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1994 Lecture of  
The E. J. Faulkner Lecture Series

*A Colloquium with  
University of Nebraska-Lincoln Students*

by  
**Warren E. Buffett**  
Chairman of the Board  
Berkshire Hathaway, Inc.

Sponsored by  
Woodmen Accident and Life Company  
in conjunction with  
The College of Business Administration-Lincoln



*October 10, 1994*

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## WARREN E. BUFFETT

Warren E. Buffett is Chairman of the Board and Chief Executive Officer of Berkshire Hathaway Inc., a company controlled by Buffett Partnerships, Ltd. from 1965. Berkshire Hathaway Inc.'s business activities include underwriting of property and casualty insurance, candy production and sales at retail, newspaper publishing, retailing home furnishings, sales of encyclopedias, sales of home cleaning units, manufacture and distribution of uniforms, retail jewelry, and manufacture, import, and distribution of furniture.

Mr. Buffett is perhaps the most highly regarded businessperson in the United States today. His advice is widely sought, and highly treasured. He serves as a Director of Capital City/ABC, the Coca-Cola Company, the Gillette Company, Salomon Inc. and USAir Group, Inc. Berkshire Hathaway has significant investments in each of these companies. His investment acumen, buttressed by the force of his reputation, honesty, and integrity were instrumental in the preservation of one of the oldest and largest investment banking houses in the world, Salomon Brothers.

Berkshire Hathaway's annual report, authored by Mr. Buffett, is widely read in the business and investment community for its sound advice, its creativity, and its humor in explaining important principles for achieving success in business. The Berkshire annual meeting has become an "event" which not only spreads the Buffett message, but enhances Berkshire's corporate coffers through visitations by shareholders to Omaha's Nebraska Furniture Mart and Borsheim's Jewelry Store, both of which are in the Berkshire Hathaway stable.

Mr. Buffett was born in Omaha to Howard H. Buffett and Leila Stahl Buffett. His father, an investment banker, served as congressman from Nebraska's second district from 1943-1949 and from 1951-1953. Mr. Buffett married Susan Thompson in April 1952. They have three children—Susan, Howard, and Peter.

Mr. Buffett graduated from Woodrow Wilson High School in Washington, D.C. in 1947, attended the Wharton School of Finance at the University of Pennsylvania from 1947-1949 and received a Bachelor of Science degree in Business Administration from the University of Nebraska in 1950. In 1951 he received a Masters degree in Economics from Columbia University. His mentor, Benjamin Graham, was one of his professors at Columbia.

Mr. Buffett serves as Life Trustee of Grinnell College; Life Trustee of the Urban Institute; Trustee of the Business Enterprise Trust, Stanford, California; Trustee of the Wellness Council of the Midlands; and as a member of the American Academy of Arts and Science. His foundation is reported to provide funding mainly on world population issues and nuclear disarmament.

Mr. Buffett resides in Omaha, Nebraska and presides over his financial empire from that city without the "luxury" of a large staff, computer modeling or Wall Street gossip.

The University of Nebraska-Lincoln College of Business Administration and Woodmen Accident and Life Company take great pleasure in welcoming Warren E. Buffett as the 1994 E. J. Faulkner lecturer.

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**E. J. Faulkner Lecture  
October 10, 1994  
Warren E. Buffett**

**Introduction of Warren Buffett**

by Mr. John Haessler,  
President and Chief Executive Officer  
Woodmen Accident and Life Company

It's a great pleasure for me, both personally and on behalf of Woodmen, to welcome you to this lecture, which is 16th in a series that Woodmen has sponsored in conjunction with the College of Business Administration. We have established this lecture, as I think many of you know, in honor of E. J. Faulkner, who served for 60 years with Woodmen, 44 years as a CEO. He was a great friend and a graduate of the campus and of the College of Business Administration. Through his estate, a gift has been made and it is now being translated into the writing lab at the College of Business Administration.

We are greatly privileged and especially pleased to have Warren Buffett here. From the size of this crowd and excitement, the anticipation that's been on campus is obviously honored in the halls of the academia as well as in business.

While he needs no introduction, I think he truly deserves one. And frankly, he deserves one that will be more laudatory and flattering than I will give him, because I don't think a flowery one would comport with his sense of comfort. He's a very basic man.

Much of the activity of Mr. Buffett is highlighted on the handout that you received. He is a native Nebraskan. He was born in Omaha. He went to high school in Washington D.C. His father, who was an investment banker, also served as a congressman from the second district-Republican by the way. (Warren Buffett and I are probably the only two Democrats in this whole room.)

He received his degree from the University of Nebraska College of Business Administration; he then went to Columbia University for a masters, where he studied under Benjamin Graham, who was a friend and mentor for his life. He started, as I think many of you know, modestly in the mid-50's with a limited partnership, some friends and some relatives and about \$100,000 of his money. He's built that into the financial empire of Berkshire Hathaway, and he has now become the richest person in America.

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Now, I know that some of you have seen *Forbes*, and Bill Gates has supposedly passed him in the last year. But nobody wants to tell Warren that. Today, we're going to say he is the richest person in the United States. Besides, we'd already invited him before he slipped.

But wealth is not a very good definer of the man. He has said he enjoys the process far more than the proceeds, and I think that's true. He got his wealth the old fashioned way—he earned it. And he did it not by the sweat of his brow, but by leveraging his brain. And he did it by using his own assets and not somebody else's, and certainly not somebody else's debt. He did it by thinking, and that doesn't sound too unique but in one of his annual reports, he quotes the observation of Burton Russell "that most men would rather die than think and many do." And he says this applies with unusual force in the financial world. Not only is he a thinker, he's an investor; he's not a speculator; he builds; he doesn't tear down. He creates jobs; he doesn't displace persons. And talking about investing and speculation, he writes, "Indeed, we believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands 'a romantic.'"

In his annual reports that you've read avidly, he quotes unusual people. Talking about diversity as not being necessarily good, he quotes Mae West, "Too much of a good thing can be wonderful." In talking about extracting himself from a bad deal that he felt was a bargain when he went into it, he refers to a gentleman in a country western song that said, "My wife ran away with my best friend and I still miss him a lot." His style, his humility, his lack of pretense is probably best represented or at least well represented in setting up some details for this lecture. One of the questions was, "Do you want extra security here?" His answer, "We don't need any security; just ask the attendees to check any soft fruit at the door."

Ladies and Gentlemen, it is a great pleasure to present a true legend in his own time, the oracle of Omaha, Warren E. Buffett.

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## *Warren Buffett's opening remarks and conversation with students:*

Testing. One million, two million, three million.... Somebody yelled out from the back, earlier, "I can't hear you." I was giving a speech a few weeks ago and the same thing happened. Somebody said, "I can't hear you." And, then someone in the front stood up and said, "I can. Let's change places."

It's really good to be here today. I have a lot of great memories of the University. My mother and father met here when my dad was editor of the *Daily Nebraskan* in 1924. My mother had worked for her father's tiny paper in West Point. And so, when she came here, she went into the *Daily Nebraskan* to apply for a job and met my dad there. Within a couple of years, they were married. Then about twenty-five years later or thereabouts, after two years at the Wharton School at the University of Pennsylvania, I transferred here and I must say that I thought that my year here was considerably superior to either of the years I'd had at Wharton. I got a lot of education. Ray Dein from here was a terrific accounting professor at that time. We were reminiscing earlier a little bit about Carl Arndt, who taught Economics. Professor Arndt, when he taught Economics, would leave the room during the exams. We thought that was very trusting of him. He explained that, well, he could do that because, although we had the same exam, he had different answers for the odd and even numbered seats.

I would like to talk to the students, primarily, a little bit about your future because an experience I had a couple of years ago may tie in with that. Then we'll get into questions and what's on your mind. But I did have an experience in 1991 that may have some applicability to you students in the room.

What happened then was that on a Friday, August 14, 1991, I received a phone call at a quarter of seven in the morning. And, it woke me up, I'm sorry to admit. That early-to-bed, early-to-rise stuff is, well, you can forget that. I'm not going to give you any of that. In any event, I got this call and on the other end were some people in a conference room, obviously on a speaker phone. They told me that the top management of Salomon had been told the previous night, by the President of the New York Federal Reserve Bank (and he is the most important man in financial markets in the world; he is not that well known, the Chairman of the Fed would be better known), but the President of the New York Fed, in terms of financial markets is number one, and his name is Jerry Corigan. Mr. Corigan had told the top management of Salomon that they were unacceptable to be running the institution; and he meant, immediately. So they decided the next morning that they were going to leave. They had to leave. And they were calling to say that as of that time there was no one there to run the institution.

