culture embedded as strongly in themselves as I do in myself.

QUICK: As you acquire companies. Are you talking about Matt Rose from Burlington?

BUFFETT: Well, certainly you're getting an out--a fabulous manager in Matt Rose from--and, you know, and he's young. I mean, we will--the pool grows basically over time.

QUICK: But you say there's three people that you've had that you've been watching for some time.

BUFFETT: Right.

QUICK: Does that change, the three people who are on that list?

BUFFETT: It's different than it was 10 years ago. It doesn't change very fast, but the one--the one way it would change for sure is based on age. I mean, if I'm running this place at 100, which I won't be, but obviously, there'd be a different three around at that time. Anybody that takes over after me should have a long run. I mean, there's a huge advantage in a lot of continuity in this place. It's really like a very big family and so you don't want somebody to come who'll run it for five years and then hand it off to someone else. So I would--age factor alone could cause somebody to drop off the list after a period of time. But we've never had anybody drop off the list because they've left us or anything like that. We've--it's a terrific group. You could pick the name out of a hat from the three and you'd get a terrific manager and--but the board knows exactly which one they would prefer at this time.

QUICK: Mm-hmm. Joe.

KERNEN: Thanks. Warren, along the same line with Dave Sokol, you know, I talked about the new normal and I can't imagine that a fractional ownership of a jet is ever going to go away, but you know the conspicuous consumption, the flying private, it's a little bit different than it was two or three years ago. And NetJets has been--I don't know if you call it struggling. For one of your assets I guess you would call it struggling.

BUFFETT: Sure.

KERNEN: And you'd like it to be profitable. Do--are you--do you have ideas on what to do there, or is that something that Sokol is going to have to just figure out himself and if he does it really well, maybe that does line him up to be the guy.

BUFFETT: Yeah, he's doing it really well. The situation with NetJets, and this is true both in Europe and the United States, is the number of planes owned by our owners is down maybe 15 percent or so. Now it's stabilized in the last few months. I mean, the number of people that are getting rid of their fractional ownership is being matched by new ones. The interesting thing is, flying per owner fell off dramatically a little over a year ago. I mean, when the recession hit, our owners, even though they'd already--they were paying for the hours, they were paying the management fee, when Thanksgiving came, when Christmas came, whatever it might be, when the Kentucky Derby came, the--their flying fell off quite dramatically, maybe by 25 percent. And like I say, they were paying the management fee anyway. That has come back a fair amount in the last couple of months. Flying per owner has increased somewhat. NetJets is, actually, as I put in the report, solidly profitable now. What Dave has done there has been miraculous. I mean, he is--he went--he went in there of August of last year and in terms of getting the balance sheet straightened out, our debt is down $500 million in terms of getting our operating costs in line with revenues. In all respects, NetJets is working very well now. But you're right, there are--compared to five years ago, or four years ago, you know, we're not seeing the same demand as we did then. And like I say, it's about equal in Europe and the United States.

KERNEN: It's solidly profitable now, though, you said. They--that fact wasn't made clear in the piece over the weekend, I don't think.

BUFFETT: Well, it--I actually used that term in the annual report. But yeah, it may not have been picked up that way. But, listen, for the whole year last year it lost $711 million pre-tax.

KERNEN: You know...

BUFFETT: I mean, that is huge.

KERNEN: ...a lot of people think of NetJets they think of--I see all the golfers. It says NetJets, but the Marquis thing is even--the Marquis Jet is even a bigger seems brand on some of the--with some of these athletes than the NetJets. What's the relationship there?

BUFFETT: Yeah.

KERNEN: What will the relationship be in the future?

BUFFETT: The relationship with Marquis is exactly as it's always been. Marquis is a customer of NetJets. They buy--they buy planes, they sign up for the management fee and the hourly fee just like other customers. Then they subdivide it in effect by selling cards to people and they sold I think 2200 cards or something like that last year. So they sell a lot of cards. And you're right, it's interesting. They're both in the entertainment and the--and the professional sports field. The Marquis card is relatively more important than the direct ownership. I'm not sure why that's the same, but we want Marquis to do well. But they're a separate business and they just buy from us and then they resell.

QUICK: Hey, Warren, just on that point, we have a note that came in from one of the shareholders, one of their questions from Jack Harris in Rome City, Indiana. It's number 42, guys, in the control room if you want to follow. On that point he says, "With NetJets losing about three quarters of a billion dollars last year, this company to me really doesn't fit the Berkshire mold. What's the future of NetJets? Is there a chance that in the future you would sell the company?"

BUFFETT: No, we will not sell the company. And it's true that our guarantee of their debt is what kept them alive last year, and--but I don't see any reason why NetJets, unless private aviation was banned in some way or something, but I see no reason--NetJets is going to make money and it makes money even during a period like this when sale of planes are not very high. So it is by far the dominant factor in the--in the business. It has--the value of its fleet is well over that of the next three competitors combined. So we own the business, in effect. We're--and it's a profitable business. It just got out of control a year ago and it has this huge loss. The year before that it was profitable.

QUICK: OK, Carl has a question, too.

QUINTANILLA: Yeah. Warren, we got started on the NetJets issue by talking about Sokol and I wanted to ask you about the section in your letter where you talk about a Ajit Jain, who obviously has a job that involves managing big portfolios of risk, as you do. And you say, "If Charlie, I and Ajit are ever in a sinking boat and you can only save one of us, swim to Ajit." What should we make of that?

BUFFETT: No question. What we make of that is Ajit is incredibly valuable to the Berkshire. He is--he's been--single-handedly, he's been responsible for a huge part of Berkshire's success ever since he came with us in 1985. He runs a business in his special reinsurance area really unlike any in the world. He built it all by himself and he's built--you know, we have over, as I remember, we have over $20 billion afloat that is in our hands that we're using to buy other businesses and that float has cost us less than nothing because of the skills...

QUINTANILLA: Right.

BUFFETT: ...of Ajit that has as an underwriter. Incidentally, one of the things that he just underwrote, if France wins the World Cup, I think we're going to lose about 30 million bucks or something like that. We get all kinds of risks that come into Berkshire.

QUINTANILLA: But when it comes to the succession issue, that's high praise. And when you say the board knows who it would be if something were to happen tomorrow, this--reading this makes you think this--that he might be the guy.

BUFFETT: Well, you're the guy reading it, so I'll let you answer the question.

QUINTANILLA: Right, thanks. That's helpful.

BUFFETT: But I will say this. Ajit incidentally, it--you--I couldn't have a closer relationship with anybody than Ajit. We talk every day. This is a fellow that one time when there was a question on some long-term compensation that I'd made arrangement with on, and there was a reason to pay it immediately, I called up Ajit and I said, you know, `What do you think the figure should be.' And we're talking in the millions of dollars. And Ajit said, you know, `Whatever you say, Warren.' And I came up with a number, and I said, you know, `But if you think this is wrong, you tell me.' And he said--he said, `Warren, whatever you--it's your number.' And all of our relationship has been that way ever since he came in 1985. He's a fantastic human being.

QUICK: Warren, there's a shareholder who wrote in, Eric Soo, from Chicago, Illinois. He said, "You said that Charlie has the quickest business mind you've ever seen. You've said Bill Gates solves a dice riddle that only three other people have solved that you've ever seen, one being a logician or something. And you've touched on Ajit's intelligence." You just talked about him. But this shareholder wants to know your impressions of these three and which of the three is smarter.

BUFFETT: Well, if you add up the ideal of the three people you just mentioned, we're talking national debt figures. I mean, I--those guys--I mean, I--you know, I get an inferiority complex being around any of them. They have different types of minds. They're--they have ungodly levels of general intelligence. But they each have somewhat different special abilities. Charlie does have--he has the best--he's 86 years old now and he has the best 30-second mind in the world. If I call him and describe a problem to him, any kind of a situation, he gets to the essence of it immediately. I mean, he doesn't--he doesn't stop at the first 28 stops. He goes right around the board all the way to Boardwalk, you know, with one big move. And Bill, Bill has this knowledge that encompasses everything in the world. I mean, he devours subjects, whether it's physics or you know, or medicine, or you name it. And Ajit is unbelievably good at evaluating probabilities, and he's a great salesperson, too. I mean, he--people like us after we make money.

QUICK: Joe:

KERNEN: Yeah. Hey, Warren, it was--it was TXU week back here with the major papers. I think, what is it, Energy Future or something is the--is the name.

BUFFETT: Right.

KERNEN: And I know you have a--an investment there, and you've got a lot of utilities. Can you just comment on what the heck happened? I guess it's natural gas, I guess it's the economy in Texas. What do you think they need to do? Are they asking you? You've got--I mean, it matters to you how this thing works out. And what do you...

BUFFETT: Yeah. We...

KERNEN: Go ahead.

BUFFETT: We own some bonds. We don't--you know, there's several equity holders. I'm not sure whether there's been any change in the equity holders. But KKR and Tex Pacific and TBG and Goldman, at least, were among the equity holders, big equity holders. I have not talked to anybody, equity holder about it. We own some bonds, and we paid in the low 90s for those bonds, and I think they're selling in the 70s. So--but they've been paying us 10 1/2 percent or thereabouts. So they haven't been a terrible investment but they certainly haven't been a great investment. TXU, the old TXU, the price they received for electric--electricity, in effect, is a function, to some extent, of natural gas prices. And when they made the deal originally, they hedged themselves with natural gas futures out quite a ways. But that doesn't go forever. And then they had these huge maturities in the year 2014. So that's a case of people getting very exuberant at the top, paying a lot of money. My understanding is that at least one of those participants carry their equity at 40 percent of their costs. But I would bet a lot that--and I don't know at all, but I would bet that Goldman carries their holdings lower. But that's just a guess on my part.

QUICK: Another question from a shareholder. We mentioned earlier that you've got at least 65,000 new shareholders, maybe another 100,000 that you've been watching, and you say that you're trying to teach them that they're there for the long haul. But just so you get a sense of what some--of something shareholders are thinking, Anthony Tate writes in. He's from Clinton, Maryland. He says, "I recently purchased 10 shares of Berkshire B shares as a rookie investor." He's just curious, "Where do you see this stock in, say, about six months in terms of value? My plan is to hold on to it long-term. So I just want some insight as to whether this is a good stock to hold on to. Is six months a long-term investor in your mind?"

BUFFETT: No, no. I have no idea where it will be in six months. None, just zero.

QUICK: Right.

BUFFETT: I mean, my son's bidding on a farm in Illinois. He's already farming a lot of acres. Is he buying that with the idea that he's going to sell it in six months, you know? Six months is not an investment period. There's no one in any--there isn't one stock I own, whether it's Coca-Cola or Wells Fargo or Berkshire Hathaway or--I don't have any idea whether they're going to be up 20 percent, down 20 percent. Just no idea at all. If they go down a lot and I have some money, I'll buy some more of them, you know. But it's very interesting. People who buy farms are much more logical about it, usually, than people that buy stocks. They buy a farm, they don't get a quote on it the next day or the day after. They don't buy it at 11 in the morning and think `I'm going to sell it at 4 in the afternoon.' They look at what the farm's going to do over time. And that's what I try to talk about to Berkshire shareholders. And not everybody feels that way about stocks. And I'm not quarreling with them, they just shouldn't own Berkshire unless they have a very long time horizon.

QUICK: Well, on that point, though, with all these new shareholders, it's going to lead to some changes. Plenty of questions came in, like this one from Ray Herverford in Highland, Illinois, who says, "I've been attending the annual meeting for many years but lately it's been increasingly difficult to get to Omaha to get a seat. There were 35,000 people attending the meeting last year and the Quest Center's Web site states that it only seats 17,000. The last two years I watched in an overflow room. If I'm going to watch on a TV screen, it's crazy to get on a plane to get to the TV. Can we either move the meeting to a city that can accommodate the crowds or carry it live on a Web cast or CNBC or something?"

BUFFETT: Yeah. One of the--if we moved it to another city, I'm not sure what would happen to the taxes on my home here in Omaha. And I know I wouldn't do well when I go out trick or treating on Halloween. So I don't really have an option about moving it from Omaha, and it's a real problem on crowds. And I've thought about--obviously, I've thought about webcasting or something of the sort. It's true that people pick up on a transcript of what takes place on the meeting usually very quickly on the Web or something of the sort. I do like--I do like the personal interaction. I mean, I have a lot of fun with the crowds, and I think they have fun coming here. But it is--you know, we can probably hold 40,000 in Omaha. There will be overflow rooms, that main room does only hold about 17,000. People don't seem to mind that too much. They're milling around buying things, I might add, you know, that we have in our--in our display area. We've got 200,000 square feet, roughly, of display. But, you know, there's not a great answer to it.

QUICK: All right. Carl.

QUINTANILLA: Warren, just listening to you a second ago, I think our eyebrows were raised when you said, `Oh, if the stock goes down 20 percent, I have some money, I'll buy some more of it.' Hope you'll forgive the broad stock question, but has your appetite for new stock purchases of any company been whetted because of the rise in markets or are you as optimistic now about stocks as you were when you wrote in The Times last year, year before?

BUFFETT: My enthusiasm for stocks is in direct proportion to how far they go down. I like it when things I like go down in price. Incidentally, if you own a farm in Nebraska and you've been waiting for your neighbor, you know, something to happen so you can buy the farm next to you, you hope farm prices are down when he decides to move or he dies or whatever it may be. And similarly, we are going to have money to invest forever. Money keeps coming in to Berkshire. Am I better off if I have to pay high prices or low prices? So it's not bad news for us when stocks go down at all. Now, you know, it's bad news for us when something goes wrong with a company. But the fact that something gets cheaper, I mean, if I walked into McDonald's tomorrow and they've cut the prices of hamburgers by half, you know, I will be happy because I'm going to be buying hamburgers for a long time.

QUINTANILLA: Sure. But...

BUFFETT: And if they double, you know--go ahead.

QUINTANILLA: Does that mean--does that mean there are--you see fewer bargains right now, obviously, given the rise since March of last year?

BUFFETT: Sure. There's--stocks are a lot less attractive now then they were a year ago. Far less attractive.

KERNEN: Hey, Warren, when...

