

*This is a transcript of Warren Buffett's taped interview with CNBC's Becky Quick at Fortune's Most Powerful Women Summit in Carlsbad, California. It was recorded on September 14, 2009 to mark the one-year anniversary of the height of the financial crisis. Portions aired on CNBC TV on September 15 and 16, 2009.*

**BECKY QUICK:** Welcome everyone. We are here at Fortune's Most Powerful Women conference with Warren Buffet, who is one of just three men who made it into this conference. Warren, thank you very much for joining us today.

**WARREN BUFFETT:** That's right. Thank you.

**BECKY:** How'd you-- how'd you make it into the women's conference? (LAUGHTER)

**BUFFETT:** Nobody knows. I mean-- for a guy that couldn't get a date in high school this is Heaven, I can tell you that. (LAUGHTER)

**BECKY:** You know, we've been looking back at a year later. We are one year out from Lehman's and a lot of people are trying to figure out whether it was the right choice, whether it was the wrong choice. There are some people who say if Lehman didn't fail the rest of the-- the capital markets would not have survived. What do you think?

**BUFFETT:** Well, I think -- I think Lehman was destined to fail unless the government came in big time. And -- you know, for one reason or another the -- they generally said they didn't have the authority. My experience usually is it that whatever the government wants to do, they find the authority, but if -- if -- listen, if Merrill Lynch hadn't gotten sold on -- on -- on -- on Sunday -- what would have happened Monday would have been off the charts.

**BECKY:** So the --

**BUFFETT:** We'll --

**BECKY:** -- more important --

**BUFFETT:** -- we're --

**BECKY:** -- one to save?

**BUFFETT:** Lehman -- Lehman probably should have been -- not saved isn't the right word -- word, but transferred in some kind of an orderly manner. I mean it was -- it was the chaos that came after the fact that it just -- it just happened and there was total disorder. And I think the trustee for Lehman has said between \$50 and \$75 billion at Lehman itself was lost unnecessarily because of the disorderly way that the liquidation took place.

**BECKY:** Obviously there were a lot of calls that were going on behind the scenes at that point. Were you a part of any of those calls?

**BUFFETT:** Oh, I -- I got a call. I was in Edmonton -- at a social event that -- I was at the hotel about 6 o'clock or so Edmonton time. And I did get a call from -- from -- the head of -- the head of Barclay's -- Bob Diamond and -- and Michael Klein, who was an investment banker. And they had just learned apparently that the British authorities would not allow them to take over all of Lehman. This was not just the part that they took over later. But they were -- they were talking about -- about coming in and taking over Lehman. And the British authorities had said if -- if it involved more than three billion pounds, as I remember, it needed the vote of shareholders and that couldn't take place 'til sometime later so they were asking if we would write an insurance contract that would protect everybody on the other side of trades until they got that shareholder approval. So they were looking for a solution I can tell you at about 8 o'clock on —

**BECKY:** On Saturday?

**BUFFETT:** -- on Saturday. And -- 8 o'clock in the evening. And -- they didn't find one.

**BECKY:** Were you surprised? I mean it -- what happened? Did you turn down this offer? What happened?

**BUFFETT:** Well, what happened is they described the transaction to me that I really couldn't grasp -- quickly. And so I asked them to send me a fax at the hotel. I was gonna go to the social affair that would break up around midnight. Send me a fax, that explains the transaction in detail so I could understand it. Tell me how much of a limit they needed and -- how much of a premium they would pay. And then I would get back to them promptly. I'd call 'em that night. And -- 'cause it was a complicated transaction they were describing. I didn't -- I didn't fully understand it and people were waiting for me downstairs. (CHUCKLES) Anyway -- when I got back to the hotel that night around midnight, but there was no fax. Apparently it blew up at some point in that period.

**BECKY:** What -- what did you hear afterwards? That -- did they explain to you why or what?

**BUFFETT:** Well, I -- no, I -- I don't know why they felt the transaction was unfeasible or I don't know if for some other reason that Barclay's decided they couldn't go ahead with Lehman at that point. And as you know, a few days later they actually made a transaction with the broker-dealer arrangement. But -- the way I understood it on Saturday at 8 o'clock New York time or so was that -- that -- one of the authorities in -- in England had ruled essentially that if it involved more than, I think, three billion pounds that they couldn't do it without shareholder approval.