That was a rather serious situation because at that time, Salomon owed more money than any other institution in the United States, with the exception of Citicorp, the big bank. Citicorp owed a little over \$200 billion. Salomon's total liabilities were just under \$150 billion. Now, \$150 billion was roughly equal to the profits of all of the companies on the New York Stock Exchange in that year. So, it was more money than the Bank of America owed. It was more money than American Express owed. It was more money than Fannie Mae owed. Only Citicorp owed more money. The problem about this \$150 billion was that basically, it almost all came due within the next couple of weeks. Unlike Citicorp or the Bank of America or Manny Hanny or the other big banks, people who had lent money to Salomon were not

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protected by FDIC insurance, so they could not look to the government that way. And, they were also not protected by what's called the "Too Big To Fail Doctrine". Basically, people feel, although the Fed has not been terribly specific about it, that any of the really big banks will not be allowed to fail because the Fed is worried about a domino effect. So, if people were worried about the solvency of Citicorp or Chase or somebody like that, they didn't really worry about their deposits there because they had both FDIC insurance and they had this "Too Big To Fail Doctrine". Salomon had neither. So, we were faced with the fact all over the world, because this money was owed all over the world, that people on that Friday and the following Monday were going to want us to pay back \$140 odd billion or something close to it, which is not the easiest thing to do.

I went to New York that afternoon, and I met with Mr. Corigan that night. I won't forget that because when I went in, in kind of a light way, I said to Mr. Corigan, "The only thing I owe personally is \$70,000 on a second home I have in California and that is because the interest rate is cheap. I may need a little help," and I smiled kind of weakly. He gave me this steely look and he said, "Prepare for all eventualities". I didn't know exactly what he meant by that but I certainly thought of strychnine or something of the sort. So anyway, one immediate problem I had was that my basic job was going to be dealing with regulators and Congress and all that sort of thing. And, essentially, we had to reassure the world, between that Friday night and the following Monday morning, that Salomon was not going to collapse or we were going to have a run on the bank.

This is where the story starts becoming applicable to this group. One of the things I immediately had to do was to find somebody to run the place. This was a company with 8,000 employees; perhaps 500 or more in Tokyo and 1,000 or more in London. And, spread all over the world, we owed \$10 or \$15 billion in Japan and similar amounts in Europe. So, there was a real problem, in terms of who was actually going to run the place day to day.

This is a company that, because it has a very big government securities operation, now does over \$200 billion of business a day. You don't make very much money on it, but that's close to three times as much business as Wal-Mart does in a year. Now, it is a different sort of business. But it does require someone who knows what is going on, and I didn't know the business or the details of the business at all. So, I was faced on that Friday night with the problem of deciding who would run this place and then making a recommendation to the Board, that was going to meet on Sunday. There were about a dozen candidates for that job who were high up in Salomon. I only knew four or five of them by their faces. I knew most of the twelve by name, but I only had met four or five of them. This was the most important hiring decision in my life.

I hope all of you are going to go out and get hired in the next few years. And, it might be interesting to know what went through my mind in making that important hiring decision because it may be going through the minds of some of the people that you will be facing in the next few years. What I did was interview those twelve people. We had one discussion on Friday night because they were in an uproar about something or other, and then the next morning, I interviewed these people serially over a three- or four-hour period. Now, the good news is that I did not ask them their grades in business school. You can relax. But, the bad news is, of course, that I didn't even ask them whether they went to business school. I did not ask for their résumé. I never saw a résumé on the fellow that I decided on. I really had to decide in that time who was going to be the best person for me to go into a fox hole with and who was going to be able to lead this organization during an extremely difficult period, when people would be quitting, when customers would be badgering them,

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and when lenders would be pulling out—all of that sort of thing. I didn't give them an IQ test. I had twelve people there who all were smart enough to run the place. And, most of the people in this room, a very significant majority, would be smart enough to run the place.

Most businesses do not require somebody with a staggering IQ. I wasn't looking for Forrest Gump, either. But, the dozen or so had all the IQ necessary; they had all the drive necessary. These are people who were used to working twelve hour days and had lots of push. So, it was not a question of energy. It was a question of who, in my view, with both of those qualities already a given, really was the highest quality individual. It was the person who would not stick a gun to my head after he took the job, because I couldn't afford to fire whoever came in and I couldn't afford to have him quit on me when the going got tough a week or two weeks or month later, because with one more event like that, it would have been curtains. So, I really had to be sure of the steadfastness of the individual. I had to be sure he was up to it temperamentally, because the pressures would be enormous.

The person I decided on never asked me then; he never asked me a week later; he never asked me a month later, what the pay was. Basically, he was a battlefield promotion and he behaved like he was a battlefield promotion. He could have come to me and said, "Look, I could go over to Goldman Sachs and make 'X' this year and this is going to be much tougher so I want 150% of 'X' from you". He never said a word about that. As a matter of fact, in the first year, just to set an example, he reduced his pay, running the whole place for less than he had made running the Tokyo office the year before. He never asked me to indemnify him against the lawsuits that would be forthcoming if the place failed. If things had gone bad, and you couldn't tell whether they would or not, we were going to get sued by everybody in the world. And, if Salomon had gone under, its indemnification would have been no good.

So, it would have been perfectly reasonable for this person to say, "Well look, I'll take this job but who knows what's going to happen and if it happens, Salomon isn't going to be good for it. So why doesn't Berkshire Hathaway or why don't you personally indemnify me against the lawsuits I'll be facing the rest of my life if this goes sour?" He never said a word about it. It wasn't because he was dumb and didn't know enough to ask that. He just felt it was not the right thing to do under those circumstances. So, in the end, I picked out the individual there who I felt was an outstanding human being. He never let me down. He took on that job the next day. We came out of a directors' meeting at three in the afternoon. And, there were these twelve people out there and I just walked up to him and said to him, "You're it, pal". And, we went right from there down the elevator to meet a couple hundred reporters who had come in on a Sunday afternoon and who were plenty hostile in some ways. He sat up there on the stage with me and answered questions for three hours. And, I knew then I had made the right choice.

Now, the interesting thing about that choice is that the qualities that attracted me to him were not impossible for anyone to achieve. He didn't have to be able to jump seven feet. He didn't have to be able to throw a football sixty yards. He didn't have to be able to remember every bridge hand he played the previous year or something of the sort. There was no feat of intellect or something like that. What he did was bring qualities like steadfastness and honesty. I knew he would tell me the bad news. I always worry about that with people who work for me. They don't need to tell me the good news. I just want to hear the bad news. I knew he would not get his ego involved in decisions. I knew he would not be envious or greedy or all of those things that make people unattractive. And, the truth is, that anybody can have those same qualities that Deryck Maughan, the fellow I picked, exhibited. They are not feats that are beyond anyone. They are simply a matter of deciding what you are going

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to do and what kind of person you are going to make out of yourself, and then doing it.

John mentioned Ben Graham, who was my teacher at Columbia University. When he was twelve years old, he sat down and made a list of the qualities he admired in other people; and he made a list also of the qualities that he found unattractive in other people. He decided that it was just an act of will and then habit to develop those attractive qualities and to get rid of the unattractive qualities. Anybody can show up on time; they cannot claim credit for ideas that are not their own; they cannot cut corners; they can avoid envy. All of those things are doable and they make an enormous difference in how you function, not only in your job but in society subsequently.

I'll give one more illustration. Let's just assume when you got out of school, that you won a lottery of some sort and you were entitled to pick one of your classmates, and you got 10% of the earnings of that classmate for the rest of his or her life. You had about an hour to make up your mind. Now we'll leave out picking the son or daughter of the richest person around or something of the sort; let's say we're all starting from scratch. Now, who would you pick? Just think about that for a moment. You wouldn't give them an IQ test. You probably wouldn't look at their grades. You'd probably think, who's going to function best when they get out there? If they had a 300 horsepower motor, who's going to get 300 horsepower out of it instead of 150 or 100? You'd look for who is going to function best. And, you would look for people with those qualities that you admire, but which are also attainable by you and which become a matter of habit after time.

Somebody said that the chains of habit are too light to be felt until they're too heavy to be broken. It's absolutely true that the habits of behavior you start out with will follow you the rest of your life. And, as you think about that person whom you would like to buy the 10% of, the person whom you find admirable or attractive, the answer is that if you want to sit down and do it yourself, you can be the one that you would buy 10% of. It is not that difficult. One friend of mine said that in hiring they look for three things: intelligence, energy, and character. If they don't have the last one, the first two will kill you because, it's true, if you are going to hire somebody that doesn't have character, you had really better hope they are dumb and lazy, because, if they are smart and energetic, they'll get you in all kinds of trouble. Well, that's enough of the advice.

Let's tackle the questions that you are interested in. Make them as tough and impertinent as you like because it makes it more interesting for me and it probably makes it more interesting for the audience. So, feel free to throw your hard one.