BUFFETT: And bonds are less attractive. Bonds are less attractive, too.

KERNEN: One of the reasons I brought up that TXU situation was because in the piece it said there's a lot of really great companies that--in the private equity universe that have really lousy balance sheets based on the bubble that was around in 2007. So there's going to be some problems. But is that somewhere where you can look to try to help work out some of the situations? There must be some real gems in there that just, for whatever reason, I look at the fees that the PE firms take, and I look at the dividends that they pay out, and it used to work, but now they actually got to manage some of these things. I mean, couldn't you find some nuggets in there?

BUFFETT: It's possible, Joe, but on balance, if you notice, the private equity firms are very reluctant, it seems to me, to come forth with anything that involves big losses. I mean, they--what they usually try and do is get bond holders to make concessions or something. But I've not seen them wanting to sell the businesses at large losses. Now, you know, if they go into bankruptcy, then you buy them for the bankruptcy process. I mean, if the old TXU gets to 2,014 and they can't meet the maturities that they have at that time or they haven't done it earlier, you know, we may buy--we might think about buying the whole place, you know. But we'll--we might buy it cheaper after a bond default than we would buy it from a private equity place.

KERNEN: Well, you know how to run utilities, and you might get the chance with, I forget how much is coming due.

BUFFETT: We might get the chance.

KERNEN: Yeah, 20 billion or something.

BUFFETT: Yeah, we might get the chance.

QUINTANILLA: We're going to take a quick break. A lot more with Warren coming up this morning. And we'll get some top stories as well, including AIG moving to sell a major business unit, pay back some of the money they own the US government. A lot more, of course, with the Oracle at Omaha. At 8 Eastern time this morning, Pepsi CEO Indra Nooyi will join us. We'll get her take on the global economy and her company's bottling deal later on this morning.

ANNOUNCER: You're watching SQUAWK BOX on CNBC, live today from Piccolo Pete's restaurant in Omaha, Nebraska. Stay tuned.

ANNOUNCER: This is a special edition of SQUAWK BOX, your chance to ask Warren Buffett your investment questions. We're live from Buffett's stomping ground in Omaha, Piccolo's restaurant. Buffett's thoughts on the economy, the future of Berkshire Hathaway and answers to the questions you submitted are just ahead. The second hour of SQUAWK BOX begins right now.

QUICK: Welcome back to SQUAWK BOX on CNBC. Good morning again, everyone. I'm Becky Quick and I am in Omaha, Nebraska, this morning at Piccolo Pete's restaurant. This is Warren Buffett's favorite eatery. Joe and Carl, of course, are holding down the fort back at CNBC headquarters. They've been playing in on this whole interview as well. And for the next two hours we're going to be speaking to the man himself, Warren Buffett, Berkshire Hathaway's Chairman and CEO. We've gotten a lot of ground covered already. But, Warren, we'd like to change the focus a little bit.

BUFFETT: Sure.

QUICK: We've covered ground looking at the economy and where things are headed. We've talked a little bit about Coca-Cola. What we have not touched on yet is where the government stands right now. We--you mentioned briefly about the jobs report, but there are so many other bills that are moving through that have captured the people's attention, including the health care bill and...

BUFFETT: Yeah. Or not moving through.

QUICK: Or not moving through. Nancy Pelosi said at this point she does not think that there's going to be any bipartisan support. What do you think about the idea of taking this into reconciliation and cramming it through?

BUFFETT: Well, the health--the health situation, what we have now is untenable over time. I mean, it--call what we're doing now plan A, and plan A has taken us from 5 percent of GDP to 17 or close to 17 percent of GDP. And that kind of a cost compared to the rest of the world is really a--it's like a tapeworm eating, you know, at our economic body. Every--everything we produce for export, everything we compete with that comes imported in this country, everything is bearing that cost, and it's a cost that the rest of the world isn't bearing. And the--tops around the world, you find 10 percent of GDP. We have fewer doctors than many--we have two and a half--a little over two and a half doctors per thousand, much of the world has well over three doctors. We have 11 nurses per thousand, much of the world has far more nurses per thousand. We have three beds per thousand, hospital beds per thousand, much of the world has six or seven beds per thousand. We have higher infant mortality than most places, or many places. We have higher--we have shorter overall mortality. So we have a health system that, in terms of costs, is really out of control. And if you take this line and you project what has been happening into the future, we will get less and less competitive. So we need something else. Unfortunately, we came up with a bill that really doesn't attack the cost situation that much. And we have to have a fundamental change. We have to have something that will end the constant increase in medical costs as a percentage of GDP.

QUICK: Then are you in favor of scrapping this and going back to start over?

BUFFETT: I would be--if I were President Obama, I would just show this chart of what's been happening and say this is the tapeworm that's eating at American competitiveness. And I would say that one way or another, we're going to attack costs, costs, costs, just like they talk about jobs, jobs, jobs in the...(unintelligible). It's cost, cost, cost on this side. That's a tough job. I mean, we're spending maybe $2.3 trillion on health care in the United States, and every one of those dollars is going to somebody and they're going to yell if that dollar becomes 90 cents or 80 cents. So it take--but I would--I would try to get a unified effort, say this is a national emergency to do something about this. We need the Republicans, we need the Democrats. We're going to cut off all the kinds of things like the 800,000 special people in Florida or the Cornhusker kickback, as they called it, or the Louisiana Purchase, and we're going to--we're going to get rid of the nonsense. We're just going to focus on costs and we're not going to dream up 2,000 pages of other things. And I would say, as president, `I'm going to come back to you with something that's going to do something about this, because we have to do it.'

QUICK: Just focus on cost, or focus on cost while insuring more people? Those are two different problems.

BUFFETT: Well, yeah, universality, I--no, I believe in insuring more people. But I don't believe in insuring more people till you attack the cost aspect of this. And there is no reason for us to be spending 17 percent or thereabouts when all--many other developed countries are spending, we'll say, 9 or 10. They have more beds, they have more nurses, they have more doctors, they even have more consultations by far. We have about four consultations per person in the United States with doctor interaction per year. Other countries have far more than that. I mean, we spend a lot of money on equipment here. I mean, if you want to get the very best, I mean, if you want to spend a million dollars to prolong your life another three months, you know, in some coma or something, you can probably do it better here in the United States than any place else. But we need a fundamental reform. And, you know, I admire people for tackling it, because it's so tough politically. But I would--I would like to see them really get the job done.

KERNEN: But I--can I follow up, Beck?

QUICK: Wait a second. This is different than what you've said--hold on one sec, Joe.

KERNEN: All right.

QUICK: This is different than what you've said when we've talked to you in the past. I mean, even a couple months ago when I sat down and talked to you, you said that you would vote, I believe, for the bill if it were in front of you.

BUFFETT: I--if it's a choice...

QUICK: When did you change your mind?

BUFFETT: No, if it was a choice today between plan A, which is what we've got, or plan B, what is in front of--the Senate bill, I would vote for the Senate bill. But I would much rather see a plan C that really attacks costs. And I think that's what the American public want to see. I mean, the American public is not behind this bill. And we need the American public behind the bill, because it's going to have to do some tough things. But in--if it doesn't bring down costs significantly--and you can say, well, you're bringing down costs by raising a tax over here or cutting--improving Medicare, but you can do those things anyway. That's got nothing to do with what's being proposed in the bill. So I--if the only choice I had in the world was the present system or the present bill, I would take the bill. But I think it'd be far better to say cost is it. We're going to go back and we're not going to come back to the American people until we have something that is going to take this 16 or fraction and it's going to bring it down somewhat toward what other countries are doing. Because otherwise, you remember when the auto companies said, `We've got $1500 of health care built into a car'?

QUICK: Right.

BUFFETT: You're not going to sell cars against other people if you've got $1500 of extra costs. But you're not going to sell airplanes from Boeing and you're not going to sell all kinds of things if you have this huge cost which only the United States is incurring. We are not going to be competitive worldwide.

QUICK: Joe:

KERNEN: Yeah. Well, that--I was going to look at the--sort of the corollary of what you were saying, Warren, and that is if you look at the way that costs are rising now with Medicare or with some of the other entitlements, if you meet--what would be the consequence of adding 30 million people before you address a system that's already broken?

BUFFETT: That's why you want--you want to address costs. I agree with you. But I do think--you know, I--and maybe the very fact that 30 million more would be coming might--it should force people to think we've got to bring down the cost per capita. I mean, it--but I think those people should be covered, Joe. I--but I...

KERNEN: I--we all do. But...

BUFFETT: I like--I like--I like a plan C better than plan A and plan B.

KERNEN: Well, you know, you're kind of dancing around it.

BUFFETT: And plan...

KERNEN: But you're saying start over and do it on a bar--bipartisan basis is what you just said.

BUFFETT: I would--I would call in the smartest people in the health care field. I mean, you know, people like the fellow out of Kaiser Permanente or Mayos or this fellow the...

KERNEN: Mayo, Cleveland Clinic, Safeway...

BUFFETT: Or Gawande, the doctor--yeah, yeah. Cosgrove at...

KERNEN: Whole Foods.

BUFFETT: ...Cleveland Clinic and...

KERNEN: There's a bunch of smart--there's a bunch of people that have some great private market--or free market ideas. And to do it...

BUFFETT: I'd lock them--I'd lock them in a room, Joe, and I'd tell them, you know, come out when you figure out how--some way to get this going in the other direction toward 13 or 14 percent. And it can be done. It can be done.

QUINTANILLA: Although...

BUFFETT: But it won't be done, you know, if you're trying to write a 2400-page bill that satisfies everybody in the world and all private...

QUINTANILLA: Yeah.

BUFFETT: ...all these private groups.

QUINTANILLA: Warren, to what degree...

QUICK: Carl:

QUINTANILLA: ...to what degree is lowering cost based on bringing more--bringing the uninsured into coverage? Isn't part of expanding coverage part of the mission of lowering costs overall? We're all paying for them anyway.

BUFFETT: Well, yeah, we're certainly paying for a lot of them. And they go to the emergency room and that becomes their primary visit. So there's--a lot of the costs of the uninsured is built into the system, there's no question about that. But we need different incentives. I mean, if you try something--we were--we were spending--in 1960, we were spending the equivalent of about $150 a person in the country, you know. It's getting up--it's well over $7,000 now. Incidentally, Switzerland was paying more in those days, but we've just soared past them. They've got more beds per person, they've got more doctors per person. But we--our costs have gone up far, far more. And when you've got a system that isn't working, you know, you just got to look at the components of it and say, `What the hell do we do about it?'

QUINTANILLA: When...

QUICK: There's a question that came...

QUINTANILLA: Sorry, Beck.

QUICK: Go ahead, Carl.

QUINTANILLA: I was just going to ask Warren, when they pull Angela Brawley in front of Congress, or when the president takes some of these insurers to task for raising premiums 39 percent, do those companies have a--have reason to complain about their own risk pools? Are those new premiums deserved?

BUFFETT: Well, they--the problem--the rhetoric has gotten tilted very big toward insurance. And incidentally, I'm not in the health insurance business. We do a little health reinsurance, but our business is property, casualty, and so we do not...

QUINTANILLA: But you--but you know how premiums work.

BUFFETT: Oh, sure. And the truth is the--insurance is not the problem. The problem is incentives. And the problem is at the--is at--is at the care level. Hospitals in the United States, the American Hospital Association, you know, reports $700 billion. That's 5 percent of GDP just on hospital expenses. And like I say, we got way fewer beds per capita than many of the countries around the world. So insurance, if you look at the largest health insurers, you look at their profit margins, if you look at their return on equity, they're--it is--that is not the problem. You can find individual problems, I'm sure, with any--in any arena. But that is not the reason we have 17--or 16 or the 17 percent of our GDP going to health care.

QUINTANILLA: Yeah.

QUICK: What is the reason?

BUFFETT: Well, the reason--the reason is we're doing an awful lot of things that don't need to be done, probably.

KERNEN: Warren, what's the...

BUFFETT: And we're--we've got a--we've got payment--we've got payment for procedures and not payment for results, but...

KERNEN: What's your margins in property/casualty vs.--I've read that margins in some managed care. What--do you know what's the average margin in managed care and what's the average margin for property/casualty?

BUFFETT: I've seen numbers where--I've seen numbers on health care, I believe, where it's like 3 1/2 percent of revenues or something like that.

KERNEN: And what's profit--what's P and C?

BUFFETT: Well, that depends on the year a lot.

KERNEN: Right. It can be better than that, though, right?

BUFFETT: Yeah.

KERNEN: I mean, there's a lot of other parts of the health care--I mean, just no one is at 3 1/2 percent. That's about the lowest in health care, isn't it?

BUFFETT: Let--let's put it this way, Joe. I'm in the PC business and I'm not in the health care business. Draw your own conclusion.

KERNEN: Yeah. That's about all you'll say, yeah. Obviously, it's a little bit better than--well, then a lot of this rhetoric, I guess you need it, but it's not really maybe that helpful. I mean, you're--it's another example of any means to satisfy that end, you know. You lambaste an entire industry when it's really not relevant to do it that way, and not fair.

BUFFETT: No. The 2.3 trillion or whatever the number may be totally going into health care, I mean, the amount of that is insurance company profits is very, very little.

KERNEN: (Unintelligible)

BUFFETT: Yeah. If you're going to--but you--the problem you do have, whether it's 2.3 trillion or 2-4, the problem you have is every dollar of that has a constituency. And the big dollars are organized, and they're not going to want to change. I mean, it's very simple. It's like the tax code. I mean, every line of the tax code has a constituency, and the constituency for that line in the tax code is very focused on it. The fallout to the general public, you know, obody even knows about it.

QUICK: Right. Warren, very quickly, so a viewer wrote in, Greg Robinson from Portland, Oregon, on this subject, said, "Wouldn't a better fix for health care be a system similar to auto insurance? Could you give a specific--a simple scenario of how Geico would insure a large portion--population of people, perhaps having them pay a portion of the bill themselves so they will police the doctors? I'm a big believer in catastrophic care, but paying for your own maintenance." Does that sound like a feasible idea?