**BECKY:** Did you get other phone calls that weekend?

**BUFFETT:** I (LAUGHS) got a lot of phone calls. I had a phone call on Friday night -- the Friday -- late Friday afternoon -- on AIG. And they -- they were gonna need many, many billions of dollars by the following Wednesday, so I went down to the office on Friday night and looked hard at whether we might possibly buy a very large property casualty operation from them. And -- spent a few hours then. And then I called (AIG CEO) Bob Willumstad and I said, "Unfortunately -- I can't do this deal. And don't waste your time with me, so go someplace else." Then on Sunday after I got back from Edmonton, AIG was in the picture again and they were looking for an insurance policy in connection with an offer that was being made for AIG. I think it was by Chris Flowers and perhaps KKR, a few people.

**BECKY:** Right.

**BUFFETT:** A few people. And they said they were gonna get goin' to a board meeting and decide whether they were going to accept this. But if they did accept it would we be good on a certain type of reinsurance transaction. I said I thought we would. But then that blew up on Sunday night, so it was -- a lot of action.

**BECKY:** Is this different than any time you'd ever experienced before?

**BUFFETT:** It was --

**BECKY:** That were --

**BUFFETT:** -- it was -- except for the Solomon experience I had in 1991, when I was more directly involved. This was a very extraordinary weekend.

**BECKY:** What did you see in the AIG deal, in the offer there that you -- that you thought, "Forget about it. This is not gonna work?"

**BUFFETT:** I just -- we were talking about buying a property casualty operation that might have sold in the \$25 billion range. And what I saw indicated to me I wouldn't have wanted to pay that in the first place. And beyond that it would have required New York State Insurance Department approval and who knows was else. And I just -- there was no way to hand a lot of money by Wednesday the next -- the next week.

**BECKY:** And in hindsight do you have any regrets about any of the decisions you made that weekend?

**BUFFETT:** No. I -- I mean the -- the -- I should have been probably doing other things too. No, I -- I'm -- I am -- I am glad we didn't buy that particular insurance operation. I would have done the reinsurance transaction that was involved on Sunday night. The Lehman thing I still don't understand, even (CHUCKLES) to this day, exactly what the transaction was. No, it was -- it was -- it was a movie to see but not to -- participate in. (LAUGHS)

**BECKY:** We are one year out. When-- in-- in the worst of it last year, what was-- the worst possible thing you could imagine happening that didn't happen?

**BUFFETT:** Well, I think if-- if the-- country and the Fed. I mean if Bernanke and Paulson and whoever else was involved with the decision, but if they hadn't have stepped up to guarantee-- in effect guarantee commercial paper and guarantee the money market funds-- the meltdown would have been immediate. I mean it-- I don't-- it-- it's hard to tell how far it would have gone. But it would have gone-- it would have gone further than anybody would have wanted to-- to see. And that-- you can argue, (LAUGHS) if Bank of America hadn't bought Merrill Lynch on Sunday, on Monday I think Merrill would have gone. I mean-- and so if you had Lehman and Merrill go in the same day-- who knows what would have happened.

**BECKY:** Who do you think the biggest heroes are?

**BUFFETT:** Well, I think the heroes are-- are—(Federal Reserve Chairman) Bernanke. I think (former Treasury Secretary) Paulson's a hero. I think (current Treasury Secretary) Geithner's a hero are-- I-- I-- you know, you can look back and say you could have done this a little differently or that a little differently, but at the time I called it an economic Pearl Harbor and in the end we got through Pearl Harbor. And-- and it could have turned out a lot differently.

**BECKY:** There are some people, including (bank analyst) Meredith Whitney, who say-- we've just kicked things down the road. That the banks-- are-- are still struggling. That we have a lot of

problems that could still come up from credit cards, from other areas, from consumers getting pinched for-- needing credit. Are we through the worst of it? And--

**BUFFETT:** Oh, I think we're certainly—we're through the worst of it in residential real estate in all probability. And-- and-- and the reason is we're building a lot fewer houses and we're-- and we're forming households, so that solves itself over time. Doesn't do it in a day or a week, but it solves itself. So we're further on that. We're gonna have unusual losses in credit cards and in commercial real estate, all of that. But we're a lot better off than we were a year ago. I mean for one thing on some of the-- some of the toxic assets have been flushed through. There's been capital raised. There's -- we're immeasurably better than we were-- off than we were a year ago.