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**Q. In a sentence or less, could you please tell me what is your personal philosophy of life? And then my follow-up question, why?**

**A.** Well, I'm not sure I have any brilliant philosophy of life. I certainly enjoy life. I like my life as much as anybody possibly could. I mean, I love every day and one reason I do is that I am fortunate in that I only work with people I like. I consider myself very lucky to be in that position. If you work in a job where your stomach churns and you find yourself dreading going to work and all that sort of thing, essentially, that is really like marrying for money, which is probably a dumb idea under any circumstances. And, it's absolute madness if you are already rich. I've been very fortunate in that I have no stress whatsoever. I'm going to try and outlive Mrs. B. I mean it. I tap dance on the way to work. I do believe in working at something you enjoy. I gave this advice one time at Harvard when somebody asked me, "Who should I work for?" I said, "Well, go work for somebody you admire. You're bound to get a good result." A couple of weeks later, I received a call from the Dean, and he said, "What did you tell that group? They've all decided to become self-employed!"

**Q. If you could look in your crystal ball, what kind of sector stocks would you look into in the next few years? What kind of stocks do you think will boom?**

**A.** That's an academic question if I ever heard one. Just a little theoretical.

**Q. What exactly do you do all day?**

**A.** Getting right to the core here, aren't you? I spend an inordinate amount of time reading. I probably read at least six hours a day, maybe more. And I spend an hour or two on the telephone. And I think. That's about it. We have no meetings at Berkshire. We've never had. We have businesses around the country; we have some 20,000 employees, but we've only had one meeting of our managers in the twenty-some years I've been there, to talk about health care—one time. But, they never come to Omaha. We never have presentations. We don't have a slide projector. We don't do any of that sort of thing. Our board of directors meets once a year, right after the annual meeting. We have lunch and that's it, because I hate meetings, frankly. I have created something that I enjoy: I happen to enjoy reading a lot, and I happen to enjoy thinking about things. It is a little crazy, it seems to me, if you are building a business and creating a business, not to create something you are going to enjoy when you get through. It's like painting a painting. I mean, you ought to paint something you are going to enjoy looking at when you get through.

Now, I know I'm avoiding your first question about what I should buy this afternoon. I don't think much about that. I don't think at all about what the stock market will do or what given stocks will do in the very short term. We do try to own, and to look at stocks, as pieces of businesses. And, that is crucial in my view to the investing process; that is, to not think about a stock as a little ticker symbol or something that goes up or down, or something of the sort, but to think about the business that you own.... Same way if you were deciding on a business to buy in Lincoln. You might think about buying a dry cleaning store or a grocery store or whatever. You wouldn't think about what this business is going to be selling for tomorrow or next week or anything. You would think about whether it's going to be a good business over a long period of time. And that's what we try and do. So, if you look at the portfolio of Berkshire, you will see the kind of businesses that we like to own.

Our biggest single holding is Coca-Cola. We own a lot of Gillette. Those are two of the most dominant companies in the world in their field. And they are also companies that are not subject to a lot of change. We don't want to own things where the world is going to

change rapidly because I don't think I can see change that well or any better than the next fellow. So, I really want something that I think is going to be quite stable, that has very good economics going for it. Coca-Cola sells 47% of all the soft drinks in the world. That is seven hundred and fifty million eight-ounce servings a day around the world. That means if you increase the price of Coke one penny, you would add two and a half billion dollars pre-tax to the earnings. So, that's the kind of thing I can figure out. And, Gillette, I mean Gillette is marvelous. Gillette supplies over 60% of the dollar value of razor blades in the world. When I go to bed at night and I think of all those billions of males sitting there with hair growing on their faces while I sleep, that can put you to sleep very comfortably.

**Q.** Have you ever thought of opening your own stock school?

**A.** No, I've got my occupation for the rest of my life. I plan to keep running Berkshire Hathaway.

**Q.** The problem with money is that it tends to flow toward the emotional part of the human being. And, I guess what fascinates me about you, in what I have observed in the media and so forth, is that you tend to keep a clear, cool head. For example, when you hired that fellow from the Tokyo office, you were adding up certain factors that were tangibles. I wonder if you do the same when you buy stocks, and what happens when they turn out to be "dogs", like USAir and Salomon Brothers. Obviously, those didn't pan out as expected when you bought them; however in the fullness of time, one can never tell.

**A.** You can probably tell on one of them, anyway.

**Q.** If you are talking about Salomon Brothers, I think you once referred to them as a cash cow; however, when you buy a stock like that, how much of it is just simply a result of Warren Buffett's many, many years of reading six hours, making phone calls, and thinking at night? Or, how much of it comes down to a gambler's feel or intuition? Is it that much?

**A.** I would say there is no hunch or intuitiveness or anything of the sort. I mean, I try to sit down and figure out what the future economic prospects of a business are. I try to figure out whether the management is someone or some group I both trust and admire, and I try to figure out whether the price is right. I mean that: It's the right business, the right people, and the right price. There are a whole bunch of businesses I don't know the answer on. If you take all the companies on the New York Stock Exchange, a couple thousand plus, I don't have a view on a great many of them. I am familiar with them but I just don't have the faintest idea what is going to happen in the future. So, I try to narrow it down to what I call my "circle of competence". The important thing in your circle of competence is not how big the circle is. It isn't the area of it. It's how well you define the perimeter. So you know when you are in it, and you know when you are outside of it. And, if I have any advantage, it's probably that I know when I know what I'm doing, and I know when I don't know what I'm doing. That's key in the securities business. You have to make very few correct decisions in securities to get very rich. You don't have to do a hundred smart things. If we do one smart thing a year, (a) my partner will be surprised, and (b) that's plenty. I mean, that's more than enough. And, that's all I want to do. So, I'm looking for the one idea.

But you are correct that everything I look at over the years, all the reading I do and everything, comes together at some point in terms of giving me the feeling that this particular decision is within my "circle of competence". And, when it is within it, I'm willing to go very big. I do not believe in taking baby steps when you see something that you really

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understand. I never want to do anything on a small scale because, what's the reason? If I'm doing it on a small scale because I'm not that sure of my opinion, I'll forget it entirely and go onto something I'm sure about.

**Q.** Yesterday in the *World Herald*, it was reported that a multi-millionaire with no blood relatives left \$5.6 million to the U.S. government.

**A.** I saw that.

**Q.** And that money would cover less than two minutes of government spending. If you had no blood relatives and no charitable foundation, would you leave your money to the government? Assuming, of course, it would take longer to spend your fortune.

**A.** Well, I have one of the blood relatives here today who's monitoring what I'm saying. I read the other day about a fellow who left all of his money to his wife on the condition that she would remarry, so at least one man would mourn his passing. I would say this, when you rule out the philanthropic, that gets tough. If you leave it to the government, you're leaving it to society, basically. I would rather leave it to people, very high-grade intelligent people, to spend in the interests of society rather than simply to reduce the debt or the deficit that year.

You know, if you told me that I couldn't leave it to an individual or to charity, I mean, at that point I would be pretty much stuck. It would be like having a 100% estate tax, in effect.

I would say that I got my money from society. If you stuck me down in the middle of Bangladesh or Peru, I wouldn't be worth a damn. I have some talents that are particularly suited to this particular economy. I get a lot from society. I get to live exactly the kind of life I want to live; and then not to give it back to society seems a little crazy to me. So, essentially, everything I have will go back. And, I will not try to direct what the trustees do ahead of time. I just want to pick very high grade people, smart people, very few people because if you get a large group, it will bureaucratize. I've got six trustees on the foundation and they will do a much better job above ground after I die than will be done if I start giving them instructions from beneath the ground. I'm very satisfied with the arrangement. The only thing I've instructed them to do is try and do something big. I don't believe in lots of little things.

**Q.** Well we certainly hope you live to be 150, 200. Someone with your character needs to stay around.

**A.** Thank you. Thank you.

**Q.** I was wondering if you had a role model.

**A.** Yes. I call them heroes, but I've had a half a dozen or so heroes in my life. I've been extremely fortunate in that none of my heroes ever let me down. I never, never had a situation where I was disappointed in any one of the half a dozen or so, starting number one with my dad. And, that's a great thing. I think it's very important to have the right heroes. Now they call them role models or whatever; but you're going to take your cues from somebody. You're going to pick up the habits, and qualities, like I talked about earlier, from somebody. Fortunately I had some terrific people who were helpful to me in that regard. I went through a period, when we first moved to Washington, where I was antisocial for awhile. And, really having the right heroes pulled me through that as well as anything.

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So I say, choose your heroes carefully, and then figure out what it is about them that you admire. Then figure out how to do the same thing. It's not impossible.

