

## Buffett on the Bailout: What He Said

After announcing his \$5 billion investment in Goldman Sachs, Warren Buffett spoke Wednesday about his views on the government's \$700 billion Wall Street bailout proposal.

Warren Buffett was interviewed live by telephone on CNBC's Squawk Box Wednesday morning about his surprise investment of at least \$5 billion in Goldman Sachs.

### Part 1

**Becky Quick:** We know you get all kinds of deals, all kinds of people who come knocking asking you to jump in. You've said no to everything to this point. Why is this the right deal at the right time?

**Warren Buffett:** Well, I can't tell you it's exactly the right time. I don't try to time things, but I do try to price things. And I've got a formula that says bet on brains, and bet on them when it's the right type of deal. And in this case, there's no better firm on Wall Street. We've done business with them for years, with Goldman, and the price was right, the terms were right, the people were right. I decided to write a check.

**Quick:** Does the backdrop of the federal government potentially getting involved with a massive bailout plan for Wall Street, does that have anything to do with this deal?

**Buffett:** Well, I would say this. If I didn't think the government was going to act, I would not be doing anything this week. I might be trying to undo things this week. I am, to some extent, betting on the fact that the government will do the rational thing here and act promptly. It would be a mistake to be buying anything now if the government was going to walk away from the Paulson proposal.

**Quick:** Why would that be a mistake? Because the institutions would collapse, or because you could get a better price?

**Buffett:** Well, there's just no telling what would happen. Last week we were at the brink of something that would have made anything that's happened in financial history look pale. We were very, very close to a system that was totally dysfunctional and would have not only gummed up the financial markets, but gummed up the economy in a way that would take us years and years to repair. We've got enough problems to deal with anyway. I'm not saying the Paulson plan eliminates those problems. But it was absolutely, and is absolutely necessary, in my view, to really avoid going over the precipice.

**Carl Quintanilla:** Warren, we can almost hear you measuring your words as you speak, because what we're talking about has such gravity. There are people out there who either don't or are unwilling to acknowledge what exactly, how serious the situation was last week. And [what] I'm hearing you say is that... Was it the most frightening experience you've had in your lifetime, in terms of evaluating where this economy stands?

**Buffett:** Yeah, well, both the economy and the financial markets, but they're so intertwined that what happens... They're joined at the hip. And it doesn't pay to get into horror stories in terms of naming institutions or anything. But I will tell you that the

market could not have, in my view, taken another week like what was developing last week. And setting forth the Paulson plan, it was the last thing, I think, that Hank Paulson wanted to do. There's no Plan B for this.

**Quick:** Warren, you mentioned that Wall Street could not have taken another week like that. But what does that mean to the American taxpayer who's sitting at home saying, 'Why is this my problem?'

**Buffett:** Yeah, well, it's everybody's problem. Unfortunately, the economy is a little like a bathtub. You can't have cold water in the front and hot water in the back. And what was happening on Wall Street was going to immerse that bathtub very, very quickly in terms of business.

Look, right now business is having trouble throughout the economy. But a collapse of the kind of institutions that were threatened last week, and their inability to fund, would have caused industry and retail and everything else to grind to something close to a halt. It was, and still is, a very, very dangerous situation.

No plan is going to be perfect, but thank heavens that Paulson had the imagination to step up with something that is of the scope that can really do something about it. And what he did with the money market funds, that was not an idea that I had, but as soon as I heard about it, that was an important stroke. Because the money, pulling out of the money market funds and going to Treasuries, and driving Treasury yields down to zero. A few more days of that and people would have been reading about lots and lots of troubles.

**Joe Kernen:** People listen, Warren, when you speak. And I don't know if you watched the hearings yesterday...

**Buffett:** I got to watch some of them.

**Kernen:** But when the more dire it looked, in terms of communicating with some of these senators, the three-month or one-month bill, again, started acting similar to what was happening on Thursday. Now we averted that disaster on Thursday, but it's already been three or four days. It's almost as if these guys already forgot about the position that we were in. Do you think we're still susceptible to that happening again if it looked like they're not going to go through with this?

**Buffett:** No, it would get worse. Last week will look like nirvana [*laughs*] if they don't do something. I think they will. I understand where they're very mad about what's happened in the past, but this isn't the time to vent your spleen about that.