**BECKY:** But is there a risk of a second downturn? Will unemployment levels climb to a point where it becomes a leading indicator rather than a lagging indicator?

**BUFFETT:** I-- I think the odds are very much against getting significantly worse. It's sort of plateaued at the-- at the bottom right now, but if you got some horrible exogenous event, some-- some, you know, 9/11-- type event or worse-- you know, you could have something that would be dis-- really disruptive and start things all over again. But in terms of problems that we've identified and are working with, we've got more to come. But we're-- we're-- we're past the-- we're past the critical point.

**BECKY:** What are the most important economic indicators that you watch? Is there a series of numbers? Are there-- some statistics that you look at most closely?

**BUFFETT:** Well, I look at our businesses every day. But I-- I look at everything. I mean I-- I-- I look at car loadings. I look at the Fed's balance sheet. Whatever it may be. I mean I-- and-- and we have not bounced-- but we've quit going down. I'm and-- and it—the world will come back. I've never been able to tell whether it's gonna be a week or a month or-- six months. But we are on the mend. And-- and if you look at-- at housing prices and activity in the mid to lower price range, it changed dramatically from a year ago. We're seeing some stability.

**BECKY:** All right. Let me go at this another way. Let's pretend you're on a desert island for a month. There's only one set of numbers you can get. What would it be?

**BUFFETT:** Well, I would probably look at-- perhaps freight car loadings and-- perhaps-- and-- and truck tonnage moved and-- but I'd want to look at a lot of figures. (LAUGHTER)

**BECKY:** You are the biggest shareholder-- Berkshire Hathaway is the biggest shareholder in Kraft. Is the Kraft bid to go after Cadbury a good one?

**BUFFETT:** Well, it's a pretty full one. I mean-- the-- Kraft-- Kraft has got-- anytime you're in a takeover, you know, that-- the animal spirits run high and all of that. But Kraft has the disadvantage of using an undervalued stock. So if you-- if part of your currency is a stock that's worth more money

than it's selling for and you're-- you're paying full negotiated value for the other guy's property and you wouldn't sell your own property for anything like the market price, it's-- it's a-- it makes it a tough game. So it's-- it's a full price.

**BECKY:** Are-- that makes it sound like as if you're not in favor of this bid?

**BUFFETT:** No, I-- I've got a lot of confidence in (Kraft CEO) Irene Rosenfeld. She'll-- but they have to do a lot of things right to justify this price.

**BECKY:** You know, Warren-- at the last filings released for the SEC it showed that you were selling-- some of your healthcare holdings. WellPoint, United Healthcare. Is that because you worry that the healthcare proposals out there in Washington might now affect the business?

**BUFFETT:** No, those are not my holdings. Those are Lou Simpson's. I've never bought a healthcare stock that I-- any-- well, jobs-- jobs in a healthcare stock. But in terms of the-- of the-- of the insurers or providers-- those are not my holdings. I-- I've never bought a share in WellPoint or United Health.

**BECKY:** What do you think about the-- the talk towards health care and where things are headed right now?

**BUFFETT:** Well, I think that-- unfortunately, I think that the -- what-- what-- we're really talking about reforming health insurance more than health care. So I-- the incentives that produce the 16 or so percent of GDP that's going to health care, I think unfortunately they're getting-- they're going to get changed. But-- so I think that we really-- and I'm talking as much about reforming health care as we're talking about reforming the insurance. And I think that will be an opportunity missed if we don't do more about looking at what-- what the incentives are in the present system and what they would be in an ideal system.

**BECKY:** And then finally, if-- if you had to-- give a gauge of where you stand on the economy again right now-- versus what you were thinking three months ago, is it the same? Is it better?

**BUFFETT:** It-- it hasn't gotten worse. It hasn't gotten much better either. But the very fact that time is passing, it's-- it's gotten better in residential real estate. That's important. Certain things haven't hit much yet. Commercial real estate, for example. But we are moving through a recession. And-- and-- and I see nothing that makes me worry about the fact that it's going to be worse than I would have thought three months ago.

**BECKY:** And, again, Warren, we want to thank you for your time for joining us today.

**BUFFETT:** Thank you.