**Q. Was your investment with the Equity Fund of Nebraska a one time offering?**

**A.** No. About a year or so ago, the Governor, or a group connected with the Governor, organized a fund to sponsor low income, affordable housing in the State. These funds have existed around the country and we had participated in those national funds; so he asked if we would participate in the Nebraska fund. We said yes, and we will participate in the future. I hope that the participation becomes broad, because it not only has a good social purpose, but it's a perfectly intelligent investment. So, it is not like there is any sacrifice on our part in doing this. This is something that makes economic sense for Berkshire Hathaway. And, I would hope that other businesses around the State would join in. It's not a one-time thing.

**Q. How would a young entrepreneur, like myself, get start-up cash for my business?**

**A.** Get start-up capital? Well, that's a tough question because compound interest is a little bit like rolling a snowball down a hill. You can start with a small snowball and if it rolls down a long enough hill (and my hill's now 53 years long—that's when I bought my first stock), and the snow is mildly sticky, you'll have a real snowball at the end. And then, somebody says, "How do you get the small snowball at the top of the hill?" I don't know any way to do it except spending less than you earn and saving some money, unless you are lucky enough to inherit some.

In my own case, you know that I was always interested in investing, so I started saving when I was about six and by the time I got out of school, I had about \$10,000. It is much easier to save money, obviously, before you have a family than after you have a family. I've always felt that one way to do it, if you've got a job and it's meeting your needs (in my own case, I delivered papers and that's an ideal job for a couple hours a day), is to take a second job and save all the money from that. Getting the initial stake, being ahead of the game, is enormously important in life. It is so much better to be working from a position of strength and have a loaded gun. That may be a fairly small amount of money. Ten thousand dollars doesn't sound so big, although it was probably the equivalent of close to \$100,000 now. That was my edge. If I hadn't had that, I wouldn't have had anything to work with subsequently. There isn't really any way to get capital except to spend less than you earn. That's easier when you are very young than at any other time—certainly before you have a family.

**Q. Mr. Buffett, I'd just like to know if there is any truth to the rumor that you have been taking Cornhusker quarterback recruits out to dinner?**

**A.** Nope. If I knew any good ones, I think I would, but.... If anybody here is healthy and feels like they can throw that ball sixty yards, stand up. I've got an intense interest. I think we have the best football coach in the United States. He and Nancy are both truly outstanding human beings. I know that personally. I would love to see everything come together. I think he has had a lot of bad luck this year.

**Q. Mr. Buffett, I believe the Nation's tax code does not provide the incentives for businesses and individuals to save and invest. Without these incentives, the growth of the Nation's economy is limited. Would you support a broad-based consumption tax, such as a value-added tax, combined with offsetting reductions in the capital gains tax and corporate and individual tax rates, to encourage more savings and investment in our economy?**

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**A.** Well, I would say this, for various reasons, one of which is encouraging savings, but for other reasons I would favor a progressive consumption tax—a tax where the rates go up as you consume more. I would not favor a flat tax because that's proportional. That would be like having the same tax on everybody, paying the same percentage. And, I really feel, in terms of equity, that a progressive consumption tax is the most equitable tax. I also think it would have the greatest long-term benefits, although in the short term it would actually hurt the economy. But, over time, I think it would provide more investment and that will provide essentially a higher standard of living. Unless it is progressive though, it's unfair to have that or a national sales tax or anything that's strictly proportional, because it gets very regressive and, frankly, I think those people who consume far more than their fellow man are making withdrawals from society's bank effectively when they consume. I think they should pay higher rates as they get up in the high rates of consumption.

But, I've urged a progressive consumption tax and it's achieved somewhat more currency with economists and politicians now than it had 10 or 20 years ago. It was limited to a few academic areas a couple of decades ago. Senators Nunn and Domenici put out a report about 18 months ago, where they recommended something which was equivalent to that. I think they call it USA Unlimited Savings Account. I would say this, though: The tax rates are more conducive to savings now than they were when I was down here five or six years ago. It's not like the situation has gotten worse, in terms of savings. This will sound a little Pollyanna-ish, but it is still relatively easy to save money in this country compared to most economies in the world. A consumption tax or an unlimited IRA, in effect, would make it easier. But, this is not a tough economy compared to most of those around the world in which to save.

**Q.** Mr. Buffett, I was just wondering if Charlie authorized the flight over today or did you have to drive?

**A.** This gentleman is referring to the fact that I have a partner named Charlie Munger, whose grandfather was a Federal Judge in Lincoln. Charlie actually worked in my grandfather's store, but not at the same time I did. I met him later in life and he has become my partner. Charlie and I have been partners in business one way or another for decades. We've never had an argument. We have different opinions on things, but we get along extremely well. Charlie overdosed on Ben Franklin early in his life, so he thinks that a penny spent is a penny lost, or something like that. This is the guy who, you know, has a prayer session before he takes the bus and, therefore, when I bought a plane, I was going to put his name—"The Charles T. Munger"—on the plane just to stick it in him a little bit. Instead, I just decided to call the plane "The Indefensible." And that is sort of like the wolf, you know, baring his throat when he is losing to another wolf! So, I did not fly here today. But it is true that I contemplate flying to the drug store every night! I'm in love with this plane, and I'm the same person who gave all these speeches against planes in earlier years. Then I had this counter-revelation, as they call it, and now I've fallen in love with the plane and it's going to be buried with me!

**Q.** Mr. Buffett, does it bother you not being the richest man in America?

**A.** Well, as *Forbes* pointed out, they must have counted Bill Gates' house. I mean, he's got me in that department. He's a good friend of mine, incidently. We have a lot of fun together. Bill came in to Borsheim's—I can tell this because he tells it—to buy an engagement ring for Melinda, his wife. He came in to Borsheim's a year ago Easter. They were in Palm Springs, and he told Melinda it was time to go back to Seattle, and when they went to the plane, the

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pilot reported the weather in Seattle, and everything else, so it sounded as if they were going to Seattle. Then Bill kept her occupied, so she didn't notice where the sun was. They landed in Omaha on Easter Sunday about four or five o'clock. We opened Borsheim's just for them. I said to Bill on his way out, "It's none of my business—who am I to give you advice?—but when I bought an engagement ring for my wife in 1951, I spent 6% of my net worth on it!" We didn't have quite as big a day that Sunday, as I'd hoped.

But as to not being the richest, the money is a by-product of something I enjoy. It's like somebody that enjoys painting; and if you can sell your paintings for a lot of money when you get through, great! If you enjoy the painting when you get through, great too! I've had as much fun working with small sums as large sums, but I have as much fun working with large sums as small sums, I might add. The same thing is true with Bill Gates. I mean, he loves what he does. He would do it if they gave him sharks' teeth instead of cash at the end of the day. And, my guess is, that helps him do it well and helps me do it well, too. But I'm keeping an eye on him. I had a dart board that somebody gave me to select stocks. I threw darts at it but it didn't work very well. So, I sent it to him last week.

**Q.** Mr. Buffett, I've been led to believe that you have some musical ability. And, I want to know: Do you still play the ukulele?

**A.** I play it very occasionally. A year from now, Mrs. B is going to attend, close to her 102nd birthday, the opening of the Rose Blumkin Performing Arts Center in Omaha, which was formerly the Astro movie theater. She bought that theater about 15 years ago, when it was going to be torn down. The reason she bought that theater is that it's the site of one of the first good things that happened to her in this country. Back in the mid-1920's, her daughter, Frances, won a prize there, a five-dollar gold piece for singing "Am I Blue?" And, at the opening a year from now, Frances is going to sing "Am I Blue?" I'll accompany her on the uke.

About my playing the ukulele—I did play it at the Press Club with the Governor. But my next appearance will be at the Astro next fall.

**Q.** The quality that I value most in any leader is integrity, whether that leader be in business or a leader in government or whatever. Do you feel that leaders in business today and the government do have a high degree of integrity? And, has it declined since you started your business?

**A.** It's very hard to say. I think the American public thinks it's probably declined as evidenced by polls. My own feeling from a fair amount of exposure to people in a lot of arenas, including political and business, is that the pattern is not terribly different from what you would find in the population. If you take any large group, you will have some kind of bell-shaped curve where you will find a lot of people in the middle, who, under most conditions, will behave well, but when they are in really difficult situations, they won't. You will find people who are just outstanding on the right-hand side of the curve and those are the people who are my heroes, frankly. I don't think it has changed much over the years; that's my impression. I think that's true in politics, too. A lot of people yearn for the good old days and all that sort of thing, but I don't think the human animal changes too much. I think the only way humans change is if they get into a new culture and adopt the mores of that culture. I think it's easier to drop down, unfortunately, if you get into a kind of jungle-type culture, than to move up if you are in some monastic-type culture. But, I don't think that the culture is materially different from what I saw in politics or in business 30 years ago.

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There are some outstanding people in both, and they're really the ones to focus on and try to emulate.