This is the time to do something that gets this country back on the right track. What you have, Joe, you have all the major institutions in the world trying to deleverage. And we want them to deleverage, but they're trying to deleverage at the same time. Well, if huge institutions are trying to deleverage, you need someone in the world that's willing to leverage up.

And there's no one that can leverage up except the United States government. And what they're talking about is leveraging up to the tune of \$700 billion, to in effect offset the deleveraging that's going on through all the financial institutions. And I might add, if they do it right—and I think they will do it reasonably right; they won't do it perfectly right—I think they'll make a lot of money.

Because if they don't, they shouldn't buy these debt instruments at what the institutions paid. They shouldn't buy them at what they're carrying, what the carrying value is, necessarily. They should buy them at the kind of prices that are available in the market. People who are buying these instruments in the market are expecting to make 15 to 20% on those instruments. If the government makes anything over its cost of borrowing, this deal will come out with a profit. And I would bet it will come out with a profit, actually.

**Quick:** Are you buying instruments like these in the market?

**Buffett:** Well, I don't want to leverage up. No one wants to leverage up in this thing. So, if I could buy a hundred billion of these kinds of instruments at today's prices, and borrow non-recourse 90 billion, which I can't, but if I could do that, I would do that with the expectation of significant profit.

**Kernen:** But the government can do that. You can't. And that's why the private sector can't—even you—can't save the system.

**Buffett:** I can't come close to it. But they have the ability to borrow. They can borrow much cheaper than I can borrow. They can borrow unlimited. They don't have covenants. They don't have... I mean, they are in the ideal position.

So, for example, if I were hiring advisors, as I talked about doing to buy these things, I would tell those advisors, "Look! People are buying these instruments to make 15%. So if you're going to charge me any fees, I'm going to defer those fees until I get rid of these instruments later on. If I don't make at least 10% on my assets, you know, your fee goes down the drain." Because it should be a lead-pipe cinch to make 10% at the kind of prices that exist now.

I wouldn't try to write that into the legislation. I don't think you should—I think they should punish, in many cases, the people. I would think they might insist on the directors of the institutions that participate in this program waiving all director's fees for a couple of years. They should, maybe, eliminate bonuses. They may wish to do some of those things.

I don't think you should try to write it into the instrument, though. I think that gets so damn complicated and ties people's hands. But if I were administering the program, I think I'd be fairly tough about some of those things, and I'd make sure that the advisors earned me a return that was well above my cost of borrowing before they got paid a dime.

**Quick:** Would you administer the program?

**Kernen:** Yeah, can you be on the oversight board? [*Buffett laughs*]

**Buffett:** I'd love to administer [*laughs*]. I'd love to administer it for nothing, but I would really love to administer and get some kind of an override in terms of the profits, which is naturally the way Wall Street thinks. No, it's not my game to do that, but I will tell you that the buyers of the instruments these days are going to do better than the sellers. And the big buyer, if they—they shouldn't pay any attention to the cost of these instruments to the selling institutions. They shouldn't pay any attention to the carrying value.

In fact, one thing you might do is if someone wants to sell \$100 billion of these instruments to the Treasury, let them sell \$2 or \$3 billion in the market and then have the Treasury match that, for what they pay. You don't want the Treasury to be a patsy. But I'll tell you, with Hank Paulson on top of it, you couldn't have any better guy to do that. The important thing is that if this program extends into the next administration, to have somebody in the next administration that has similar market savvy.

## Part 2

**Quintanilla:** Separate from the bailout, Warren, people obviously this morning want to look at the Goldman deal, I guess on top of Mitsubishi-Morgan, which happened yesterday and wasn't nearly as popular, at least from a market point of view. But they want to point to you as the canary in the coal mine. Is that fair? Do you have a problem with that?

**Buffett:** Well, as long as the canary lives, I'm fine. *[Laughs.]*

**Quintanilla:** I'm guessing you're going to live. At least, you're guessing you're going to live?

**Buffett:** Yeah, I think so. *[Laughs.]* This is, you know, from our standpoint, we've had a lot of cash. And we now are seeing things that, you know, give us a chance to use that cash sensibly. And this was a \$5 billion opportunity to, I think, deploy cash sensibly. I understand, incidentally, that there will be another \$5 billion. In other words, they mentioned \$2.5 billion, but I think they're going to allocate it down to \$5 billion additional. So Goldman will have \$10 billion, I believe, of new money coming in.