BUFFETT: Yeah, it probably does. But the truth is, I would get people that know a lot more about it than I do. And, I mean, it--if you get the fellow that's written on health care recently in the New Yorker, Gawande. I mean, he had--he had **an article last summer** that was absolutely magnificent. My partner Charlie Munger sat down and wrote out a check for $20,000 to him and he's never met him, never had any correspondence with it, he just mailed it to the New Yorker and he said, `This article is so useful socially.' He says, `Just give this as a gift to the--to Dr. Gawande.' It compared medical costs in McAllen, Texas, to El Paso, and it just showed how, with no better results, that in McAllen they were, you know, they were spending close to twice as much per person. And you have these enormous variances around the country. And, you know, if you had some really smart people running it that knew a lot about medicine, they're going to--they could do a lot about it.

QUICK: All right, Warren, we've got a lot more questions that have come in from viewers as well, and we'll get to those in just a moment. First, though, why don't we get to Carl, who has a look at this morning's headlines.

KERNEN: Comments, questions about anything you see here on SQUAWK, e-mail us at squawk@cnbc.com. Still ahead on SQUAWK BOX, PepsiCo CEO Indra Nooyi--it's going to be a smackdown, yeah--joining Coke's largest shareholder, Warren Buffett.

QUINTANILLA: Isn't it true?

KERNEN: Yeah, to try to win him over. It's the true Pepsi challenge. The smartest names in business--not including me--are only on SQUAWK BOX. Stick around.

ANNOUNCER: Up next, the Oracle of Omaha answers your e-mail questions. SQUAWK BOX, live from Omaha, continues after the break

ANNOUNCER: Welcome back to SQUAWK BOX. Here now from Piccolo's restaurant in Omaha, Nebraska, Becky Quick and Warren Buffett.

QUICK: All right, welcome back, everybody. We are live in Omaha this morning, speaking to

Berkshire-Hathaway chairman and CEO Warren Buffett. We have received thousands of questions from viewers. And now it's time, Warren, to get to a few more of these questions and try and see what people are thinking about. The first question I want to touch on still stays on the government theme because we did receive a lot of shareholder questions on that. This comes from Hank Durany, who's in Pompton Lakes, New Jersey. He says, "I did not vote for Mr. Obama, but the moment he was elected, he became my president [as well]. Your upport for Mr. Obama prior to the election was well known, given what transpired over the last 12 months. At what level would you rate your approval of his results on a scale from one to 10, assuming it was a 10 prior to the election."

BUFFETT: Yeah, well, I'm very glad I voted for him.

QUICK: Mm-hmm.

BUFFETT: That has not changed. I think the problems he's run into are, you know, are monumental and particularly in terms of the economy. I mean, you know, we're running huge deficits now that--which we should be running from a Keynesian standpoint to try and get this economy moving, but they have consequences, too. I mean, I do not envy the job of being president, but I give Obama high marks.

QUICK: You do? OK. Here's another question that came in from Kevin Loken in Minneapolis, Minnesota, and this has to do with the Tea Party that we've heard so much about. "Does the Tea Party have it correct, reduce the size of the government? It seems if you give someone, a man or a woman, an unlimited amount of funds like the government, they're bound to screw things up."

BUFFETT: Well, that's--we've worried about that for a couple of hundred years and, overall, we've done OK with it.

QUICK: Mm-hmm.

BUFFETT: I mean, the government has disappointed people, I'm sure, many of times over the 200 years. But, overall, I mean, just look at our country now compared to what it's been in the past. We've always had these motivations of people worrying about the next election and all that sort of thing. But if I'm going to comment on the Tea Party, I'll have to look at my notes here.

QUICK: On exactly what happened with that. All right, here's another question from Henry Solomon in New York who says, "Should governments phase out Social Security and health entitlements?"

BUFFETT: Oh no. Social Security is one of the most important things that our country has done. I mean, if you look back to the '30s, if I were to pick the two most important economic things that came out of the '30s, I would say the FDIC and Social Security and both of them had the same goal, which was to relieve people of unnecessary fears. And our country was $45,000 plus of GDP per capita is rich enough to make sure that those who get the short straws in life have some minimum level of subsistence once they get past their productive years, so...

QUICK: But Social Security, you could be looking at it, Medicare too, these are programs that could be insolvent in the not-too-distant future, especially when you look at demographics and the number of people who will be retiring and who will be working to pay for that. How do you fix it?

BUFFETT: Social Security is now about 4 and a fraction percent, the payout, as I remember, in terms of GDP. Even projecting out 50 years, it gets up to 6 percent or something like that, and that's a vastly increased GDP. So if we treat our seniors to 4 1/2 percent of GDP now, when they're past their productive years or even 6 percent 50 years from now, we take care of our young. I mean, in this country, the people in their productive years take care of the young. They educate them, they do all of these things, even if you don't have any children or anything of the sort, and we take care of our old, and a rich society should do that.

QUICK: A question comes in from Mark Blizzard in Mooresville, North Carolina. It's number 17, "In your opinion, do you feel that the tax incentives being offered to businesses to create jobs will be effective? Can you offer another approach?" You touched on this, but we've got a lot of people who wrote in.

BUFFETT: Yeah. It's very tough. I don't think job incentives do that much. What creates jobs is demand, and, you know, it does go back to Keynes and the economists on that. And, you know, we--if we have 10,000 fewer people or close to it working on a railroad now than we had a couple of years ago, it's because, you know, the box cars aren't moving. If we have 6500 people fewer in our--in our carpet business, it's because the orders for carpet aren't coming in. And so it isn't like you go out and hire a bunch of people and then that creates orders. Orders create jobs, jobs don't create orders.

QUICK: So what can the government really do? When people are so focused on jobs, unemployment at 10 percent, what can the government really do?

BUFFETT: They should do various stimulative things. They should put money in the pockets of people who are going to go spend it.

QUICK: Like we got with the original stimulus package...

BUFFETT: Some of that.

QUICK: ...(unintelligible).

BUFFETT: It doesn't work perfectly.

QUICK: Right.

BUFFETT: I mean, you know, these are not easy problems in that there's a quick solution to. But basically, you don't want more money in my pocket. I'm not going to change my spending habits at all. If my--if my taxes are higher, I'll still, you know, I'll buy the same things I bought anyway. But...

QUICK: Yeah, but you're the second richest man in the world.

BUFFETT: Well, I know that, but if you take wealthy generally. If you take--if you take people at the lower end, if they have more money, they'll spend it.

QUICK: And that's what you think needs to be focused on?

BUFFETT: Well, you need--if you're going to stimulate, you need to stimulate buying.

QUICK: Hm.

BUFFETT: And buying comes from people who can't buy what they want to buy because they don't have enough dollars in their pocket.

QUICK: OK. We're going to have more from Warren Buffett in just a few moments. In the meantime, though, we're going to take a very quick break and Joe, I'll send it back to you for a look at what we've been seeing in the markets right now.

KERNEN: OK. Beck, thanks. We will be back to Omaha and our interview with Warren Buffett in just a minute. But first, let's look at some of these headlines, though, this morning.

(News headlines)

QUINTANILLA: When we come back this morning, we'll go back to Omaha, back to Piccolo Pete's. We'll talk investment strategy, stock ideas and a lot more with the Oracle of Omaha, Warren Buffett and Becky, who's on camera. SQUAWK continues in a moment.

KERNEN: Welcome back to SQUAWK BOX. Still to come in the next hour, PepsiCo CEO Indra Nooyi, that's coming up at 8:10. Let's get back to Omaha, that's where we find our very own Becky Quick with Warren Buffett. Beck, I was thinking about Matt Rose and Burlington and using stock and Warren with Kraft and Cadbury and I love to get him talking about that, to try to figure out why stock was a good idea for Burlington, that it wasn't a good idea for Kraft and I love it when you say you don't like that deal, even though you love management. Go into that again. What was the difference between Kraft using stock and you using stock, other than maybe valuation on the company being acquired?

BUFFETT: Yeah, well, we hate using stock. No question about it, Joe. And because we already owned some Burlington beforehand, it turned it we had to use about 30 percent stock and as I put in the annual report, even though the Burlington holders were getting $100 a share, we felt it cost us more than that because we thought our stock at the time we made the deal was somewhat underpriced. We'd have done all cash if I'd felt comfortable in terms of our balance sheet, using all cash. But I never want to put us in a position where we've--we're stretched in the least. So to make the deal, I had to do it. And I came to the conclusion that using 30 percent stock, which was about 6 percent of all the shares we had outstanding, still left us with a deal that made sense. But if it had to have been all stock or 50 percent stock, we couldn't have done it and if I'd had enough cash around to do it, so I could've done it all cash, I would've liked it better.

KERNEN: How about Kraft? You warming up to that finally? Or are you still--you still don't like it. You don't get to vote, I guess, do you?

BUFFETT: No, we didn't get to vote. And it wasn't just--it wasn't just the stock that was being used, although that was a terrible currency to use, just as our own stock is a terrible currency to use. But it wasn't just the stock, it was the price being paid and it was the fact that the pizza business was sold in a very tax inefficient manner to partly fund the purchase. And it just--in the end, I felt poor after the deal was made. But I, you know, I wish Irene the best on executing well on it and I hope it works out. We'll be a lot better off financially if it does, but I wouldn't have done it.

QUICK: Warren, that question that Joe raised is one that we got from a lot of viewers, too. In fact, Todd in Parker, Colorado, wrote in and said, "In your annual report, you say that you'll consider issuing stock when we receive as much in intrinsic business value as we give up. When exchanging Berkshire shares for Burlington Northern, did Berkshire shareholders receive less, equal or more in intrinsic value?"

BUFFETT: Well, we felt, Charlie and I, felt that we received as much or a tiny bit more in intrinsic value as we gave up. But we factored into that some other things I mentioned in the annual report. Namely, that putting $22 billion of cash to work made good sense for us in this business and that the opportunities over the next 40 or 50 years to keep putting more and more cash at reasonable returns in, just like we do in our utility business, also was an attractive opportunity. We're going to generate lots of cash over the years and we don't always have great places to put that. This offers one vehicle where we can put it at decent rates of return. Not great rates of return, but decent rates of return.

QUICK: Carl:

QUINTANILLA: Warren, you go--we know this is--you're passionate about this from the letter, you go into a long hypothetical about company A buying company B whose stock is undervalued. You say that CEOs long on confidence and short on smarts, wants to buy company B for the prestige and maybe the compensation. Is that a--is that a veiled slight at Rosenfeld?

BUFFETT: No, it's 50 years of being in board rooms and just seeing what happens. And you know, Keynes talked about--probably the best--the best chapters written on investing were chapters eight and 20 in "The Intelligent Investor" for individual investing. The best chapter ever written in sort of describing how the world works in markets is chapter 12 of "The General Theory" written by Keynes and in it he talks about animal spirits and what causes people to do the deals and all of that. It's a marvelous chapter. And I'm not sure that he had Kraft in mind, but he had a lot of the companies that I've experienced over the years in mind. It's a very normal thing. I mean, you know, everything looks--everything looks rosy, you know, when you first are looking at a deal. You don't see the downsides. You don't see the execution problems, you don't see the people who are going to leave. You don't see--you don't see all kinds of things. And I'm guilty of that, too, incidentally. I've made some dumb deals in my life and I'll make some more dumb deals and animal spirits will enter into those dumb deals. I guarantee you that. I just try to keep them under control and if I don't, I count on Charlie to keep me under control.

QUICK: You know, there was a viewer who wrote in and I can't find the question right now, but there was a viewer who wrote in and said do you ever have buyer's remorse when you get through a deal?

BUFFETT: I never have buyer's remorse immediately after a deal because I--the facts look the same to me the day after than they did the day before. But I've made big mistakes on deals. I mean, I laid out one for example, Dexter Shoe in the report. I mean, I've made lots of mistakes and that's the nature of making a lot of decisions. You've got to make sure that the mistakes don't kill you and you hope the big ones work out. But I never--I've never bought something and felt terrible the next day. That doesn't--or the next week.

QUICK: So you're not like some of us normal human beings out there.

BUFFETT: No, when I do something, I feel good about it.

QUICK: OK. We got a lot of questions from viewers regarding your investments, as well, and one came in from Aly Dya in Vancouver, British Columbia. `Would you still buy Goldman Sachs stock even with all the problems they face politically?'

BUFFETT: Well, I would buy the instrument we bought. We bought a $5 billion issue of preferred with 5 billion, roughly, of warrants attached. And I hadn't been--I had not been a buyer of Goldman stock--Goldman Sachs common stock, you know, a month before, six months before and--but I would buy the instrument we bought under the circumstances we bought it, yeah. And I think that it's--I think that the company has very good prospects. But I bought very few investment banking or brokerage stocks over the years. This was a situation where they needed money and validation that day and we were the only ones around, you know, with that kind of money, and so it was an opportunity to buy on favorable terms. Those favorable terms were justified in that--in the chaos that was going on, but I can't buy it today under those conditions.

QUICK: The question maybe points to this idea that Goldman Sachs is now blamed for every single problem that exists out there, including Greece, potentially defaulting at this point.

BUFFETT: Oh, yeah, no, no. It's...

QUICK: Would you still, given the political backlash, buy into this company, own stock, be associated with it and do you think it's a fair rap?

BUFFETT: Yeah. No, no, you're right. I mean, they're going to rewrite Genesis and have Goldman Sachs offering the apple, I mean, pretty soon. But no, I feel--I feel good about their business prospects. I mean, it is a--it's a very, very strong, well-run business. It's got a place in the universe and there are fewer big investment banks around than there were a few years ago worldwide, you know, they--when we did the Burlington Northern deal, they were called in for an advisory opinion and they got a $35 million fee. I don't like that. But they have that sort of market position and it's a terrific--it's just like Coca-Cola has a terrific market position. Goldman Sachs has a very strong market position. Lloyd Blankfein, you cannot find a better manager.

QUICK: All right. There's another question that came in from Steve in Charlotte, North Carolina.

BUFFETT: Mm-hmm.

QUICK: Touches on this same issue but says he's a Berkshire shareholder and is concerned about its ownership positions in Goldman Sachs and Moody's. "It seems that both of these two companies share a lot of the blame for the problems we've had over the last few years. What are you telling the management of these companies and how are you holding them accountable?"