**Q. What do you think the government is currently doing that they should stop doing? And, if you were President, what would be the first change you would make?**

**A.** If I were President, the first thing I'd do is demand a recount. That is a job I would not like to have. There are a lot of jobs I would not like to have, but that would probably be tops on the list. I think it's very tough because I've seen a little of it, and I've even experienced a little tiny bit. It's very tough to manage any extremely large organization. Maybe Dr. Spanier will agree with me on that, too. You have a really complex organization with loads of people that have to be decision makers under you and huge budgets. That is very difficult to manage. Then think about the fact that the most time you are going to have to do the job in is eight years. Changing cultures is really tough. I've had a little experience with that. The trick in business is to get in with a culture that's already the right kind. And, we've had good luck doing that. When we invest in a Dexter Shoe or See's Candy, that is very easy, because they have grown in a certain way because the head people think about doing the right things. I think it would be very tough in government. If I had my way, there would be a progressive consumption tax. There wouldn't necessarily be a balanced budget. But, the national debt would grow at a rate that would be less than the growth of the Gross Domestic Product. In other words, I would make sure that debt in relation to income did not increase.

But, in terms of specific programs, you know I have no great ideas. I would probably—since I'm not running for office, and this is already scheduled to come in a couple of decades—I would probably extend the age at which Social Security kicks in, because I think the world is a lot different than in 1937 or whenever the retirement age was put in at 65. I think people are very productive at that age. If you look at demographics for people under 65 to support people over 65, it is a much different chore than it was 60 years ago. I just think there are more productive years, so I would have Social Security start somewhat later. That would save a lot of money. It would also not get the vote of the AARP or other organizations.

**Q. I've heard that you feel that all universities should teach a course in common sense. I was just wondering: What is your definition of common sense? What should this course teach?**

**A.** Well, I don't know whether I've said they ought to teach a course in common sense because I'm not sure you could teach it. But, I do find it amazing how many people with high IQs get off the track. It's astounding to me how people who are really very smart manage to engage in so many self-destructive actions, and I'm not just thinking in terms of business. I have no real prescription, as I look around at the people whom I think are extremely sensible. I don't know quite how to transplant that or teach that to other people. I think a lot of people make things more complicated than they need to. There is nothing complicated about the way we invest. It is very understandable. I've felt that before people buy a stock, they should take a piece of paper and simply write "I'm buying General Motors at 47," or "I'm buying US Steel at 83." They should just write out what their reasoning is, and they should be able to get it all on one side of one piece of paper. In fact, they should be able to get it into a paragraph. Almost all of the big, great ideas in business are very simple. Sam Walton's idea was very simple at Wal-Mart. It's not hard to do. If you want to accomplish something, and this ties in a little bit with common sense maybe, you have to have focus. Mrs. B had focus. Mrs. B never went to school a day in her life, and she ran rings around all kinds of people because she's smart and energetic. She was also focused. Tom

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Watson, who started IBM, was the same way. He said, "I'm no genius. I'm smart in spots, but I stay around those spots," and there is a lot to that.

**Q.** I'm a doctoral student in the School of Music, and my question has to do with arts funding. I'm wondering where you think the responsibility for funding for arts programs would lie. Would that be with governmental programs or with businesses or private individuals?

**A.** I think it's with government programs and private individuals. I mean, I think it's probably a combination needed on that. If you go back 50 or 75 years, it was entirely private. But, I think, in terms of a lot of activities like that, there is a place for both the government and for private funding.

**Q.** I've heard that you refuse to assist your children financially. Is this true? And, what did you get from your parents financially?

**A.** Well, I got all kinds of good things. But, I didn't get money. And, I really didn't want it actually. I don't think I could have been raised with a better pair of parents. That was enormously important. I don't believe in making kids rich. I just think it's wrong in terms of society. I hear these people who lecture about the debilitating effects of food stamps on the poor. They say, "You know, you give them food stamps, and they get dependent, and then the next generation wants more food stamps," and all that sort of thing. What is the difference between that and some kid who gets a lifetime supply of food stamps at birth through inheritance, you know, except the food stamps are called stocks and bonds and the welfare officer is called a trust officer? They never seem to see the debilitating effects of having some big trust fund for themselves. I basically believe that if you are rich, you should leave your kids or give them enough so they can do anything but not enough so they can do nothing. I just think that makes sense. I don't think it should be like they were born into total poverty, and I don't think they should be entitled to live a life of doing nothing, essentially living off this stored-up supply of food stamps which somebody handed them. So, that is my own personal philosophy on it.

**Q.** Mr. Buffett, I would like to ask you about your political involvement. This year, we've seen a lot through the media of your being finance chair for Senator Kerrey and helping Congressman Hoagland in Omaha. My concern is, it seems like at least the business publications I read and the business organizations that I'm involved with aren't real supportive of those two individuals because of maybe increased taxes, regulation, and government-run health care. Can you explain to me your involvement with that and why you support those individuals that seem to be opposed to some business incentives?

*(Aside, Mr. Buffett receives a can of Cherry Coke.)*

Sure. Thank you. This stuff will do wonders for you. If you are wondering, we get the profit from one out of every 14 of these, so it does my heart good.

**A.** I was president of the Young Republicans Club at the University of Pennsylvania in 1948 and, of course, grew up in a Republican household. I vote for plenty of Republicans. I mean, I'm not a card-carrying Democrat, although I'm a registered Democrat and have probably voted for more Democrats than Republicans. It would be pretty close. I don't like to get mixed up in politics much, but in this particular case, I've supported the two you mentioned for precisely the reason that some people are opposed to them. I felt that both Hoagland and Kerrey made a vote that they knew would be politically disadvantageous, perhaps even politically fatal. And, they did that for what they thought was for the benefit of society, whether you agree with them or not.



Now, that is the hardest thing in the world for a politician to do. It would be hard for me to do. I love the job of running Berkshire Hathaway. If I knew I was going to make some vote that might cause me to lose that job, I'm not sure how I would behave. So, I saw both of those fellows make a vote, and there was no question that it was going to hurt them politically. They had no problem assessing the mood of their own voters or voters around the country. So, they did that and I thought that was exactly the way a legislator is supposed to behave. I felt it was very important. I would have had a much different deficit reduction act than came forth, but that is not the question because you'll never be happy with every aspect of the bill. I felt it was important to the country that something be done at the time, and that was the bill to be voted on. It was a very close vote, as you know, and both of these fellows stood up and voted for it. So, I felt under those circumstances if I could help in any way by identifying with them, I would be delighted to do so. They stood up when it counted and I felt that I should, too. That's the reason, but basically I'm not big on getting involved in politics and it's not because they are Democrats. That's immaterial to me.

**Q.** You keep a very lean machine going at Berkshire Hathaway. How do you keep it so lean when it grows so much?

**A.** Well, that's a good question, because now we have 22,000 employees or maybe 23,000 or even 24,000, I guess. We probably had 1,000 twenty years ago but we've still got 10 or 11 people in headquarters. I really believe in keeping things simple. We have no inside counsel. We have no public relations people. We have no guards. We have no cafeteria. And, it's a lot easier to run that way. Frankly, I think way more gets done than if you have floor after floor of people that are reporting to people on the floor above them. I see so much waste in most companies and once it gets there, it is very hard to get rid of. It's much easier never to get there. My pal Charlie says that, "All I want to know is where I'm going to die, so I'll never go there." And, that's the way I feel about a large organization. I mean, that would be business death as far as I'm concerned; so we're not going to get there. It's not a problem keeping it down. We just don't hire anybody and we won't. I buy and sell all the stocks myself. Some people say, "How many people can you have reporting to you in a business?" That's standard organizational management stuff. They say, "The optimum number is this" or something like that. The answer is, if you've got the right kind of people, you can have tons of people. You can have dozens and dozens and dozens of people, if they know what they are doing and they like their jobs. But if you have somebody who's a clown, one is too many. They will drive you crazy. The trick is having the right people. We have been very fortunate in getting in with people who are extremely able at doing their jobs.

We bought H. H. Brown, which is a work shoe company, three years ago. It has probably 4,000 employees, and two hundred and fifty million dollars in sales. I've never been to one of their plants. No one ever has. Maybe they don't even exist. I mean, maybe those guys sit there every month and say, "What figures should we send Warren this month? \$2.8 million, will he like that? Yeah, he'll probably like that; let's mail it to him." I've got the right kind of people. If you've got the Blumkins running the Furniture Mart or something, what can I do, you know? Should I go out there and tell them we should price this stuff at \$498 retail instead of \$398? I don't know anything about it.