**Quick:** In that capital offering, in the release, they said \$2.5 billion [of common stock would be offered in addition to Buffett's investment]. You're saying you understand it's \$5 billion?

**Buffett:** Yeah, I think they have quite an outpouring of orders, so I think... They'll be allocating it down, but I think from all over the world. So I think there will be \$5 billion of additional common stock sold. That will be determined and announced, I believe, before the opening.

**Kernen:** How much do you know about AIG and their books right now, Warren?

**Buffett:** Well, I think I know a fair amount, but I don't think anybody knew what they needed to know, including the management. The troubles there were in the subsidiary, AIG Financial Products, and they had hundreds of thousands, I'm sure, hundreds and thousands of derivative contracts. And I think that top management did not have their mind around what was involved with those contracts. And you can do a lot of damage on Wall Street with a pen and a piece of paper.

**Kernen:** How many of those units are going to end up under the Berkshire umbrella?

**Buffett:** Well, we would have an interest in a couple of them. And actually over that weekend I expressed an interest in one or two, but the pressures were such, and the hole was deep enough, that they simply couldn't get it worked out. And some of those units—most of those units, I believe—will be for sale over the next year or two. And we would be interested in a couple of them. I think they'll probably do a pretty intelligent job of selling them, which means we won't be as good a buyer.

**Quick:** You know, Warren, we've been trying to figure out—I have to admit that I was shocked when I heard the news yesterday about this deal with Goldman, because you haven't put any money into an investment bank since 1987, Salomon. And that was a deal you had to get personally involved with later in 1991 when you went to run the company for almost a year. It was a very difficult experience. I'm shocked that you would get back in with another investment bank. Why do it?

**Buffett:** [*Laughs.*] Well, the pain has worn off. That won't be happening with Goldman, but I—that was a very unfortunate experience, and it was actually caused by just a couple of people out of a workforce of 8,000 that got the company into big trouble. And I had the help of a lot of people at Salomon in getting out of it.

But I don't think this experience will be similar. Goldman has been extremely well run. My experience with Goldman goes [far] back. [W]hen I was nine or 10 years old, my parents took me back to the New York World's Fair, and by an odd chance I got to sit down with Sidney Weinberg, who was the dean of Wall Street then, and he talked to me as if I was a grown-up for 45 minutes. I've never forgotten the experience.

Gus Levy (who later ran Goldman in the 1970s) was a good friend of mine when I worked in Wall Street. In 1955, we only had four wires to Wall Street firms, and one of them was to Goldman Sachs, and Gus was on the other end of the phone. So I've had a long experience with Goldman, and they've done a lot of things for me recently.

**Kernen:** I just assume you know what was going on at all of these firms, because I know everybody probably came to you and you made your decisions one by one on what to do. When you look at the way some of these assets were marked, could you tell that, for example, Lehman still wasn't facing reality and perhaps Merrill Lynch was more in the real world?

**Buffett:** Well, I think that turned out to be the case. I was approached on Lehman back in, I think, maybe it was April or March. But the first round of financing when they raised the \$4 billion, and, yeah, it looked to me like it was pretty unrealistic where they were marking things.

I feel good about the Goldman marks, incidentally; that's one of the discussions I've had. And you can be pretty fanciful in marking positions in Wall Street, particularly when things aren't trading. The one thing you want to make sure, when the Treasury is buying things, is the marks they have don't make any difference.

Like I said, it wouldn't be a bad idea, if you're buying \$10 billion of a security and you're the Treasury, to have them sell \$500 million, or something like that into the market, so you find out what the real market price is and then buy the other \$9.5 billion at that price.

I really think, I really think the Treasury will make—I think they'll pay back the \$700 billion and make a considerable amount of money, if they approach it in that manner. But I don't believe in trying to write that into some legislation. I think it gets so unworkable. I think you have a smart person in charge, and have them treat it like it's their own money, and the taxpayers' money, in terms of behavior, and I think it will work out very well. I think it's not comparable to the RTC.