BUFFETT: Yeah. I don't tell the management anything. I never have. We've owned stocks for--you know, I bought my first stock when I was 11. I, you know, I can't recall telling management, unless I've been a director of the company, very much about any of them. That would be like marrying somebody to change them. It's really not a very good idea. You know, and--but it's--we own stock in Costco, you know.

QUICK: Mm-hmm.

BUFFETT: Costco sells cigarettes. Cigarettes, you know, I'm not sure are good for people. I'm not telling them not to sell cigarettes. You know, it's--I'm not telling Walmart not to sell cigarettes or I'm not--there's--every company probably has something that if you were running it, you might feel a little differently about, but there's no question in my mind, Goldman Sachs is a first class, you know, operation. Moody's, you know, the rating agencies, I've said over the years, that we don't follow the ratings of the ratings agencies. I don't think--I think people should make their own judgments about credit quality and we've always done that. And frankly, we like it if we think something's misrated because that's--just like we like it when we think something's mispriced and--but we--I don't think I've ever--I've never been in Moody's. I've never--I've never--they've been out here once or twice when the investor relations people were around, but I don't pay any attention to that anyway. So we have nothing to do with running those companies, you see. You'll see--you'll see on our--on our list of investments, you know, 15 or 20 companies, but we don't buy them to change them. And if I want to--if I want to become a director of some company, then I--then I--then I--then I might have a voice in them.

QUICK: And maybe you talk with your feet, like you've been selling shares in Moody's?

BUFFETT: Well, we--it's a matter of record we've sold shares in Moody's, right.

QUICK: So is that your way of doing things? Either you sit by passively...

BUFFETT: No...

QUICK: ...get involved on the board or?

BUFFETT: ...we sell companies when we think they're fully priced, when we think that there's better uses for the money elsewhere. We've sold a lot of stocks in the last year.

QUICK: Mm-hmm.

BUFFETT: The first part of the year we sold it to buy--we had a commitment to buy three billion of Dow Chemical and a couple of billion in Swiss--or a billion in Swiss REI later in the year. When once I made the deal to buy Burlington, you know, I was going to have to come up with some money and I wanted to have a lot of money left over after I came up with the money. So I'm always--I'm always--I want to--I want to operate from a position of strength. So we will share things that I still like to do things--if it's going to leave me a little bit barren on cash.

QUICK: Things like Proctor & Gamble and Johnson & Johnson.

BUFFETT: Yeah, yeah.

QUICK: That you pointed out in the letter.

BUFFETT: Those are great companies. I don't, you know, anybody who owns Proctor & Gamble or Johnson & Johnson is going to hold them for 10 years, in my view is going to make a bit of money. And on the other hand, we had to come up with 8 billion of cash. We had to borrow another 8 billion to do Burlington and I wanted to end with 20 billion in cash.

QUICK: OK. Another shareholder writes in, or I'm not sure if this is a shareholder or a viewer, but Larry from Mount Prospect, Illinois, says, "Normally, you're a long-term holder. Yet you bought Exxon in the third quarter of 2009, and sold it the following quarter. Why did you change your mind so quick?" And several other shareholders wanted to know if it had to do with the XTO deal.

BUFFETT: No. The answer is no to that. Sometimes I'll start in buying something and not got a full position. I would tend if I'm--if I'm going to buy something like Burlington, if I had a--started in on something and I had a small amount, I'd probably just kick out that sort of thing because it--I just wouldn't keep it around.

QUICK: OK. Alex...

BUFFETT: Incidentally, I should mention one thing.

QUICK: OK.

KERNEN: Warren...

BUFFETT: A lot of--yeah.

QUICK: Go ahead, Joe.

KERNEN: Oh, OK.

BUFFETT: Yeah.

KERNEN: I was just sitting back--I was thinking about this Goldman question and if you want to finish your thought on what you were just talking about, that's fine, but I want to take it this way. I'm trying to figure out what your views are on how we regulate or reregulate the financial industry. And as an example, let's say a client by the name of Greece comes to the best--one of the best investments on the street, Goldman Sachs, says you know, we'd like to spend some more money, we don't want to have it on our balance sheet. Design a way for us to raise more money and keep our credit rating. Goldman Sachs does that, acts as an agent, and then at some point in the future, thinks that Greece is vulnerable and buys some credit default swaps betting on the possible--or insuring against the insolvency of that company's debt. Is there anything right there that you think they're liable for? And should financial regulation, considering it's going to be brought up in the--in the common media that that is like, you know, starting your neighbor's house on fire after you bought insurance, that's how it's being characterized. How do you--how do you not regulate--over-regulate things when it appears that there's a huge conflict?

BUFFETT: Yeah. Well, if you've got a trading department, you know, there's going to be tens of thousands of trades going on. I mean, you have traders all over the world trading all kinds of things. And on the other hand, if you have an investment banking department, you know, you are working, supposedly, for what the client tells you they want to do and you measure that against the laws, you know, of what you're doing. So I don't see how you'll ever have your trading department entirely shut off from transactions that involve anything that you've been involved in in investment banking over the previous five or 10 years. I do think that people that have their liabilities in effect guaranteed by the federal government, I mean, I think if you are attracting money from the world because you have a government guarantee, I think there should be quite a few limitations on what you're able to do. I mean, with--if you can get money simply because the United States government says if you don't pay, they'll pay, you know, I think there's--I think there should be a lot of regulation of that and I think that...

KERNEN: So that's how we--that's how we should address, the implied too big to fail, you know, taking risks that you know the government's going to cover. Is that the main thing we should try to get rid of with the regulatory reform?

BUFFETT: Well, I think that's a big thing, but I also think when you--there are going to be too big to fail institutions. I mean, we can't get away from it. This is a world of scale. So we're going to have to those and the rest of the world's going to have them. Now the--you--what you have to do is you have to get the equation of the fellow at the top or the woman at the top, but usually it's a fellow who gets us in trouble, you have to have a fellow at the top so that--so that he's got to downsize...

KERNEN: Not at Kraft. Not at Kraft.

BUFFETT: You've got to have a--you've got to have that person so they've got a real downside in it and you've got to have a focus primarily on not--on doing--on running that place so that they'll never have to go to the government for help. I mean, that is--and we have had the wrong, in my opinion, we have had the wrong equation for people that run these super large institutions. They get the upside and the stockholders and the government gets the downside. And I would--I just--I think there should be fundamental change there. I wrote a little bit about it in the annual report so that directors and the top officer are on the hook when a company gets--is so big and has such a connection with society that its failure causes all kinds of disruptions throughout society. I wanted to have a little disruption for the CEO that got us into that position.

KERNEN: What about Volck...

QUICK: On that...

KERNEN: Sorry, Beck.

QUICK: Go ahead.

KERNEN: I just wondered about...

QUICK: I think we're going to the same place, Joe.

KERNEN: Yeah, I think we are, but I just wonder, you look at how this is bogged down and the Volcker proposal, that got bogged down on both sides. It--it's another illustration of how hard it is to do anything, but how do you get--what's the most important things you tell Chris Dodd? What do we need to do?

BUFFETT: I--it is hard to take on vested interests. There's no question about it. And you know, and the money is on the side of, you know, of the present--of continuing with past sins. But I would have something so that the--if an institution had to go to society and say save me because if I--because if you don't save me, I'm going to topple society, I would have it so that that person, the CEO and his spouse, you know, at least come away broke, you know. And I would have the directors pay a heavy price for having somebody in there with the wrong incentives and having the wrong person, perhaps, and having that happen. I wouldn't cause them to go broke, but I would have them pay significant penalties that could not be covered by insurance or by the corporation. I mean, they have--if you screw up in such a way that society starts quaking, I think there should be a real downside to that and I think it would change behavior.

QUICK: The financial regulatory reform, though, looks like it's reached a bit of a deadlock right now. Last night, apparently, or over the weekend, I guess, you got to a situation where Dodd put out this idea and said the consumer protection agency should be a part of the Treasury. He also said that it should have rule-making authority, and that's something that made Corker and Shelby both back out. To this point, Corker had been crossing the aisles trying to work with Dodd and get that agreement in there. Is the consumer protection agency, is that an idea that you think is important and needs to be part of this regulatory reform?

BUFFETT: To tell you the truth, I haven't followed it that much, Becky. I did make suggestions in terms of things like ARM mortgages and things like that. I sent along a draft to the Treasury a couple of years ago as what I thought they ought to do to make it much simpler and just have something that said, `Under the worst case, your payments could go to this much,' you know, and have it all just on one page, not dozens of pages of fine print. But consumer protection I really don't know that much about. I want societal protection big time. I mean, you know, we have seen what some--what you might call semi-rogue institutions, you know, have done, and starting, incidentally, you know, with the two that are run by Congress, Freddie and Fannie.

QUICK: There was a viewer who wrote in and asked specifically about Fannie and Freddie, what needs to be done. What should the government be doing right now about that?

BUFFETT: We're going to have to come up with a whole mortgage policy for the country. Right now we've got--we've sort of stumbled into, because of events, I mean, forced them upon us. But we have Freddie, Fannie and FHA making 90 percent of the mortgages in the United States. So the federal government is the mortgage instrument for the United States. And they've botched it somewhat in the past, and it's time to think through, you know, whether you really want to have mortgage standards that will assure that we don't go through a period like has happened in the last three or four years. And I would think that's a good idea. Exactly how it gets implemented, I don't have a great idea.

QUICK: You may not thought an awful lot about financial regulatory reform and exactly how that is flowing through the halls of Congress, but what about carbon emissions and the cap and trade? I mean, that's something you followed pretty closely because of MidAmerican Energy Holdings, correct?

BUFFETT: Yeah. Well, I follow generally as a citizen. I mean, I...

QUICK: Yeah.

BUFFETT: I'm not a physicist, but if--it may be that odds are 90 percent that the global warming people are right. It may be 95 percent, it may be 50 percent. But if it's 20 percent, you still have to act like they're right, because, I mean, if you're betting on the future of the planet, you know, you do not want to say, you know, `Well, I'm not sure about it,' when the problem keeps increasing year by year. So we have to do something significant to reduce carbon emissions. I didn't think--the cap and trade thing was a big wealth transfer, basically, from the Midwest to the coast. But we can--we can dictate that X percent of electric generation by 2020, by 2030, by 2040, you know, has to be--you have to get rid of the stuff that's polluting the atmosphere. And the utility industry will do that. It'll be expensive. Consumers will pay for it. I mean, it's the nature of utilities. Consumers will pay for it. But it's the price we pay for the planet. The big problem, of course, is it's a worldwide problem and the United States can't do it by itself.

QUICK: That sounds like a shift from what you were telling us about a year, a year and a half ago when we asked you about some of these questions as it was moving through, because you said at that point the consumers, the American consumer couldn't handle another tax. Do you think the consumer's getting to the point where it may be able to pay for it?

BUFFETT: Well, I don't think you would do it by--the tax comes through the costs over the years...

QUICK: Sure.

BUFFETT: ...of abandoning--no, I think that's going to--that's inevitable.

QUICK: It's inevitable, so it's something that should be taken on at this point.

BUFFETT: I think that there ought to be something that firmly reduces carbon emissions. And I think we ought to get the cooperation of the world. We ought to--I mean, we should go to China and say, `Look, we have sinned like no other country. We've been putting out more pollutants per capita into the atmosphere by far than you have and, you know, we apologize. Unfortunately we can't undo the past, but we can change the future. And here--we're going to do something drastic in our country on that, and we need--we need you to cooperate.' But it won't do any good if we do it by ourselves.

QUICK: And what about Copenhagen? Things kind of fell apart there.

BUFFETT: Yeah, well it's...

QUICK: Didn't...

BUFFETT: ...these things aren't easy.

QUICK: Yeah.

BUFFETT: You know, I mean, if you're--if you're Chinese, you say, `Well, wait a second.' You know, you're like the guy that moves into a forest and then rolls out the--takes up the drawbridge and says, `We don't want anybody else here,' you know? I mean, `Just because you got there first in terms of polluting, you got--you got away with it, now you're telling us we can't do the same thing in China.' So it's a tough--it's a tough negotiation, but I would go there and say, `Lookit, we were wrong. You know, we didn't see this problem coming early enough. We want to do something big time about it, and it won't do any good for the world unless you help us and talk to the major'--and--but China's the big one on that.

QUICK: You know, Warren, I'm not sure if you saw it over the weekend, but Senators Kerry, Lieberman and Graham said that they are going to be introducing legislation in the Senate as early as this week. They said cap and trade's dead, in their opinion. They're going to be introducing legislation that would do something similar, I think, to what you've talked about, which is to put caps on different industries...

BUFFETT: Yeah.

QUICK: ...starting with the utilities and eventually working its way to industrial--the industrial sector as well. That's an idea that you would get behind and support...

BUFFETT: Yeah.

QUICK: ...without having seen the details?

BUFFETT: Yeah, in a general way I would, but I would try to--if we're going to make changes, I would--I would--I would try to bring along as much of the rest of the world as possible, and I would--I would--but I would do it in the spirit of going forth and saying, you know, `I have sinned,' and I would go to the front of the church and say, `I have sinned' and hope other people start following.

QUICK: All right. Let's get to some more questions that came in from shareholders. There's one guy's--number 184 for the control room. This came from Scott Deller in New York. He says, "How much debt would sink the United States? If the answer's unknown, isn't it risky to race at top speed toward that line?" There were a lot of questions like this that came in.

BUFFETT: Yeah. Well, we are doing things that are causing the debt to rise at a very rapid rate, I mean, when you're running, you know, a fiscal deficit like we are. As long as you issue debt in your own currency, debt doesn't sink you. Now it--what it does is it destroys the value of money over time. So you can make--you can make it so that the person who lent you money, 10 years from now or 20 years from now gets back dollars that aren't worth very much. But you can--as long as you've got a printing press, you can--you can issue any amount of debt in your own currency. It's when the world says to you, `We don't want debt in your currency any more, issue it in something that's more solid,' and that's what they do--they've done to various developing countries. That's what they used to do to South American countries and so on. And then the music stops. The IMF comes in and whatever they take. We have this great reputation for 200 years, and people will accept dollars for a long time. But if the printing presses would run at a sufficient rate, people after a while would say, `Wait a second. We're going to get stuck.' You know, it's interesting, when we talk about what's happened in the last year or two how the taxpayers paid for this or the taxpayers paid for that, taxpayer hasn't paid for any of it. We haven't raised taxes on anybody. What we've done is the lenders have paid for it. So it's...