Three quarters of our managers are independently wealthy. They don't need to get up and go to work at all. Most of them have tens and tens of millions of dollars. So, I've got to create or I've got to maintain an environment where the thing they want to do most in the world is to go to work that day and the next day. And, I say to myself, "What would make me feel that way?" One way is to feel you are running your own show. If I had people second-guessing me all day, I would get sick of it. I would say, "What the hell do I need this

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for?" And, that's exactly the way our managers would feel if I went around second-guessing them or telling them how to run their business. So, you can get by with very few people if they are good people. That's what we try to do.

**Q.** You said that you look at three things when you are looking at a firm. You look at management, price and people. Is your analysis of people what makes your stock prices exceptional?

**A.** It's one of three, but it's all three things. I think I said the "economics" of the business. I mean, you can have the most wonderful person in the world, but if they are running a textile business like we had 30 years ago, they're not going to do well. On the other hand, if they're running Coca-Cola, they are going to do sensationally. So, we want to be in a business that has fundamentally good economics like a Coca-Cola or a Gillette or something of the sort. And, then we want people and the price. But all three are very important.

**Q.** I've come from a family where my father works a lot and he's rather successful. How do you balance work with your family? Do you tie your wife into any of your work, or is it totally two different dimensions, two different worlds?

**A.** No, it's two different deals. My daughter, who is here, was doing an interview one time and explained that when she was in high school, she told people I was a securities analyst. She thought that meant I went around checking on homes or something to be sure they wouldn't be burglarized! No, work and family are two independent things. I don't consider what I do as work at all. I'm not doing this for a living; I'm doing it because I would rather do it than anything else I can think of in the world.

**Q.** You say in your annual report that you do not want to increase the number of investors you have through a stock swap or a split, but if you are, in a sense, a large mutual company, a large holding company, why would you not increase the amount of capital available to you?

**A.** Well, we haven't; we don't want to increase the amount of capital, which is different than increasing the number of shareholders, of course. We get a natural increase in capital just by the amount we earn from year to year, and that's plenty satisfactory. I do not have way more ideas than I have capital at the present. When I got out of school, I had way more ideas than capital. I was definitely capital short and at that point I did need more capital. So that's why I formed a partnership in 1956 to have some partners join with me. But, Berkshire will not need new capital as we go along. Now, the question is, "Who are going to be your shareholders?" "Who is going to sit in every seat?" If you have a million shares outstanding, somebody has to own them, preferably me. All the seats get filled and then the question is, "How do you encourage the people you want to have in those seats to attend?" It's very simple. If you stick a sign outside an auditorium and say "rock concert", you will get one group and if you say "opera", you will get another group. Either group is fine, but you'd better not have people coming who think they are going to the opera and find that they are at a rock concert, or vice versa.

So, I believe in communicating with the investment world about our objectives—how we think, and the time horizons to draw a compatible group into Berkshire—and we've done that over time. That's why the turnover in Berkshire stock is so low. We have less turnover than any stock on the New York Stock Exchange. The New York Stock Exchange doesn't like it but I like that because it means that basically the people are there who want to be there. Splitting the stock or anything like that would tend to draw a slightly different crowd; not a terrible crowd, but not a better crowd than the crowd we have already. The only way

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somebody can enter is for somebody to leave. And we want to make sure that we're not losing people who identified with our objectives and time horizons, to take on people who have some other different focus.

**Q. What plans have you implemented for management succession when you and Mr. Munger slow down and retire?**

**A.** Well, that's a polite way of saying when we die. We're not going to slow down and retire; we may slow down, but we won't retire. I'll put it that way because I plan to retire about five years after I die, actually. At the annual meeting somebody always says, "What happens if you...?", and then they stutter around a little bit and they finally get, "you know, you get hit by a truck?" I say, "Well, I'm glad you are asking that instead of asking what happens if you don't get hit by a truck." My job is fairly easy. All of our operating businesses would continue just as they are. The people that are running H.H. Brown or Dexter or See's or Scott Fetzer, all know what they are doing. All I do is allocate capital. They mail me the money and then I use it to go buy something else. I also try to maintain conditions so that they want to keep working. I've got in mind people beyond the two of us who can fulfill that function. I don't want to name them at present, but it's not as if Coca-Cola (where we own almost \$5 billion worth of it, close to 8% of the company) will change when I die. People are going to keep drinking Coke the day after; in fact they will probably toast me at the funeral with Coke and so sales may spurt a little bit! There's no big slowdown that will take place. The job of the person who succeeds me will be to take that money which keeps coming in and find intelligent things to do with it in the future.

**Q. What kind of management training or mentoring do you believe in and actually practice at Berkshire?**

**A.** Well, that's interesting. We really don't do any. Perhaps half of our managers have MBAs or have had other kinds of business training. Probably half of them didn't. It's interesting to me what makes a good manager, because I think you have to understand the language of business, and you should have what I would call a "business mind" or "business orientation." But, we don't care about background at all. When I was at Salomon, I did not ask to see anyone's résumé. I didn't know where any of the dozen went to school. It just didn't make a difference to me. You know Mrs. B; if I asked her for her educational experience and she handed me a blank piece of paper, that would be fine with me. Ike Freidman, who built Borsheim's—I don't even know what he did in terms of school, or what he had done. It really is irrelevant to me. We basically like to buy into businesses where people have already succeeded and then keep them on. I would much rather have somebody who has been batting .350 or .375, buy their business and try and keep them happy than have to go out and start casting around the sandlots looking for people who tell me they are going to bat .350 or .375. I'm not saying I won't do the latter. We've done some of the latter, but when you can do the former, we like it. We find it's hard to teach a new dog old tricks. We've got some terrific managers, many of whom are over 65 and many of whom did not have a business education. I don't think a business education hurts, incidently. I got one at Penn, Nebraska and Columbia, so I went to three different business schools and learned a lot at each place. Actually, I learned more at the last two. It can be quite advantageous, but I don't think it is essential.

**Q. What do you feel is the best way to get money to pay for college?**

**A.** The best way is to have somebody give it to you. Actually, my parents paid for my college education, so I did not. I worked for Mark Seacrest at the Lincoln Journal, but I took

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all that money and saved it to buy securities. You do it any way you can. If you've got a parent to give it to you, terrific. If you've got somebody that will give a scholarship to you, terrific. And, if you have to work for it, you know, that's what you have to do.

**Q. I've heard the existence of a Buffett premium in regards to Berkshire Hathaway. Could you explain what that is and maybe comment on the reason for its existence.**

**A.** Some people think we will do as well in the future as we have in the past. And, you can compare that to going out to the race track and betting on a 13-year-old horse that had a great record up to then. It's an extrapolation of the past and I don't think there is that much of a premium in it anyway, but that's just my own opinion.

**Q. Mr. Buffett, I live in Los Angeles, California, which is generally regarded as being a horrible place to live anymore, but visiting my grandmother in Omaha, I find that the crime rate per capita is, I believe, worse than in Los Angeles. I don't know in the 50's and the 60's if crime was not such a forefront thing, but I'm wondering if you either politically or with your own personal fortune have any ideas on how to get us focused back on economic issues and not getting murdered on the way to the supermarket.**

**A.** I don't necessarily want to accept the premise, and I'm not denying the premise. I just think when you compare the crime statistics of one community verses another, that can become quite tricky, because to some extent they are measuring the city, for example. Specifically, you become involved in how much of the population of the SMSA (Standard Metropolitan Statistical Area) is metropolitan in that city. I have no great answer or fast answers to any crime problems. I think the most important single thing society can do something about—although it gets very tough if you've lost it—is to maintain an outstanding public school system. I think it's essential that everyone comes as close to starting at the same starting point as possible in society.

Now, it isn't going to happen, because my kids are going to have all kinds of advantages that some low income person's kids aren't going to have. And, there is a huge disparity. There is also a disparity in the talents they are born with. There is a disparity in the environment they have. But, there shouldn't be a disparity in the education they receive from society. I think to the extent that one city after another—particularly the large ones—have lost a good public school system, that is a big contributing factor to a lot of social problems that follow. If I could do one thing, if I had a magic wand, I would try to figure out a way to have an outstanding public school system where there was no reason for anybody to send their kids, except for religious reasons, to private schools. Private schools wouldn't be needed in order to get a good education. But I know Los Angeles's public school system, at least in many parts, has deteriorated. I have friends out there and they will pay lip service to a good public school system, but they will send their kids to private school, just like our legislators do in Washington, D.C. Essentially, I don't think there is anybody in Congress who sends their kids to the public schools. I went to public school in Washington, D.C. 40 years ago, and it was first class. We had half a dozen or more kids of Senators or Congressmen at that school. Today in Washington, public school students are not getting the same shot at the opportunities in America, if they have been forced into a system that is second class. I don't have great solutions to this problem.