**Quintanilla:** A lot of people who are watching us, Warren—and even people who have just started watching us over the past week or two—look at the stock market every day and are confused. They want to use it as a metric for how we're doing, or at least the progress we're making on big issues. I'm guessing you don't think it's reflective of anything that's based in reality right now?

**Buffett:** Well, the stock market in the short [run]—my old boss Ben Graham said that in the short run the stock market is a voting machine, [and] in the long run it's a weighing machine.

As a voting machine, it responds to people's emotions. There's no literacy test for voting. You vote according to how much money you have, not according to how smart you [are]. So the stock market does some very silly things in the short run. Over the long run, it behaves quite rationally.

And, you know, five years from now, 10 years from now, we'll look back on this period and we'll see that you could have made some extraordinary buys. That doesn't mean it won't get more extraordinary a week or a month from now. I have no idea what the stock market is going to do next month or six months from now.

I do know that the American economy, over a period of time, will do very well, and people who own a piece of it will do well. But they shouldn't own it on leverage. That's what people have learned in this period, that you've got to be able to play out your hand and it's a big mistake to let somebody else be in a position where they can sell you out.

**Quick:** Warren, when you first invested back in '87 in Salomon, I believe your partner, Charlie Munger, was not as enthusiastic about the idea as you were. Is that true?

**Buffett:** That's true. Of course, he's never as enthusiastic about my ideas as I am. But I would say he was even less enthusiastic. *[Laughs.]*

**Quick:** How does he feel about the Goldman deal?

**Buffett:** Well, I'm glad you asked because I *[laughs]* didn't tell him about it until after it was done. *[Laughs.]*

**Quintanilla:** How rude!

**Buffett:** *[Laughs.]* Yeah, it is kind of rude. But Charlie's wife had a bad fall..., and I called him last night about an hour after I committed it, or something, and I called kinda like a little boy...*[laughs]* bringing into the house something he was a little worried about. But Charlie's all for it. *[Laughs.]*

**Quick:** He's all for it.

**Buffett:** Yeah. Now I'm really worried.

**Quick:** Uh-oh. For the last nine months, Berkshire has spent a lot of that cash it's been hoarding over the last several years.

**Buffett:** That's right.

**Quick:** I was trying to figure it out. I think it's about \$24 billion you've spent in the last nine months?

**Buffett:** Yeah, we've spent a lot of money. The money we've spent, you know, we've found things we like to do. It's nice to have a lot of money, but you don't want to keep it around forever. I prefer buying things. Otherwise it's a little like saving up sex for your old age. *[Laughs.]* At some point, you've got to use it. *[Laughter.]*

**Kernen:** Uh-oh.

**Quick:** \$24 billion. Is that a right guess, and how much cash do you have left?

**Buffett:** You know, it would be six and a half for the Mars deal, there's five for this, there's five for Constellation, there's a couple of other things. So, yeah, your addition is fine, Becky.

**Quick:** How much cash do you have left?

**Buffett:** Well, I've got enough. *[Laughs.]* I don't really look at it every day. I look for opportunities every day, and then if I find opportunities, I see if I've got enough cash around to take care of them.

**Kernen:** Well, by my calculation, if you lever that up 30 times, Warren, you can really get serious here. *[Laughter.]* Maybe you don't want to do that, I don't know. *[Laughter.]* What about, how are we going to deal with this looming 50—we just had [New York state insurance commissioner] Eric Dinallo on, I don't know if you were watching, Mr. Buffett. He talked about, he can, maybe New York and his unit can look at the \$12 billion, or trillion—jeez, we've got to add a "T." I'm finally getting used to "B"s; now we have to add a "T." But what we are going to do with that \$50 trillion and how, having that still around, all these credit default swaps, how serious is that, and how are we going to unwind it and deal with it?

**Buffett:** Yeah, well, it goes beyond credit default swaps into all forms of derivatives. But the derivative genie got out of the bottle, and it's a huge genie, and it will never get back into the bottle. It is a terribly tough problem because they are not homogeneous items. It's one thing to have a clearinghouse for the futures in Chicago or something, and every morning have everybody post to market, and that's a very efficient system.