QUICK: Well don't those--don't those costs eventually get passed onto the consumer too, though?

BUFFETT: Not--the costs really get passed on--generally speaking, they get passed onto the saver. They just--inflation steals from savers, and inflation is the logical consequences of printing too much money.

QUICK: And seniors who are living on fixed incomes.

BUFFETT: Anybody that's living on any kind of fixed income. I mean, you know...

QUICK: And small businesses that are maybe hoping to get a loan from a bank that can't give it at this point.

BUFFETT: ...anybody that has their money--anybody that has their money in a money market fund or anything like that, you know, if we issue enough--if we keep printing enough--if we keep a large enough fiscal deficits we will eventually print a lot of money and money will be worthless. And incidentally, if the United States runs up trillions and trillions and trillions of debt to the rest of the world, you know, I will guarantee you that the politicians of 10 or 20 years ago will not want to pay that back in hard money. It just doesn't--it doesn't make any sense.

QUICK: When you look at the situation in Greece right now and what's happening with the trouble they've gotten into, do you believe that contagion spreads to not only other EU nations, but potentially other states here in the United States? Is that a huge worry for you?

BUFFETT: There's a huge incentive for the EU to handle something like Greece and, of course, that's what you're seeing now. I mean, it isn't--it isn't because the rest of--the other 15 countries in the EU have suddenly developed this great affinity for Greeks. They just--they know the consequences of, you know, if A is going to lead to B and you can't stand B, solve A. And that is essentially the situation. That's what we went through a year and a half ago, you know, after--when we stepped in and guaranteed money market funds and commercial paper and all of those things. We saw a run on the country developing, and, believe me, it was developing. And no one has to lend money to country A or country B or country C. And if they lose money with country A they're going to get more worried about country B and country C just like the same experience we had with financial institutions in the fall of 2008. The time to stop runs is early on.

QUICK: But do you think that this is something that could happen here in the United States, if you look at California or New York, if you start looking at some of the states that have very large financial problems?

BUFFETT: Yeah, and they can't print money.

QUICK: They can't.

BUFFETT: No, no. What they can do is one of three things. They can cut expenses, they can raise income, or they can go to Washington eventually.

QUICK: And you think Washington would cover all of those problems?

BUFFETT: It would be very tough if you're in Congress and they say, `Well, you bailed out General Motors, and you did this and that. And are you going to say, "People in the largest state in the union or whatever it is, that we're not going to take care of you? I mean, the political problem would be huge. But there's no question that states and municipalities the fiscal--the financial situation for them has deteriorated dramatically. We did not write any municipal insurance to speak of in 2009. The risk got higher and the premiums got lower and that just--it made it a dumb sort of thing to do in our view.

QUICK: Tying this back to Europe and if Europe and Germany do step in and provide for Greece, as it looks like they very--may very well do at this point...

BUFFETT: Almost have to, yeah.

QUICK: ...does that make you think that all these hedge funds that are betting against the Euro are on the wrong side of this fence?

BUFFETT: Well, I don't know what happens to the euro exactly, but I mean, there are--I'm sure there are hedge funds that are betting against the euro that are hoping that for one reason the Germans gets mad at the Greeks, or whatever it may be, you know, they are--let's say there are two banks in town. You own a bank and I own a bank. Now, if I want to put you out of business what do I do? I go out and hire 50 bums on the street and get them to stand in line in front of your bank. You know, that's all I have to do. You know, and those 50 will become 100. And after a while, I can let the 50 bums and go, and it will create its own dynamic. You do not want that to happen with countries. So you better stop it, you know, right off the bat. And everybody realizes that. The only question is whether it gets it gets bogged down in something or other.

QUICK: OK. We're going to have more with Warren Buffett in just a moment. Remember, Mr. Buffett is Coca-Cola's largest shareholder through Berkshire Hathaway. We're going to get his first comments on the beverage giant's deal with its largest bottler. We talked a little bit about it, but guess what, Mr. Coke will meet Ms. Pepsi. Pepsico's CEO Indra Nooyi has a deal of her own. She's going to tell us all about that and mix it up with the Oracle of Omaha. Stick around.

QUICK: Good morning again, everyone, and welcome back to SQUAWK BOX here on CNBC, first in business worldwide. I'm Becky Quick in Omaha, Nebraska, this morning. This is Piccolo Pete's restaurant, and that means we are on Warren Buffett's home turf. This is a place that Warren brings many of his friends, names you know; people like Bill Gates and GE CEO and chairman Jeff Immelt. Joe Kernen and Carl Quintanilla are back at CNBC world headquarters this morning, and we have one more hour left to get most of your e-mail questions for the legendary investors, following up on that annual Berkshire Hathaway shareholder letter. We've covered a lot of topics so far, a lot of ground, everything from the markets, the government and Coca-Cola's bottling deal. But, Joe, we have much more to come.

KERNEN: Yeah, we do. Warren is Coke's largest shareholder. We're going to introduce him to Ms. Pepsi in a moment. PepsiCo CEO Indra Nooyi will talk to us exclusively after just, coincidentally, those bottling deals, PepsiAmericas and PBG, both closed today.

QUINTANILLA: Yeah, reaffirmed guidance. Or affirmed guidance.

KERNEN: And this was--I know she may take a little bit of a victory lap. I mean, she won--she's already closing the deal, as Coke is barely scratching...

QUINTANILLA: Where have you guys been?

KERNEN: Yeah. You know, they're trying to catch up.

QUINTANILLA: Copycat.

KERNEN: I don't--yeah, yeah. Oh, `What's Indra doing? Let's--what else can we'--no. You've got the headlines, though, for us, right?

QUINTANILLA: I do, a couple quick headlines today.

(News headlines)

KERNEN: Let's get to this, PepsiCo **[PEP 63.27 ▲0.80 (+1.28%)]** announcing the completion of its mergers with its two largest bottlers, Pepsi Bottling Group and PepsiAmericas. Joining us now in a special SQUAWK exclusive, live from their headquarters in Purchase, New York, Indra Nooyi, PepsiCo chairman and CEO. It's always great to see you, Ms. Nooyi, and...

INDRA NOOYI (PepsiCo Chairman and CEO): Good to be here, Joe.

KERNEN: And do I--can--I guess I congratulate you, not only on the completion of the merger, but, you know, on doing it so much sooner then Coke **[KO 52.8401 ▲0.1201 (+0.23%)]**. Can you--can you go into some details on what it does for Pepsi and how it's going to help, I guess, rationalize the assets? That's what Warren called it.

NOOYI: Well, you know, Joe, as you know, we announced this deal in April of last year, and we are bringing in Pepsi Bottling Group and PepsiAmericas into PepsiCo. Today's the first day of the new PepsiCo--the new PepsiCo, which is about $60 billion in revenue. And, you know, it's full operational control of almost 80 percent of the bottling system. And as we mentioned in our call in April when we first announced the deal, the beverage business in North America has changed substantially over the last decade or two. It's not growing as much. And the nature of the business itself has gone from a few megabrands to a bunch of fragmented new products, noncarbonated vs. just carbonated drinks. And the old model of separating the franchise company from the operating company became almost a relic of the past. And last year, when we were looking at the dynamics of the industry and looking at where it was evolving to, it became clear to us that this separation of the franchised company and the bottling company wouldn't last. And a franchised company cannot grow at the expense of the bottling company, and a bottling company clearly cannot grow unless it has the support of the franchise company. So we decided to put the profit pools back together. The good news is as of Friday the deal as closed, which means today is the birth of a new PepsiCo, and we are very optimistic about our prospects. Our press release this morning indicated that for the next three years we expect low double-digit EPS growth, which in today's times is pretty good. And in 2010 we reiterated 11 to 13 percent EPS guidance.

KERNEN: All right. I kind of understand a lot of that, how, you know, you don't want the two companies competing. But there was a rationale at one point to do it that way, and Mr. Buffett had pointed out the different--you know, it's a low margin bottling business vs. a high margin syrup business. What exactly changed? Why--you are going to deploy more capital--or you have deployed more to own the bottlers. Why not leave them owned by someone else with a lower margin business? What's changed? You say something's changed to make it make more sense.

NOOYI: Yeah, that's a great question, Joe. So 10, 20 years ago, the market--the beverage market in North America was essentially carbonated soft drinks, and there were a few megabrands that controlled the business, and the market was growing 6, 7 percent in terms of volume. Fast-forward to today. Carbonated soft drinks are now less than 50 percent of the total market, and that's a very highly profitable part of the whole market. And the overall liquid refreshment beverage business is growing in volume about minus 2 percent and in value about 1 percent positive. So this is not a huge growth business. It's a big market, it's about $100 billion category. But it's not growing in leaps and bounds like it used to a couple of decades ago. When you have one or two publicly listed companies positioned as growth companies trying to fight over a profit pool, that's not a very good situation, especially if the profit pool is not growing enough to feed the appetites of two or three publicly listed companies. So the only way to compete and stay ahead of competition in this environment is to bring the profit pools back together and figure out how to operate more efficiently. And I go back to a point that Warren made, and if I may digress for just a bit, it's a privilege to be on this show with the Oracle of Omaha. Warren, it's unfortunate that you and I haven't met, but I know everybody around you, so I feel like I know you. It's an absolute joy and privilege to be on the show with you. And thank you for sharing some of your time with me. But let's come back to the bottling transaction. Warren said something very important in one of the early segments. He said it's a operating intensive business and it's a lower margin business. And, you know, companies will have trouble integrating the bottling company into the franchise company. I think the big advantage PepsiCo has here is because of Frito-Lay North America and the overall salty snack business around the world, we are an operating company. We operate

18,000, 20,000 routes in Frito-Lay. We never lost that operating discipline. And so the post...(unintelligible)...integration of bottling into PepsiCo was a breeze. We got it done flawlessly. And we had the wonderful advantage of retaining Eric Foss to run our bottling business. Eric used to be the CEO of PBG. We retained him. And so it's almost like bringing all the bottling people back home to PepsiCo. So we feel great about our prospects, and we think it's just reuniting a company that was always peripherally part of PepsiCo.

KERNEN: Yeah, I want to definitely get Becky and Warren Buffett in on this. You know, Warren, if you didn't have such a long and fruitful relationship with Coke, Pepsi's right in your wheelhouse. I think the way the company's run, the products that it has. Are you precluded in some kind of anti-trust from owning both, or?

BUFFETT: No, I don't think the government would come after me. It--Pepsi--it's a wonderful company. And particularly, I mean, Frito-Lay is a fabulous business. I'd love to own it. I eat Fritos, I eat Cheetos, I eat their potato chips; I even eat Munchos, which are kind of hard to find. But I always drink Coca-Cola with them.

NOOYI: You know, Warren, I read your book, the biography on you, and it said that you started life drinking Pepsi, and those were the most joyful moments in your life. I loved that. I think that's what keeps you so youthful, because Pepsi's about youthful cultures.

BUFFETT: Well, I happen--I have to say, Indra, that I started drinking Pepsi when I was about six or seven years of age in the '30s. And if you remember, at that time it was twice as much for a nickel, too. Pepsi gave you 12 ounces for a nickel...

NOOYI: Uh-huh.

BUFFETT: ...and Coke gave you six and a half ounces. So I would definitely say that at half the price, it--Pepsi was a good buy at that time, marked down 50 percent.

KERNEN: I...

NOOYI: Warren, let me assure you, at any price, Pepsi's a great product.

KERNEN: Yeah. All right, now I--now I understand, you were able to--Warren, you're going to buy the--to drink you're going to buy the cheaper soft drink, but to buy the company, you're going to buy the one that charges twice as much. It makes perfect sense now, now that I see how your--how your mind is working.

BUFFETT: Joe, let me--Joe, there's a comic book--Action Comics was the first Superman book that sold for a dime in 1938, and it now sells for a million dollars. And if Pepsi were half the price, you know, I--all I had to do was at, you know, in effect, save an extra nickel there twice. And that 10 percent--that 10 cents turning into a million, though, incidentally, is only a 25 percent compound. It's kind of interesting. If you'd bought that comic book in 1938 and compounded your money at 10 cents at 25 percent, you'd have a million dollars now without owning the Superman comic.

KERNEN: Wow, that's...

BUFFETT: So I had a very good reason to try and save money when I was eight years of age. And 12 ounces for a nickel was different than six and a half ounces.

KERNEN: Hey, Indra, you know, Coca-Cola I think is leaving the--some of the nondomestic bottling assets separate. Is that because over in Europe and Asia, that things are still growing quickly enough? Is it the same with Pepsi, where you still have the--that rapid growth which allows that model to make sense?

NOOYI: Well, Joe, you know...

BUFFETT: Are you asking--go ahead.

NOOYI: ...east of the Middle East, as I said, the--go ahead, Warren.

BUFFETT: No, I think he was directing at you, Indra. No, go ahead.

NOOYI: No, east...

BUFFETT: I'm saying...

NOOYI: I'm sorry.

KERNEN: I want both of you to answer.

NOOYI: East of the Middle East, the markets--east of the Middle East, the markets are still growing extremely rapidly, Joe. And, you know, the first thing I should say to you, the companies are very different. We are a large food and snack business in addition to beverages, so the two companies, you really can't compare them directly. East of the Middle East, the economies are doing quite well. How long that'll continue, we'll have to watch and see, but they're doing very, very well. I think Western Europe and Eastern Europe are still troubled markets. GDP's down, unemployment rates are extremely high, and I don't think you can link a bottling transaction to the economy. You know, they had a different strategy, we had a different strategy. But in Europe we are a very, very large food and beverage company because we have a large snack business, we have a huge juice business. We are huge in Russia, we're huge in Western Europe. So I think the companies are very different and our strategies, fundamental strategies are very different.