I know something about running business and investing, because I've been doing it for a long time. But, that does not give me great insight into a lot of the social problems of the day. One of the problems with philanthropy—and my foundation's board will have this problem with my funds—is that in business, I get to solve the easy problems. I get to wait

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for fat pitches. I don't have to make a choice among 1,000 different companies. All I have to do is decide people are going to keep drinking Coke. And, there is a lot of money to be made in manufacturing and distributing it. In philanthropy and in social situations, it's just the reverse. All of the intractable problems—the ones that are really tough to solve, the ones that take decades—are the ones that get thrown at you. That's why I do feel empathy for people in politics, because they are dealing with the toughest problems. They are dealing with problems that people couldn't solve last year, or the year before, or the year before that.

Regarding philanthropy, after I die, the Buffett Foundation will be tackling problems that are terribly important, but also terribly difficult to solve, and I wish them well. And I'll understand how important the requests are that they'll receive, and how terribly difficult it will be to solve, to make decisions, and I wish them well. But I'll understand; wherever I am I'll understand, if they have difficulty accomplishing that.

**Q. Mr. Buffett, how did you first get started and how did you deal with failure, if you had one?**

**A.** How did I first get started? It depends. I bought my first stock when I was 11, but I'd been thinking about them for a long time before that. My dad was in the investment business and I used to go down to his office in the old Omaha National Bank building when I was seven or eight years old. I found out I was near-sighted because I couldn't read the quotations up on the stock board; otherwise I might have gone through life without glasses. I just got very interested in it. I started reading books on it when I was eight or nine and then I finally saved enough money to buy three shares of Cities Service preferred for \$114 in 1942, and then I just kept doing it.

Failure depends on how you define it. A lot of things go wrong in life, but that doesn't necessarily mean that they're failures. I really don't look back. I try to learn from what I see around me, but I don't try to learn by going back over this decision or that decision or what did I do wrong or the sort. I don't think about that at all. You can make a lot of mistakes. The nice thing about it is you're going to make a lot of mistakes and still do very well. That's the encouraging thing. I write about my mistakes in the report. In fact, I have a section sometimes called "mistake du jour" and unfortunately it's plural most years, too. It's not the end of the world. You don't want to make any ones that are fatal. You do not want to own securities on borrowed money because that can wipe you out. I've never borrowed money of any significant amount because I just didn't want to go back to go. Borrowed money can magnify your mistakes, and it may magnify them to the point where they wipe you out. But, there's nothing wrong with making mistakes. You should try to pick things that you understand. That is the key to what I do. Occasionally I may make a mistake when I think I understand something I don't. Another mistake that you don't see is when I pass up something that I'm capable of understanding. Those are mistakes of omission and sometimes they have been huge. I could point to mistakes like that which have cost us over a billion dollars. I knew enough to do something but for one reason or another, I didn't. Fortunately, people don't see those.

**Q. Mr. Buffett, after being the richest man in America, what are your major goals now?**

**A.** Well, as I said at the Annual Meeting, now my goal is to be the oldest man in America. That's all I want said at my funeral. I just want someone to say, "My God, he was old!" I just want to keep doing what I'm doing, as long as I can. I have no desire to bring my golf handicap down five strokes particularly; it won't go down there by itself, and I'm not going to spend time to do it. It doesn't make that much difference to me. I feel like I can have as

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much fun doing what I do at this level as anything else. I really, really, really have no goals other than to stay healthy enough to keep doing the same thing I've been doing.

**Q.** I have a two-part question. Number one, what do you think about the future of the two-party system in America? And, number two, what do you think about the candidacy of Colin Powell for President in '96?

**A.** Well, what has happened, as you know, is that party identifications and loyalties have changed dramatically. I'm probably typical in that I may be registered one way or the other, but I don't really think much about that. Certainly there is no party discipline or loyalty that can be called upon to get me to vote for somebody whom I think is inferior to another candidate. I think television has contributed to that very substantially. I think the parties will continue along; I don't think they will disappear or splinter in all likelihood.

Everything I know about Colin Powell is good. I do not know him personally. He is clearly an outstanding human being. If he starts offering his opinions on various subjects, his popularity will tend to diminish because that's the nature of politics. When you have to say whether you are for or against something, you start losing people pretty fast. But, in terms of the quality of that individual, I would think he would be first-class. I have no idea really what his views are on a lot of subjects. We may learn in the next year or so.

**Q.** Mr. Buffett, you said that people who are better off than society have a debt to society. I find this respectable. I just am wondering, what's your debt?

**A.** Well, I really think in terms of material goods that overwhelmingly eventually belong to society. I think it would be obscene if I tried to consume them all myself or have my family consuming like crazy forever just because I happen to be well-adjusted to this society. The interesting thing is that we live in a market society. If you can bat .375, if you can shoot sub-par golf, if you can do what I do, if you have certain kinds of talents, the market will pay enormously for those talents. Now, it didn't pay that well for ballplayers 25 years ago because the stadiums only held 50,000 people, but television and cable have made it possible for the stadiums to hold 250 million people and that changes the economics dramatically. This market system showers rewards on people with certain types of talents. Yet it does not shower rewards on other people with talents just as important to society; maybe more important to society. An outstanding teacher, outstanding nurse or researcher may not be paid dramatically more and maybe no more than the mediocre one. But the outstanding heavyweight fighter, or the outstanding center fielder, or the outstanding stock picker, or whoever, gets incredibly more because of the way the market system works. I would not tamper with that market system, because I do think that people benefit, because it delivers the goods that people want in this country.

It has been a great system for causing an outpouring of goods and services that people want. The market system works terrifically that way. I don't think it works terrifically in terms of distribution of the rewards. And, I think you solve that in two ways. One way is you solve it through your tax system and the other way is you solve it through philanthropy. You might call this a self-imposed tax. I think you could probably find 300 public school teachers in Omaha who have contributed absolutely as much to society as some fellow like myself or somebody that bats .350, or some guy that has won the light-heavyweight boxing championship. The teachers are never going to get paid properly. Society will not reward them that way. I don't see any way for society to do that. I don't have anything in mind about some "comparable worth" type of arrangement. I think the market system is the best system for delivering goods, but then I think in terms of distributing these goods and

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services produced by that market system. Both philanthropy and a progressive tax system of some sort are the appropriate methods.

**Q.** My question concerns something that has come to the forefront in the last couple of years in politics especially—environmental issues. We have seen an increase in the concern of this country, and around the world, with environmental issues. People say a lot of the environmental problems are a result of businesses taking technologies that are not so benign to the environment and applying them in negative ways. In your opinion, as a corporate industrial leader, what would be some criteria that should be established so that corporations could find ways to apply more benign technologies?

**A.** I would say on environment that we've already got legislation in place which makes it extremely painful for companies who are doing things which are environmentally harmful. I don't know all the details, but I've seen enough of the Environmental Protection Agency's operation that I think that situation has changed dramatically from 25 years ago, at least in this country. What we do about the rest of the world is another question. In a world economy, to the extent that you apply any kind of restrictions, in terms of child labor or environment or workers compensation that other countries don't impose, you have a competitive cost disadvantage. That's a price that society has to pay here, but it is a real cost.

I personally think that population is probably one of the most important issues the world faces, except for the eventual problem of nuclear proliferation. I don't know how much the proper population of the world should be or will be. I know that number is different from what it would have looked like hundred years ago, and it probably will look different a hundred years from now. But, I do know there is a number and it may be affected by technology and it may be affected by the fact that our resources are greater than we think now. If we in this room were to all embark on a space ship journey some place, which was going to last a hundred years, and they were going to put provisions in the space ship that would be ample for this group, we might not know how many more people we could take on that space ship before we endangered the ability to survive and return in a hundred years. But we would know that the number was finite. And, we would certainly err on the low side. We would not say, "Well let's just take a shot at it and have 500 more join us." It is a finite world. Man's imagination is not necessarily finite, and we can do a lot of things that we haven't even thought of with resources. But in the end, there is only so much oil and gas in the ground. We're dealing with finite resources. They're not known, but they are finite. I would say it is a terrible mistake for the human race to test what the ultimate carrying capacity of this planet is. We had better have a margin of error. I believe that population is a terribly important issue.

Now, one of the problems in society is that the most important issues are often these incremental type things. The world is not going to come to an end because tomorrow there are 200 or 250 thousand more people on the planet than there were today. That's about the number it grows every day. There is nothing apocalyptic about it. People will go on making apocalyptic projections. But, it is like eating about 300 calories more each day than you burn up; it has no effect on you today. You don't get up from the table and all of a sudden everybody says, "My God, you look fat compared to when you sat down!" But, if you keep doing it over time, the incremental problems are hard to attack because that one extra piece of pie doesn't really seem to make a difference. The 250,000 people tomorrow don't seem to make any difference, but the cumulative effects of them will make a huge difference over time, just like overeating will make a huge difference over time. The time to attack those problems is early. It's a huge determiner of the kind of environment we have. I think the time to be thinking about those issues is now.