It's very hard to do that with derivatives, where you can [find] derivatives based on the New Zealand money supply or the number of babies born in Japan, and all kinds of things as the variables. And they're often very complicated. I applaud Dinallo. He is an outstanding insurance commissioner. But getting regulation around the entire derivatives market is really tough. I've thought a lot about it. But it's important. Derivatives have been an important part of the problem in financial markets. And they continue to be part of it. And in AIG's case—AIG would be doing fine now, I think, if they'd never heard of the word "derivative."

**BECKY QUICK:** Mr. Buffett, the front page of the *Wall Street Journal* and other media organizations around the globe have been picking this up, your move yesterday into Goldman Sachs, as a vote of confidence in the banking institutions across the globe. Is that fair?

**BUFFETT:** Well, I'm not buying a cross-section of banking institutions. But I certainly have confidence in Goldman. And you can say it's a vote of confidence in the Congress to do the right thing with something that's being debated before them right now.

**CARL QUINTANILLA:** You know, Warren, some might say, 'OK, we know Buffett is a pure capitalist. he's in this to make money and nothing else.' But also you're a philanthropist, you have interests in seeing the country do well over time. Some might say he's doing this, he's timed this to help get the package through. Is there anything -- is that even close to reality?

**BUFFETT:** No. I timed this because Goldman Sachs yesterday came up with something that made sense to me. I'm not brave enough, to try and influence the Congress. The other way around, they influence me. And I am betting on the Congress doing the right thing for the American public by passing this bill and not trying to doctor it up with a hundred things that, you know, emotionally they feel should be on the bill but as a practical matter will gum things up.

**CARL:** When do you think, Warren -- I don't know if you even have an answer to this question -- When is the absolute deadline by which you think this needs to happen? Is it this weekend? Can you be that specific? Or if this thing were to bleed into next week, or if they had to reconvene a special session, would that be disastrous?

**BUFFETT:** Well, I think anything that makes it look like it's in doubt is what causes the problem. So if they said on Friday we're absolutely having a vote on Monday, or something of the sort, I don't think that would be a problem. But if they went home on Friday and there was doubt about whether they were going to do something on Monday, I think you'd see some things you don't want to see in the markets and they would have some effects on the economy.

**JOE:** You were watching yesterday, and I don't know, maybe I don't know the ways of Washington. Maybe they say one thing and maybe they're really planning -- you know, they have to look good for their constituents. But I wasn't convinced they really understood the seriousness of the situation, Warren, and that was after they said, look, Greenspan says we need this, Volcker says we need this, Bernanke, Paulson. Now we have you. I don't know. Do you think they get it?

**BUFFETT:** Well, I think they will get it. I think enough of them will get it. You know, it's not like Pearl Harbor where you could look at what happened with your own eyes and decide you had to do something that day. But this is sort of an economic Pearl Harbor we're going through. And I think most of them will get it. And I do believe they will do what's right for the country. They may vent their spleen a little bit by getting mad about the people that brought us into that, and I don't blame them for that. I might do that privately, too. But in the end, you know, Republican, Democrat, I think they've got the interest of the country at heart and I think they will do the right thing. But I hope they do it soon. (Laughs.)

**BECKY:** Warren, how long were you talking to Goldman Sachs and how significantly did they have to change the terms of the deal to get you interested?

**BUFFETT:** Well, what they -- they had talked with me -- almost every financial institution has talked with me, that you read about, over the past few weeks. But, but, they were serious yesterday about doing something. They said, in effect said, 'What would you do? What would Berkshire do? And I laid out something. And they said, 'That makes sense to us.' And we had a deal. It doesn't take long.

**JOE:** You were kidding Becky when you said that you did this just 'cause you knew we were going to ask you when you were going to do something in financials again and you wanted to have an answer.

**BUFFETT:** Joe, Joe, I was not -- you know, I was trembling with the thought of you asking me again, 'When are you finally going to do something?' (Laughs.) So this was definitely an attempt to get you off my back.

**JOE:** It was a cheap way, a mere five billion, so you'd have something to show us this time.

**BUFFETT:** That's right. I mean, your withering questioning is just too tough for me. (Laughs.)

**BECKY:** You know, you mentioned earlier, in the grand scheme of things, it's going to matter who the next Treasury Secretary is going to be. Are there names of people you think would be sound in either administration.