KERNEN: Warren, you were going to talk about the Coke strategy abroad, right, with their--I guess they're not buying in those assets, right?

BUFFETT: Well, the--no. The franchise operation works extremely well around the--around the world. And, I mean, you take somebody like Coca-Cola FEMSA in Mexico, I mean, the per capitas there are incredible. I think they're up close to 500 or thereabouts. And so the franchise system in just country after country, 200 countries around the world, has developed the market in a way that's been very good for the bottlers and very good for Coca-Cola. And actually, in many countries the bottling operation has been considerably more profitable than it has been in the United States, partly because of the growth aspect that Indra mentioned. So it's not a system that needs fixing at all around the world. There can be an occasional spot where the bottler isn't doing the job and the Coca-Cola company will buy it and then--and put it back on its feet and then resell it to somebody in that country. But having local bottlers really works pretty darn well around the globe.

QUINTANILLA: Warren, some people...

QUICK: Warren, there--right.

QUINTANILLA: Some people have been saying that you--people historically bought Coke as an international growth play. Now all the sudden North America's an awfully bigger piece of the pie. Does it dilute some of the reasons that people got into the stock in the first place?

BUFFETT: No. In terms of where the money is being made, you know, Coke makes, I don't know exact percentage, but 80 percent of its money around the globe, and it's growing and just in country after country. Coke has been gaining share really quarter after quarter around the world. And add--none of that volume's going away, or none of that growth is going away because they're integrating the bottling system in the United States. It does--it means a concentration more of assets in the United States, but it does not take away from the profit growth that is occurring around the--around the world. I think Coke earned like 9 billion pretax last year, and I think well over 7 billion of that was from outside of North America. And that 7 billion is going to have the same kind of growth rate, which has been substantial, whether or not--you know, wherever the bottling system in the United States is owned.

KERNEN: Mm-hmm.

QUINTANILLA: And, Indra, the other--I guess the other concern, if there are concerns about these types of deals, is the degree to which big companies like yours now have to worry about the logistics of getting bottles around the--around the country, perhaps distracting you from investing in and nurturing the magic of the brand. Any truth to that?

NOOYI: Not really. I mean, PepsiCo, as I said, is an operating company. We know how to focus on brands and operations. We've done it extremely well with Frito-Lay around the world. So we don't see any issues in terms of focusing on the franchise company and the bottling company, which are now both under PepsiCo ownership. In fact, we think this is the right strategy. And, Warren, I'll just come back to a point you made about the franchise system around the world. I think the franchise system works as long as the market and the category are growing. When the market slows down, when the category growth rates slow down, the franchise system always runs into issues because there are two companies that are fighting over a very, very limited profit pool. Now, if the bottling companies can be repositioned as utilities, that's a whole different issue, because they essentially are utilities. But if you position a bottling company as a growth company and the franchise company as a growth company, I think when the category slows down you're running into issues.

BUFFETT: Well, fortunately, the category's not slowing down in most parts of the world. It's just amazing, the growth. I--Mexico is an extreme example. China, I mean, I think in the last quarter of 2009, there was 29 percent unit growth for Coke in a place like China and 22 percent in India. So the rest of the world, they like the same thing I like. And they like Pepsi, too. I don't...

NOOYI: No, I--Warren, I agree with you.

BUFFETT: And they love Frito-Lay.

NOOYI: No, I agree, and I appreciate your consuming our Frito-Lay products. I think you're right, China's growing very rapidly. India grew 50 percent for us last year, so we feel very good about our prospects there. I'd worry a bit about Western and Eastern Europe, because there, the category growth rates are sluggish right now with the economy. And one has to worry about the health of the bottling system because, you know, both companies are fighting over a limited profit pool. So these are just, you know, watchouts that one has to keep in mind as we look at the troubled economies around the world.

KERNEN: Indra, you had to deal with--you had to deal with some private label competition. I think about just the overall competition from all these, I don't know, new age drinks, whether it's tea or water or, you know, what is that, acai berry something. There's so many strange things out there...

NOOYI: Acai.

KERNEN: ...that aren't sugary soda that, you know, I wonder about the long-term prospects, long, long term for both Pepsi and Coke. I guess, you know, they've been sold short before...

NOOYI: Yeah.

KERNEN: ...but certainly the sugary soda isn't--that market isn't what it used to be.

NOOYI: Yeah, I mean, I wish you wouldn't just call it sugary soda. Let's just talk about soda. Used to be 80, 90 percent of the market. It's now down to, you know, 40 percent of the market. So noncarbonated drinks are growing much more rapidly than carbonated soft drinks. And even carbonated soft drinks, I mean, you've got diet sodas, you've got a whole range of flavors. You've got lightly sparkling soda, well sparkling sodas, you've a whole range of innovation coming there. But let's stay with the noncarbonated beverages. That's--it's true. I mean, acai berry, all these new products are coming into the marketplace. I think owning the bottling system is most strategic in this new environment because, in the past, every time you wanted to launch a new product, the bottling system would look at it and say is it as profitable as my core soda? Will it sell, you know, tens of millions of cases? And then this negotiation would start between the franchise company and the bottling company that would last months before you actually brought a product to market--to the marketplace. I think that time spent on unproductive discussions with the bottling system is now going to be a thing of the past. The franchise company, which continues to innovate rapidly--I mean, I taste top products in our laboratories. We have more innovation ready to go for the next three, five years than I've ever seen in the history of our company. So now we can start bringing these products to market quite rapidly, especially more niche products, which tend to be more health and wellness focused. So Joe, Carl, Becky, and Warren, please stay tuned for the innovation from Pepsi and PepsiCo. And, Warren, you know what? Just as you talked about eating Cheetos and Fritos and Lay's potato chips...

BUFFETT: Well...

NOOYI: ...I hope I can get you on TV one day to say you drank one of our Pepsi products and loved it.

BUFFETT: Well, I will probably--I will eat some Cheetos and Fritos today, but I will--I will also drink five Cokes.

QUINTANILLA: One thing's for sure, Beck...

QUICK: You just touched on a point...

QUINTANILLA: Beck, you, me and Joe, we have got to get into that testing lab at Pepsi, right?

QUICK: Oh yeah.

QUINTANILLA: We would have a blast.

QUICK: That's right. I can see us all there.

QUINTANILLA: I would just go crazy.

KERNEN: I was just actually fantasizing about a way to make a nutri-salt, something that didn't hurt you, but would have a salt taste...

QUINTANILLA: Mm-hmm.

KERNEN: ...like a sweetener, like a fake sweetener, because--but I'm not even convinced...

QUICK: That sounds like Olestra.

KERNEN: Yeah.

QUICK: And you know what Olestra does to you, Joe.

KERNEN: Ooh, that's right, that's right, that's right.

NOOYI: Joe, if you came to our laboratories, you'd be like a kid in a candy store.

KERNEN: It's true.

NOOYI: I assure you.

KERNEN: It's true.

QUINTANILLA: Come hungry and come thirsty.

BUFFETT: We've got a real candy--Joe, we've got a real candy store for you, See's Candies.

KERNEN: I love you two...

BUFFETT: Don't settle for anything except See's candy.

KERNEN: I love you two fight, though.

QUINTANILLA: Yes.

KERNEN: I can come--I have time. I can come to See's and to--and to Frito Land. There should be a theme park for me.

BUFFETT: Yeah, we'll fly you back--we'll fly you back and forth in a NetJet too, Joe.

KERNEN: Now you're talking.

QUINTANILLA: At the end, there's a doctor waiting for you.

KERNEN: Yeah.

QUICK: Indra, you brought up a point where you just said please don't call these things sugary sodas, though. And both to Indra and Warren, do you feel like you are under assault from governments that now are looking at sugary drinks or carbonated drinks or beyond and thinking of ways to tax? I think of the state of New York, and I think about Muhtar Kent's op-ed piece that he wrote last year, towards the end of last year, where he said that governments are looking at this the wrong way. You can't just blame the soda companies, you have to look at the kids who aren't exercising, the way we set up some of these issues. Do you feel like you're under assault, Indra?

NOOYI: You know, look, I think governments are looking for ways to raise revenue. Governments are looking for ways to reduce childhood obesity in particular. And I think it's important that we encourage governments to look at the problem holistically because it's a very complex issue. Clearly, the sedentary lifestyle has had an impact and what they eat and drink has had an impact. So I think it would be irresponsible for us to say we're not the problem or we are the problem. I think what we have to do is work constructively with governments to come up with a solution, and that's why we were co-leaders in forming this healthy weight commitment, which is a consortium of manufacturers and retailers working with the Robert Wood Johnson Foundation as an independent evaluator to really look at options to transform all of our portfolios to reduce salt and sugar levels, take out the fat in our products so that products can taste great, yet are healthier than fun-for-you products. We're talking about nutrition education, calorie labeling. We're looking at a whole range of options. The other thing I tell you, Becky, is the food and beverage industry in the United States, in particular, is a very responsible industry. And I think we're looking to work with governments, the federal government, state government, all of the organizations to come up with the right solutions for the American consumer.

KERNEN: OK. I think we're almost done.

QUICK: Warren, same question.

KERNEN: Oh, sorry.

QUICK: Go ahead.

KERNEN: They told me we were done.

QUINTANILLA: (Unintelligible).

KERNEN: You got something more?

QUINTANILLA: I got one more.

KERNEN: You go ahead.

QUINTANILLA: Indra...

QUICK: Well, can I just get a real quick question, same question.

BUFFETT: If I eat more than 2500 calories a day, I'm going to gain weight. If I eat less than 2500 a day I'm going to lose weight. I'd like to choose the 2500 calories that I eat, and if, you know, if I--it's just a question of how many calories you stuff in your mouth, basically, and there's a lot of ways to do it.

QUICK: Hm.

BUFFETT: And if somebody told me that I live a year longer by eating nothing but broccoli and asparagus from now on, I would just say, it would just feel like I'm--every day will seem like as long. I'll stick with--I'll stick with the Cheetos and the Coke. QUINTANILLA: Indra, I hope you won't mind a quick macro question. The last week or so we here who sort of pay attention to markets on a day-by-day basis have seen some pretty lousy data on housing and consumer confidence. We sometimes rely on you and your radar. Are you--are you seeing echoes of that in at least the very concurrent data when it comes to convenience stores and so forth? Is the consumer nervous again?

NOOYI: I think the consumer, (clears throat) excuse me, I think the consumer environment is very, very soft. And I think what we have is people still don't have the confidence to go out and spend money, and they're just waiting to see what's going to happen before they open their wallets. Savings rates are going up, which is a good thing. The question is, when is it too high? And we want people to spend, not just spend, you know, borrow and spend. And I don't think the consumer's there today. So I am a bit worried about the next 12, 18 months because unless we get those jobs back and the hourly worker, the construction worker, back on his feet, I'm just worried that consumer confidence won't come back. So I like what the government is doing about long-term programs, fixing health care, addressing energy, talking about the overall taxation. I like all of these long-term programs. My concern remains, you know, on the next 12, 24 months because you need those jobs back to get the engine of the economy going, but you need that to get consumer confidence up. And let me just say one thing to Warren. Warren, Cheetos, Fritos and Doritos taste fantastic and even better with Pepsi.

KERNEN: Boy, this is--this is kind of a smackdown.

QUINTANILLA: Yes.

QUICK: It is a smackdown.

QUINTANILLA: A hard sell.

KERNEN: Warren, it is too bad that Coke never, you know, you do have to go out of the Coke family to get a snack, and I wonder why they didn't realize salty snacks, drinks, salty--I mean, that's like--that's like peanut butter and jelly. That seems like a slam dunk to have thought of that.

BUFFETT: Indra may know this better than I am. My understanding's that **Herman Lay** went to Coke, I don't know, 40 years ago or so, and if a deal had been made, he would've owned more stock than Mr. Woodruff, and Mr. Woodruff didn't like it. But I don't know whether that's an old wives' tale or not. Indra, do you know the answer on that?

NOOYI: I think the answer is that PepsiCo has always been strategically much better than anybody else out there.

KERNEN: Oh, I love it. All right, we've got to go. We've got to go.

QUINTANILLA: Ouch!

KERNEN: We've got to go, Indra, but just--we asked pharmaceutical companies, what's the most exciting drug in your pipeline? What's the most exciting new salty snack at that testing place you were talking about? Do you have one in particular?

NOOYI: Yeah, Joe, I'll make a deal with you.

KERNEN: All right.

NOOYI: You come and host your SQUAWK BOX out of Frito-Lay and we will let you taste all of our new products. How's that?

KERNEN: I hate to hear people talking with their mouth full, but we may have to--we may have to do that because that would be the problem. Thank you very much, Ms. Nooyi.

NOOYI: Thank you.

KERNEN: It was great to have you on the show for an extended period of time and seeing you and Warren Buffett in that two box, it's just a cool looking thing, isn't it?

QUINTANILLA: Other shows have...

NOOYI: And, Warren, I look forward to meeting you sometime.

BUFFETT: Good enough. I'm looking forward to it, too.

KERNEN: There it is again. I love that.

NOOYI: Thank you.

KERNEN: All right, Beck.

QUICK: All right, Indra, thank you very much. And we've got just a few minutes left before we have some data that comes out. Warren, I thought we could do some rapid fire questions that have come in from shareholders, too.

BUFFETT: OK. Yeah.

QUICK: All right. Here's the first one. This comes from Bojan in Phoenix, Arizona. "If you had to change all cash from the US dollar, which currency would you buy?"

BUFFETT: That's a tough question. It might be the Swiss franc.

QUICK: It might be the Swiss franc?

BUFFETT: Well, if you're--if you're saying I have to do it.

QUICK: Yeah, you have to.

BUFFETT: We have our money in dollars, overwhelmingly, but if I had to pick one, I might pick that.

QUICK: All right. I'm going to break from rapid fire. Why?

BUFFETT: Well, I just--I worry--I worry about all currencies. So I mean, currencies are the prospect--the future of a currency is a product of governmental action and I--the real question is, how disciplined governments will be over a long period of time. Our government has been pretty darn good. On the other hand, you know, I was born in 1930 and the price level is probably 15 times what it was then, so currencies depreciate over time. And the real question is where are they likely to depreciate the least. And I--but I'm--I'm not making that bet. I'm just--you asked me a question, and I gave you a fast answer.