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**Q. Mr. Buffett, two of the Berkshire holdings that you have were mentioned today, Coke and Gillette. Another company that has repeat daily sales like that is Wrigley. Why has Berkshire not purchased that and what would make you purchase Wrigley?**

**A.** Well, I won't comment on whether we own or don't own anything. I mean there are certain holdings we have to show in our report, but we don't have to show all of our holdings. There are certain threshold levels, but Wrigley is obviously a strong worldwide franchise. How you may feel about the growth in units sales in chewing gum verses the growth in units sales of soft drinks is one question. How you may feel about the pricing flexibility that they have verses the pricing flexibility that Coke or Gillette may have is another. And then how you feel about the price of a stock in the company would be a major factor. I'm not going to get specific on Wrigley because I don't get specific on stocks. But, it clearly has the kind of worldwide recognition that we like.

In the case of Gillette, they improve the product periodically. I hope you buy a new Sensor Excel because it produces a very smooth shave! The ticker abbreviation used to be "GS" on the New York Stock Exchange, which stood for "good shave". There are about 21 billion blades sold every year. Gillette sells only about 7 billion of them, but they've got about 60% value share because they've done it technologically. The Sensor took 11 years to develop; that is really some product. One thing you'd find interesting: the Sensor for women has become a very big product. More Sensor for women razors were sold in the first 18 months than Sensors were sold originally in their first 18 months. That's the first time a razor's become remotely that popular with women. Normally, women use disposables or they use their husband's or boyfriend's razor. But, one thing research has shown, which is kind of interesting (those of you in the audience will take this several ways): When a man gets a nick or a scrape or cuts himself with a razor, he blames the razor. But when a woman does, she blames herself and that enters into the kind of product she wants to buy. It is also true, of course, there's only about one-tenth of the nerve receptors per square centimeter in the leg than there are in the face. So, the man tends to be more sensitive to the feel of the shave, and the woman is more sensitive to whether she gets nicks or scrapes on her legs. (There are all kinds of interesting things about razors.) People originally started shaving with rocks because it was a disadvantage in combat with other humans or animals to have something the enemy could grab you by and snap your neck with. That's diminished over the years, but that was the original reason.

**Q. Mr. Buffett, in recent years, several public accounting firms have been sued by their clients because they have not met their expectations on their auditing services. I was wondering what you and Berkshire Hathaway expect from your external auditors?**

**A.** Well, that's a good question. I said to the Federal Financial Accounting Standards Boards some years ago that I thought accountants deserved to be sued, because I thought the typical accountant certificate in those days was overstated. I did not think they were in a position in many companies to deliver that opinion and when they have been held financially accountable for the fact that they couldn't back up that opinion, I really thought that was appropriate. It may have gone overboard in some cases, but they were stating something there that people relied on. In many cases—take banks or insurance companies—they were simply not in a position to attest as they did. In our own case, we are small and controlled, and we have an internal audit staff. I'm hoping, if an outside auditor comes up with anything, it may be a potential tax idea, or it might be things our internal auditors did not spot in terms of weaknesses in the control system, or they might spot outright fraud of some sort. We haven't had that, but that's what I'm paying them to do, aside from the fact I have



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to have them anyway because I'm required to by the Securities and Exchange Commission and the New York Stock Exchange. Incidentally, we have bought big firms that never had an audit, and that doesn't bother me.

When I made the deal with Mrs. Blumkin, it was on August 30, 1983. I know that because it was my birthday. I didn't want to tell her that early on, because I thought she might think I was over-eager. I told her afterwards and she said, "You bought an oil well on your birthday!" She had no audit and she just told me she owned all the land, all the buildings, and all the inventory. She told me about what the receivables were, what the business was about, that all the bills were paid, and they didn't owe any money. We never had an audit. We bought that business with a contract that was one page long.

**Q. Do you have any opinions or predictions on how health care reform is going to affect the economy, in general and Berkshire Hathaway, specifically?**

**A.** Well, as I said earlier, we had our one general meeting on health care about six or seven years ago. When you are spending 14% of the Gross Domestic Product on something that other countries are spending 9% or less, it affects your competitive position. You would like to feel that you are getting a whole lot more for your money. I have no idea how the debate is going to come out because you are talking about one-seventh of the economy and something that is emotionally charged. I do think the rate of increase in health cost has dampened considerably, but I don't think that is necessarily permanent. I think it can last for a few years and it will come back if we start getting increases in health care costs significantly above the general rate of inflation. You are going to hear a lot about health care, again, and you should.

**Q. You say that you don't like to look at résumés. What do you think businesses that *do* use them find impressive about résumés?**

**A.** Well, I would say that, if you are talking about the typical large business, they look at labels. In other words, if you get an MBA, you have the label MBA. If you get it from a certain place, you know, it says that, too. There is an awful lot of hiring done based on that. The label definitely has an economic value. I can't quantify that exactly, but it has a significant economic value. It just doesn't happen to have it with us. But if you are getting hired by IBM or General Motors or Merrill Lynch, it's going to make a difference in the way they look at you initially. I don't think it makes that much difference five years out. But I *do* think it makes a difference in starting salary. It makes a difference in your likelihood of getting hired for a great many positions. Then, it's really what you show from that point forward. But it is a very useful label in getting hired by a large company.

We don't even think of ourselves as a large company. We think of ourselves as a collection of medium-sized companies. Incidentally, we've got a fellow that runs one of our larger subsidiaries; an MBA might mean quite a bit to him. And he's the one that hires for the group. I do no hiring, except if the top person in one of our companies dies or retires. I make maybe one hiring decision every three years. They also make hiring decisions all the time, and I don't get into what criteria they use. That's entirely up to them. I don't see how you can hold somebody responsible for an operation and then start telling them how to hire people. We have no human resources department at Berkshire. Some of our subsidiaries have somebody in that position, but we have nobody at the top who in turn supervises all that. Most companies do and once they do, they start building empires. They start going to all the conventions and seminars, and then they hire assistants to do this, and it just goes on and on. So we don't start it. Two more questions, okay?

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**Q. Mr. Buffett, this question deals with international investment. Since you are a key person in your corporations, when you make decisions on important international portfolios, what kind of factors come into your mind when selecting a nation to invest in? What do you think about China as a "hot market" right now?**

**A.** Well, we like companies, obviously, that have big international potential. But we're perfectly willing to buy into a company that can never go outside the region. Nebraska Furniture Mart is not going to sell anything internationally, although they will sell a lot throughout the Midwest. It's just one variable that enters in. Gillette just bought 70% of the Shanghai Razor Company, which is the largest razor company over there. Coke will sell 135 million cases this year in China, which is only two per capita, roughly, as compared to 325 per capita in the United States. That's very encouraging and they are moving very fast in China. One problem Gillette has is that the Chinese do not shave as often as Americans. But we plan to put something in Coke to change that!

**Q. You support a progressive consumption tax policy. I think your idea is the best and works when our economy is booming or overheated. What do you think if our economy is in a severe recession like in 1981-82?**

**A.** A progressive consumption tax, if enacted, would hurt the economy in the following year or maybe a couple of years, regardless of when it was introduced, simply because: If we are consuming 100% of the goods produced in the country and all of the sudden you say we're going to start saving 5%, that would take consumption down to 95%, assuming no immediate increase in output, which there wouldn't be. If you're making \$5,000 a month and you decide to save more in your family, you're going to cut consumption at that point. Later on, you may increase consumption because of the product of that investment. Any kind of a consumption tax that induces more investment will hurt the economy in the following year or two, which makes it tough to sell. That makes it tough to sell in your own household, too. If you say we're going to start saving more and consuming less, that's not necessarily a winning argument. But it is the way to build wealth over time. I would say no matter when it was introduced, it would have a bite for awhile.

Think back to 1790, when 90% of the people in the country were on farms. If some guy had come along and said we're going to develop tractors, combines, and cultivators that will put 80% of these people out of work so that a small percentage of people will be on farms, people would say, "That's terrifying, you know, we can't have that." Actually, saving and investment frees up people to do all kinds of other things, as you have seen on the long scale of 200 years of this country. It's a terrifying prospect to people in the short run, because they see the unemployment; they don't see those people being freed up to produce all kinds of other things over time. If you could have had a little video tape that you showed all the farmers in the country in 1790, and said, "Use this one tractor instead of needing all of your sons and sons-in-law and everybody else to farm this place, and you will be able to do it yourself. The other eight people will be unemployed," I would have hated to have a referendum on whether people wanted progress, in terms of better farm machinery. That is the problem with increasing the investment rate in the country. And, in a politically charged environment with sound bites on television, I'm not sure it could be sold.

Well, I want to thank you all for coming; it's been a real pleasure to return to the University of Nebraska and I hope we keep our quarterbacks healthy. Thanks.