**BUFFETT:** Becky, if I were running things, Republican or Democrat, I would ask Hank to stay on. I mean, you don't get talent like that very often in any administrative job. And the guy pays an enormous price to do it. He's probably sleeping three or four hours a night. He knows the market. He's got the interests of the country at heart. So I think if I were either Barack Obama or John McCain and found myself in the White House in January, I would go down there and say, 'Hank, do me a favor, stick around another year.'

**CARL:** And Warren, if you believe, as a lot of people do, that we are in for several years of this unwinding process, the government's going to play a huge role. If you were called to do something on the public side, would you do it?

**BUFFETT:** Well, I would certainly be glad to help in any way that I could. You know, I would be looked at as having conflicts-of-interest, I'm sure. But anytime I can be helpful on something -- For example, in terms of what you might do with institutions that participated in this program, I think the Treasury can, they can lay down some terms for these people. I don't think they should be in the legislation, but I think -- And if anybody wants my opinion on it, I'd be glad to help them out.

**BECKY:** Warren, if ...

**BUFFETT:** They can make money on this deal. I can tell you this. I would love to have 700-billion at Treasury rates to be able to buy fixed-income securities now that they're in distress. There's a lot of money to be made.

**JOE:** It's just that, you know, they want these details, Warren. They said -- Paulson says there's the hold-to-maturity price and there's the firesale price. We're going to go somewhere in between, get a much better price but still leave enough for the people that are buying it to make some money. That can be done in principle? There's a way to do that, do you think?

**BUFFETT:** I think what I would be looking for -- I heard that hold-to-maturity price. I'm not as excited about that. I basically like a market, or something very close to a market-related price. And there are ways to determine that and I don't think that Uncle Sam should be in the business of paying somebody a whole lot more than it's worth in the market today. And if the guy that bought it doesn't like it, he doesn't have to sell it, and it was his problem, he bought it in the first place. I think a market price will enable people to be leveraged. The problem they have now is that some of the institutions, they're loaded with this stuff, they're having trouble funding, and they're worried about being able to sell a ton of it. But take the Merrill Lynch deal. Merrill Lynch had to take back 75 percent of the sales price. Well, they didn't want to take back that 75 percent. I would let 'em sell it for the same price, but I'd pay them the whole thing in cash. So they'd be a lot better off if they could have sold the whole thing at that same price but gotten paid a hundred percent in cash instead of having to take back 75 percent. And I see the government fulfilling that kind of a function.

**JOE:** All the outrage we're seeing in these comments from viewers, and obviously the senators are hearing from constituents. If we take your word for it, that the government could even break-even, or only lose 50 billion, that 700 billion dollar number is out there in the public, and people think that we're spending that.

**BUFFETT:** Yeah, they think that, yeah.

**JOE:** It seems crucially important to get the point across that, in your view, we could, the government could actually end up making money and saving the taxpayer from much worse, a much worse outcome if we didn't do this.

**BUFFETT:** The government is getting 700 billion worth of assets, assuming they spend the 700 billion, they're getting 700 billion of assets at what I regard as attractive prices. And they've got the staying power to hold those things. If I could get 700 billion, if I could borrow 700 billion on the government's terms and buy these assets I'd be doing it myself. But unfortunately I'm tapped out. (Laughs.)

**BECKY:** And yet, Warren, Mayor Mike Bloomberg, I heard him making comments this morning, and he's someone I know you've spoken very highly of ..

**BUFFETT:** I admire him.

**BECKY:** You admire him. he says this morning we should not be giving a blank check to have something passed in the dead of night. How dire is this situation?

**BUFFETT:** Well, I'm sure we didn't want to go to war on December 7, 1941, maybe, in the dead of night, or whenever we did it, in the middle of the afternoon actually. But there are time when events force timetables on you, and force action, and you have to be -- You know, it's just like in my business. I might like to think over buying something for a month, I'm not that type anyway. But in the end, if somebody offers me something that makes sense, I better decide whether to act or not. And if it makes sense to me, I usually don't attach unnecessary conditions, you know. It would be nice to have the luxury of thinking about this for three months. But I will tell you, if you think about this for three months, you're going to have a situation where --

If you think about it for three weeks, you're going to be facing a situation that's far different, and far more difficult, than if you do something now.

**END OF TRANSCRIPT**