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KERNEN: Becky, if Warren--have you covered any of your dollars short, Warren? Because I don't know if you saw this--what happened with the euro recently, but you've been short the dollar for years, right? Did you cover any? Or have you lost some money in the last three months?

BUFFETT: No, we have no real foreign currency. We haven't had any foreign currency transactions as foreign currency transactions themselves for some years. Now, we own a lot of things in dollars, we own--we own a utility business in England, which makes us money in pounds. We own Cologne Re in Germany, and so we have earnings in different currencies around the world. Well, we've had no explicit currency transactions...

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BUFFETT: It was a couple of years ago, yeah, right.

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BUFFETT: ...and we closed all those positions up. But the best thing to own, you know, the best thing to have is your own talent. They can't take that away from you. But the best thing to own is a good business. A good business, you know, you know, whether it's Frito-Lay or whether it's Coca-Cola or whatever it may be, they will retain their value in real terms in my judgment over time no matter what governments do to currency.

QUICK: You said, though, that a bet either for or against a currency is a bet for or against that government. If you were worried, and let's say you're worry level and let's just measure a couple of things against each other, euro vs. the dollar, which worries you more?

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QUICK: British pound vs. the dollar. Is that the same story?

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BUFFETT: The yen is--Japan is the great mystery of all time. I mean, in terms of the policies they follow, what happens, you know, low interest rates, huge deficits and all of that sort of thing. That one is a mystery I don't even try to think about solving.

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BUFFETT: Well, it would--it would--it's--in 13 years?

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BUFFETT: ...is two million--about 10...

QUICK: Two million, three-hundred and fifty-thousand.

BUFFETT: It would be around 10 million, yeah.

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QUINTANILLA: That was...

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QUINTANILLA: There's a new reality show, "Are You Smarter Than Warren Buffett?"

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KERNEN: Hey, Warren, Warren, were you using the rule of 72 there? You were, weren't you?

BUFFETT: No, actually, I was calculating the distance of the moon and dividing by the speed of sound.

QUINTANILLA: That was the best part of TV so far this morning. A lot more, in fact, and Warren in Omaha in a little bit.

QUICK: And we've got just a few minutes left before we have some data that comes out. Warren, I thought we could do some rapid fire questions that have come in from shareholders, too.

BUFFETT: OK. Yeah.

QUICK: All right. Here's the first one. This comes from Bojan in Phoenix, Arizona. "If you had to change all cash from the US dollar, which currency would you buy?"

BUFFETT: That's a tough question. It might be the Swiss franc.

QUICK: It might be the Swiss franc?

BUFFETT: Well, if you're--if you're saying I have to do it.

QUICK: Yeah, you have to.

BUFFETT: We have our money in dollars, overwhelmingly, but if I had to pick one, I might pick that.

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QUINTANILLA: That was the best part of TV so far this morning. A lot more, in fact, and Warren in Omaha in a little bit.

QUICK: You know, Carl, we were just talking while that information was coming out, and Warren said there is a currency that maybe he would look at a little more strongly. We were trying to weigh all those currencies against each other. What--Warren, what currency is it?

BUFFETT: Well, I mentioned the Chinese yuan, which you can't--renminbi.

QUICK: Right.

BUFFETT: But you--that's not freely transferable. But we actually did a bond issue here not so long ago that's by an American company but it's--it floats with the renminbi so that in effect it's a renminbi denominated instrument.

QUICK: Are any stakes you might own in a Chinese company, like you've bought in with BYD? Is that a bet, also, on that same?

BUFFETT: Well, it--that's not primarily the bet, but--at all. But I would say that having--putting an investment into a Chinese company at the present conversion rates, I would figure I might have a currency play as well.

QUICK: That brings us to one of the questions we got from some of our viewers, too. Let's start out with question 1663. It--this comes from James Wood in Bartlesville, Oklahoma. He says, `Since emerging market economies are growing at two to three times faster than those of developed countries, what percent of one's equity portfolio should be in emerging markets?'

BUFFETT: You know, your portfolio ought to be in businesses you understand, where you understand their future economics. And they may be in emerging countries, they may be in the United States, and you're likely to understand them better in the United States. But the--sticking the name "emerging country" after a stock does not make it better. I mean, you have to know what you're buying, you have to know the business, you have to feel good about the management and you have to feel good about the price you're buying into it. And I would not--I would not--wouldn't make any difference to me if I had zero of my money in emerging markets, I want to have it in things that I understand and I think are attractive and I think are going to earn more money five years from now and 10 years from now than they are now.

QUICK: You know, you mentioned China as an area that's obviously very rapidly growing. Several years ago you looked at South Korea as a place where you had...

BUFFETT: Right.

QUICK: ...not paid attention before and you saw that. Would you say China is your favorite overseas market right now?

BUFFETT: Well...

QUICK: If you had to generalize.

BUFFETT: ...you can't buy it yet. Yeah, we--the only Chinese stock we own is BYD.

QUICK: Is BYD.

BUFFETT: But certainly, the--I think the Chinese economy will do very well over the next as far as the eye can see. That doesn't mean it'll do well next year, or that their stock market will go up or anything like that. They'll have bubbles and they'll have all the same kind of interruptions that we've had in the last 200 years. But they're going to go places over time.

QUICK: OK, let's get to some more shareholder questions, or some more viewer questions. This comes from Zanesville, Ohio, Robert Shackelford. He says, "Would you be greedy or fearful in today's market?" You talk all the time about how you should be greedy when others are fearful, and fearful when others are greedy.

BUFFETT: Yeah.

QUICK: Well, what are you?

BUFFETT: Well, I always start from a position of fear. And then when I see something that looks attractive, I start getting greedy. So--but I'm always looking at the downside on something first. I mean, if you can't lose money, you're going to make money. And we--one reason we've done reasonably well, and this really go--goes back to when I was age 20 and learned from Graham, because my first 10 years were the best, is we've never lost a lot of money as a percentage of our net worth. I mean, and--in terms of permanent loss. Now, things may go down 50 percent. Berkshire's stock has gone down 50 percent four times in the time that I've owned it. But in terms of permanent loss, we've never--we've had plenty of losses, but they've never been the kind that really are destructive. And I always look at the downside first in anything.

QUICK: But in the broad sense of the markets, I mean, if you're looking at late 2008, early 2009, there was so much fear out there.

BUFFETT: That's...

QUICK: When you measure now, if you had to put a tipping scale on more greedy investors right now or more fearful investors, which way would the scale tip?

BUFFETT: Over a long period of time--I mean, if you're investing, and you should invest for the long term, I would rather own equities than have fixed-dollar investments and have--or keep my money rolling short-term.

QUICK: OK. This question comes from David in Los Angeles. He says, "Do you feel the uptick rule is beneficial for investors in the market as a whole? And if so, why?"

BUFFETT: On balance, I probably favor it. It's not something that makes a lot of difference to an investor. It really doesn't make any difference to an investor. If you--if you're an investor and you buy a stock, I don't know whether there's an uptick rule in farms, you know, or in apartment houses. The important thing is to buy the right company. And the uptick rule should be of no concern to real investors.

QUICK: Unless you're somebody who's maybe a hedge fund, who's used to shorting things, and you get worried that your strategy's not going to work in the future.

BUFFETT: Shorting isn't investing. That doesn't mean you can't make money doing it and all of that, but that--if you're talking to the American public about what they do with their money, they ought to forget all about shorting and they should--they should not buy an invest--they should buy an investment with the idea that if the stock exchange closed tomorrow for two or three years, they'd be very happy, you know, with the business.

QUICK: OK. William Olsen writes in from Windham, Maine, and he says, "What suggestions would you make to Toyota's president, Akio Toyoda, to help him deal with the drop in consumer confidence and the tarnished brand?"

BUFFETT: I'd have him go see the movie "Groundhog Day," just hoping it'd start all over again. I mean, this is pretty far down the road. In crisis management--I did that one time at Salomon a little bit--the--as far as I'm concerned, there's just four rules, you know: get it right, get it fast, get it out, get it over. You know, and you want to get it right as fast as you can, get it fast, get it out and get it over. And that--and if you skip--if you--if you try and eliminate one of those steps, you've got troubles.

QUICK: You know, Geico is now the third largest car insurer in the United States. I know that Congress has asked State Farm and Allstate for information about whether the number of Toyota incidents had climbed over the last several years in terms of accidents and problems that they were finding. Do you know if Geico has seen any increase in the number of accidents of Toyota?

BUFFETT: I don't know the answer to it. I know we'd be glad to supply it to any congressional committee, but I do not know the answer to that.

QUICK: You don't know the answer. OK, let's jump to question 255. This comes from a gentleman in Princeton, New Jersey, who says, `Warren, I feel lucky to have witnessed such a massive recession at the young age of 22 years, where I fortunately did not have as much money to lose in the markets, but everything to gain in terms of knowledge. As I start my career in finance, what would you say are some lessons I should take away from these past two years?'

BUFFETT: You know, the lessons are the same that--you go back to "The Intelligent Investor," it was written in 1949, read chapters eight and 20. I mean, think of--think of buying a stock as buying a piece of a business. If you buy the right business at the right price and hold it, you know, you do fine. I mean, it's when you start thinking of stocks as little things that wiggle around and the charts and all that sort of thing that you get in trouble. But buy a good business, buy it at a price that seems reasonable, buy only the kind of business you understand and then forget about it for years.

QUICK: OK, Carl's got a question as well. Carl.

QUINTANILLA: Warren, we haven't spent too much time talking about Fed policy, exit policy. But given the commentary you've heard from the chairman, any--give us a sense of how you're feeling on how they're going to land this jumbo jet in the next few months...

BUFFETT: I...

QUINTANILLA: ...and over the course of the coming year.

BUFFETT: I think that the chairman has an extraordinarily difficult job ahead of him because of the fiscal policies that are taking place in the country. I don't think you could have anybody more able than Ben Bernanke running the federal reserve. You know, he's--but it is going to be a very tough job to have huge fiscal deficits and essentially work with monetary policy and the other tools that are available to the Fed to avoid inflationary consequence--I mean, he's got a lot of problems ahead of him, but he's the guy to handle them.

QUINTANILLA: Yeah. Do you think the market is...

BUFFETT: I do not--I don't want his job.

QUINTANILLA: I don't--I don't know anybody who does. Do you think the market has the legs to withstand the end of MBS at the end of the month? People keep talking about how much of a surprise that'll bring us, given the end of the purchasing. But then on the other hand, we've known it's been--it's coming for some time. Do you see shocks as a result of the withdrawal of policy?

BUFFETT: I doubt that. But what--you know, you have had this huge purchaser in there in the Fed, you know, over a trillion dollars of those securities, and that's obviously had some market effect. And, you know, the Fed has a very big balance sheet. Here, I'll give you a quick quiz. You know, what's the most profitable entity in the United States, you know?

QUINTANILLA: I think I know the answer, yeah.

BUFFETT: Yeah, the Federal Reserve. It made 45 billion last year. I mean, it is the greatest carry operation in the world. Money costs nothing and you've got all these assets, and now you've got a trillion of MBSs, you know, earning this money. Bernanke gets paid about $200,000 a year. If he had a two and 20 deal, I would want my daughter to marry him, I can tell you that.

KERNEN: Warren, are you--are you done with--are you done with media, you think, and media investing? I don't know where you are in Washington Post right now. And the reason I ask, you know, Comcast decided NBCU fit with its business model. Is this--for you, is it just you're not smart enough, even you, to figure out which way media goes into the future? Is--are railroads just easier at this point?

BUFFETT: Yeah, they are easier. But media's enormously important, and there'll be a lot of money made in media. Figuring out, you know, who's going to make it, certainly newspapers aren't going to make it, you know, and magazines won't do that well. But there--people want to be entertained, they want to be informed. You know, the eyeballs will be focused on something, and wherever they're focused there will be money to be made. But I--there's too many things I can't figure out. I did not see, you know, 15 years ago, I--you know, I didn't see eBay or YouTube or Hulu or you name it. And all these things come along and they're terrific for me as a consumer. But I want--I want things I can figure out like, you know, Coca-Cola. I--I've got a pretty good idea where Coca-Cola will be in 10 years, or Proctor & Gamble, or companies of that sort. I do not know how the media landscape shakes out. But there will--it's a very interesting landscape, it's just that I'll let somebody else make the money in it.

QUICK: Warren, there's a question that comes from David Herendine in St. Louis, Missouri. He says, `A large portion of the jobs created this last decade were either housing or mortgage related. Many of these jobs have evaporated. Where do you see job growth for the next decade? And is green technology legitimate?'

BUFFETT: Well, housing will come back. I mean, right now we have a company called Acme Brick. We make about 10 percent of the brick in the United States. Three or four years ago, we were making 100 million bricks a month. We're making 40 million bricks a month now. Half our brick plants are closed down. Those employees have been laid off. When housing construction comes back to a million-one or a million-two, we'll hire a lot of people back. I mean, those industries aren't gone. The problem was we produced two million houses a year and we were eating up, in effect, a million-two or a million-three. And we have to work off that excess inventory. But people are going to want houses, they're going to want brick houses. We're going to sell 100 million brick a year again at some point. And when we do, we'll be employing another 1,000 or 1500 people. So the sooner we get through this period, the better. And we have moved a fair distance through the residential construction problem. We have--the commercial real estate problem is yet to hit big time.

BUFFETT: We have--the commercial real estate problem is yet to hit big time.

QUICK: Well, let me ask David's second question again. "Is green technology legitimate?"

BUFFETT: Well, there's all kinds of green technology that makes sense, sure. We're using it in carpet, I mean, and insulation, all kinds of things, sure.

KERNEN: But Warren, Warren...

QUICK: A lot of--oh, go ahead.

KERNEN: ...is it really called Acme Brick, Warren? I mean, is that--that--is that's like the coyote bought something and put it up on a ledge when the Road--and it was Acme Brick wasn't it that--is it really called Acme Brick? Is that a joke?

BUFFETT: Acme Brick is probably the best-known brick in the United States. If you go to Texas and you ask people to name a brick, they will name Acme. And try doing that in New York and see what they come up with.

KERNEN: Yeah, I thought you were--I thought you were joking. I thought...

BUFFETT: It's very hard...

QUINTANILLA: I think they also sell those holes that you put down on the ground and they create a hole in the ground.

KERNEN: I think that these can suspend in midair, too, and if you pull--if you look over you don't fall till you look over. Sorry.

BUFFETT: We guarantee our brick for our 100--we guarantee our brick for 100 years, Joe.

KERNEN: All right. After three hours, I'm sorry, that's my only--that's the only one I've done. But I think--I love cartoons. All right, go ahead.

BUFFETT: I'll mail--I'll mail you a brick--I'll mail you a brick as a birthday present.

KERNEN: Send me an...

QUINTANILLA: Throw it in the window.

KERNEN: You know, that's about what I'd expect you to send me. What is that worth, about 12 cents, one brick? Probably.

BUFFETT: Well, I'll say closer to 32 cents.

KERNEN: Thirty-two cents.

QUICK: Thirty-two cents, there you go.

KERNEN: Thirty-two cents. Thank you.

BUFFETT: Yeah, we'll send it COD.

QUICK: That costs a lot to--cash on delivery. Nice. Warren, a lot of people wrote in about jobs, though. That is a huge issue that people are focused on.

BUFFETT: It is.

QUICK: Brian Howe in Boston, Massachusetts, says, "Many economists have indicated that we will have a jobless recovery. How is that possible with unemployment at 10% and underemployed adding another 10% to 15% to that undervalued statistic?" You can quibble with the math on that, but you are talking about some very high numbers. It would seem to me that the drag of nonworking, underemployed people at that high rate would significantly hold any recovery at bay.

BUFFETT: That's the problem. That's what, you know, Keynesianism addresses the fact that you need--you need to feed in demand from government. But we will--the jobs--the jobs will come back, but they're not--it's not going to be fast, Becky. I mean, we will have more people employed in the carpet business three years from now than we have now. We'll have more people employed in the brick business three years from now than now. But not necessarily six months from now.

QUICK: Another question on this same subject is from Nick Adena in Lebanon, Tennessee, who says, "How do we correct the massive bleed-off in blue-collar jobs specifically? If those people don't work then they can't spend." Same question.

BUFFETT: Yeah, it's a terrible spiral and, you know, we--in the 1980s we said we were going to lose all our jobs, you know, to Germany and Japan and, you know, in the next 10 or 15 years we created 20 million jobs. You don't know where they're coming from. And when this country--if you go back a couple hundred years you had 90 percent of the people on farms. And if you'd said somehow looking at--you had a crystal ball and said 200 years from now we'll get all of this food produced for 3 or 4 percent of the people you'd say, you know, the country's going to fall apart. But things happen. I mean, we are a creative people, and we'll continue to be a creative people.

QUICK: All right. Why don't we go ahead and take a quick break. When we come back, we'll have more of your e-mails for Warren Buffett, so stick around. SQUAWK BOX will be back right after this.

QUICK: All right, welcome back everybody. We are live in Omaha, Nebraska, with Warren Buffett. We've been going through the questions that you've been sending in. We've got more to get to. And, Warren, I want to start out with a question from Jason Gould in Waco, Texas, who says, "Charlie Munger recently released an op-ed parable titled, `**Basically, It's Over**.' Is Charlie too pessimistic?"

BUFFETT: He's talking about the fact that when a country gets too occupied with being--with the casino aspects of the--of the economy and forgets about the rest that it's headed in to somewhat of decadence. That is what (economist John Maynard) **Keynes** wrote about back in 1935 in Chapter 12, and Charlie's more pessimistic than I am. This country is not an accident. I mean, 200 years ago look what we had and look what we have now. It isn't like we've forgotten any secrets or anything of the sort. So the country has a bright future.

QUICK: Another viewer had written in, and I don't have the e-mail here right now, but another viewer had written in and said, `What do you do when you and Charlie disagree fundamentally on a point? How do you make that decision?'

BUFFETT: Well, what Charlie always says to me is he's--when we disagree--he says, "Well, Warren," he says, "you'll see it my way because you're smart and I'm right." That's his technique. But pretty much in--if we really disagree on something, we're not going to do it. But if I like something, he just grumbles and mumbles and, you know, says, "That's kind of a dumb idea," where I go ahead and do it.

QUICK: What's the last thing that you disagreed on fundamentally so much that you didn't do it?

BUFFETT: Hm, there have been some like that. I can't pick them right out of the air at the moment. Certainly nothing in the last six months or I would recall it.

QUICK: OK. Let's get to question--a question from Streamwood, Illinois. "If you were Ben Bernanke or Tim Geithner, what specific monetary or fiscal policy would you recommend that would have an immediate impact on job creations?"

BUFFETT: That's very tough. I mean, if you really, you know, if you want to do something, you'd go out and--you would drop a $1 million in every household.

QUICK: Mm-hmm.

BUFFETT: But, of course, money would be worth nothing. The real trick is to--is to get the--have them drop a million in every household and have me be the only--have me think that nobody else got it except me. Now I think the money's really valuable. It--you--you're trying to stimulate and you stimulate by putting money in people's pockets who are going to spend it. But that has consequences down the line. I mean, we--you have to deal with the illness and then, unfortunately, you have to deal with the medicine, and the medicine is very strong this time. So there's going to be a lot of medicine to deal with.

QUICK: Has the government done enough already and now it's time to just and wait?

BUFFETT: It's hard to tell. It--I think it's--I think there's a political dissatisfaction element that enters into what government does. I mean, obviously, if people expect results next month they're not going to get them next month. But if they get--you know, want some kind of action if they get upset enough and they'll--you know, with an election coming up in November, you're going to see more and more people saying, you know, `Why isn't this working faster?'

QUICK: Although, you're probably talking about two disgruntled groups. One, who are people who are very worried who don't have jobs, they're worried about losing their jobs who'd like to see more done. The other like the Tea Party coalitions that are being formed that would like to see the government step out of it and not spend any more taxpayer dollars.

BUFFETT: And that's why out government's always been messy and it's going to continue to be messy, but it'll work in the end.

QUICK: All right, let's get to another e-mail question. This one comes from Dana in Fort Smith, Arkansas. She says, "Mr. Buffett, I've always used the trucking industry as a gauge on how the U.S. economy is doing. I've become more concerned lately as I see our country's major trucking companies struggling. Are my concerns legitimate?"

BUFFETT: Yeah, well, trucking is struggling and the railroads. I mean, the railroad carloadings last week or the week before, whenever it was, were down--they were up from last year, but they were down 16 and a fraction percent, as I remember from two years ago. And trucking is having the same experience. There are just less goods moving than there were a few years ago because the economy has slowed down very significantly. Trucking will come back, railroads will come back, but this economy has slowed down a lot from a few years ago. And...

QUICK: You haven't seen any pickup at all?

BUFFETT: Very, very, very little, and that's true of trucking. There's just the slightest uptick and--but who knows what it'll be six months from now. It will come back, but it's not--it's not roaring back on--there's no way that you can look at the figures and say that it's coming back fast.

QUICK: Do you worry about a double-dip in the--in the recession and the downturn? Or do you think that this is just a very slow recovery?

BUFFETT: It's a slow recovery. The only thing--I mean, if you had some big exogenous event, I mean if you had something go wrong in the European Union or--I mean, there--if something--a huge terrorist attack, I mean, you can--you can think of things that would cause another jolt to the economy like that jolt we had in September of 2008. But absent something really big from an exogenous nature to the United States, no, I think we will continue moving upward but not at a very fast rate.

QUICK: All right. Here's some questions that came in, too. Clayton Jennings in Greenville, South Carolina, "After so many years of limited media exposure, why have you been so accessible to the media in the last few years?" That's a question I get a lot, too.

BUFFETT: Yeah, well, it--for years I just wrote the annual report and that was pretty much it. And, you know, people kept inviting me on, and I didn't go on, and it's fine to go on. I mean, I'm perfecting happy to express my opinions on certain subjects that don't relate directly to Berkshire, which I probably wouldn't want to use the Berkshire vehicle to talk about. And, you know, it--nobody pays me very well for doing this, I must say, if you're listening.

QUICK: If you're listening, you're taking offers?

BUFFETT: Yeah. Yeah. But, you know, it's things I talk about privately so why not talk about them publicly.

QUICK: OK. David Gordon from Farmingdale, New York, says, "Do you watch the Olympics?"

BUFFETT: Yeah, but I like summer Olympics better than winter Olympics. I mean, because the sports are more the type of things that, you know, I identify with. I've never been a skier, an ice skater, but I've been a terrible basketball player, or something of the sort. So the summer Olympics are more interesting. But the winter Olympics have been terrific. I know more about **curling** than I knew a month ago. In the first 79 years of my life I never learned as much about curling as I have in the last month.

QUICK: OK. You know, **Jay Leno** is coming back to late-night television. Today is the day for it. Do you watch Leno? Do you--have you had interactions with him? I think he's reached out to you.

BUFFETT: I talked to him once or twice. He called me once about going on the show, and we talked a little about **old cars**. I had a Rolls Royce when I was in high school and--but, no, I've never gone on any of those shows, and I won't.

QUICK: You won't? OK.

BUFFETT: No.

QUICK: There's another question that came in from the Kingdom of Bahrain, Hussain Bushehri, "Citigroup was trading well below book value. As a value investor, why haven't you built up a position in the bank?"

BUFFETT: In which bank?

QUICK: In Citi--in Citigroup **[C 3.38 -0.02 (-0.59%)]**.

BUFFETT: Oh, Citi. Well, I mean the question isn't what the book value of what a bank is. The question is its future earning power, and it's harder for me to figure out the future earning power of a Citi than it is for me to figure out the future earning power of a Wells Fargo **[WFC 27.325 -0.015 (-0.05%)]**. Citi may be better, for all I know, but I--it is a much more mixed up situation. Their funds cost them a lot more than somebody like Wells Fargo, so their raw material has a higher cost, and I love the idea of being into the low-cost producer. But we have a lot of money in Wells Fargo and we have some money in US Bancorp **[USB 24.53 -0.08 (-0.33%)]**. So it isn't like we're unexposed to it. I think Wells Fargo, you know, having the low cost of money, that's huge. It--it's like them being a low-cost copper producer or something of the sort, and they've done a great job of developing their business.

QUICK: OK. Joe:

KERNEN: You could have bought Ford **[F 12.2801 0.5401 (+4.6%)]** at $1, Warren. It's now 11 or so. GM's going to come public again. Barrons thinks it's going to be big, it's going to be back. Would you ever buy one of the automakers? You got a shot here with Toyota with all these problems.

BUFFETT: It's very hard to figure out the future of those--I mean, you know, the Americans are going to be driving a lot of cars 10 years from now.

KERNEN: Yeah.

BUFFETT: I'd rather be insured--I'd rather--I'd rather bet on who's going to be insuring them than who's going to be building them.

KERNEN: Yeah, that's a good point.

QUINTANILLA: Yeah, that's paid off nicely, the Geico bet. Warren, you talk about, in the letter, being willing to buy companies now that require big capital investments. Can you...

BUFFETT: Right.

QUINTANILLA: ...characterize how big the playing field, or the potential playing field, has gotten? What are you willing to consider now in the way of industries or companies that you weren't before?

BUFFETT: Well, it is true, the capital intensive business, like our utility business or our railroad business, we are willing to consider now. But we'd, you know, we'd love to buy a very big business in almost any field that we understand that we think has got the right kind of management and right kind of economic future and the right kind of price. So I am, you know, I am optimistic that there are bigger fish in the sea than we've yet pulled out, and I intend to be out there looking for them.

QUICK: But you've also said that you like to have at least $20 billion on cash at hand...

BUFFETT: That's true.

QUICK: ...and you're sitting right at about that level. Should we assume that you're out of the business of deal making at least for another few months until you start getting some cash flow back?

BUFFETT: Just try me out with, one and I'll try and figure out how to do it.

QUICK: So you're actively looking, no matter what, all the time?

BUFFETT: Oh yeah, I love looking, yeah.

QUICK: All right. Well, Warren, we want to thank you very much for joining us here today, for being so generous with your time and taking so many viewer e-mails. We really appreciate your time today.

BUFFETT: Thanks for coming to Omaha.

QUICK: Yeah, of course. And Joe and Carl, I will see you back there again tomorrow or the day after. But, right now, I'll send it back to you guys.

QUINTANILLA: Depending on how you get back. We were just saying...

KERNEN: Yeah, stamina.

QUICK: Yeah.

QUINTANILLA: How old--how old, Warren, 79?

BUFFETT: Seventy-nine and your brick is on the way, Joe.

QUINTANILLA: Seventy-nine and...

BUFFETT: What color would you like?

KERNEN: Could you send me some kind of peanut butter brick or something from See's. Don't send me a brick, Warren. Please don't send me a brick. I don't want a brick. Please. Send me some kind of candy.

BUFFETT: You're going to get a brick, believe me.

KERNEN: Send me a candy brick. I know there's a peanut butter or something or other. Yeah, his stamina amazing.

QUINTANILLA: Unbelievable.

KERNEN: Thank you for your time.

QUINTANILLA: I think he could go for another three hours.

KERNEN: Yeah, yeah.

QUINTANILLA: And we know we couldn't.

BUFFETT: Absolutely.

KERNEN: Yeah. Perfect. Let's do this next Monday again.

QUICK: Yes.

KERNEN: Every Monday.

BUFFETT: I want a negotiate. OK. You'll have your brick.

QUINTANILLA: All right, Becky, thanks as always.

QUICK: Thanks, guys.

QUINTANILLA: All right, safe travels back. We'll see you when you can get back from Omaha. Flight frequency sometimes an issue getting back to New York, but we look forward to having her back at the desk. That does it for us today on this Monday morning. Have a great day.

Current Berkshire stock prices:

Class A: **[BRK.A 119162.00 -638.00 (-0.53%)]**

Class B: **[BRK.B 79.47 -0.66 (-0.82%)]**

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