This is an unofficial transcript of Warren Buffett and Bill Gate appearing live on CNBC's Squawk Box on Monday, May 6, 2013 from 6 am ET to 9 am ET.

ANNOUNCER: The Oracle of Omaha.

WARREN BUFFETT: Well, if you have any left over, yeah, mark 'em down, I'll buy one. (LAUGH)

ANNOUNCER: Warren Buffett gathering with his faithful.

BUFFETT: Let Charlie try and do this. (LAUGHTER)

ANNOUNCER: Now he sits down with Squawk Box for a three hour long conversation, the economy, the markets, the business of Berkshire Hathaway. A special presentation begins right now. (MUSIC)

BECKY QUICK: Good morning, everybody. Welcome to Squawk Box here on CNBC. I'm Becky Quick, reporting live from Omaha this morning. Joe Kernen and Andrew Ross Sorkin are back at headquarters on the East Coast. We have the man of the morning with us, Warren Buffett. Obviously we have a lot to talk about with him, including stock records runs, the Fed, bonds, the dollar and his deal for Heinz. But first, before we get to all of that, Joe and Andrew will have a short round up of the morning's top headlines. And guys, I'll send it over to you.

JOE KERNEN: Okay. Hello. Good morning. Hello, hello—

BECKY: Hello. Good morning.

JOE: How are you? Hi— Warren.

BUFFETT: Well, yeah I— you—

JOE: I keep hearing you talk about me, Warren. No one knows what the heck you said, so— I— I don't know. It's like who— (LAUGH) it's like one of the answers you get—

BECKY: No, I—

(OVERTALK)

JOE: —to a lot of questions.

BECKY: —I was sitting— I was sitting right next to him and I heard him mention your name, too, and I'm not entirely sure what he said.

JOE: Nobody knows.

(OVERTALK)

ANDREW ROSS SORKIN: Joe and I— Joe and I were having this conversation this morning. He said, "What did he say?" And I said, "I'm not sure." And I actually said the—

(OVERTALK)

BECKY: He said something nice about him.

JOE: Was it, "Oh, it's—

ANDREW: It was nice.

BECKY: It was— it was something—

ANDREW: It as nice. I think.

BECKY: It was something about a question you (UNINTEL). It was nice, it was a question about something you're always bringing up and it wasn't NetJets.

BUFFETT: See my lawyer. (LAUGH)

(OVERTALK)

JOE: That was a long time ago. All right. (LAUGHTER)

ANDREW: Anyway, we're going get back— we're going get back to— to Omaha. And let me just say, Warren, at— 'cause I— and I— I just got back now. You— Warren and— Warren and Charlie (Munger) were on fire this weekend, actually (RUSTLING) in a way that I don't think— we've been— we've been asking these questions for now I think five years, and I thought this was one of the most substantive meetings and just the most spirited of the discussions. Obviously Doug Kass— threw— threw a couple ones at them, too. But it— I thought it was fascinating.

JOE: Y— War— Warren, you— I— I've heard that people get to a certain age where they say whatever the hell they want to say. And I mean, has it got anything to do with that or—

BUFFETT: Well, we— we give 'em a little food or things like that, (CHUCKLE) it's amazing how far it goes.

BECKY: Yeah, it's true. I— I— I think though that— you and Charlie have been saying— kind of speaking your mind, Charlie in particularly— he may be almost 90, but I— I think he was talking that way 30 years ago and even 60 years ago.

BUFFETT: He was talking that way when I met him in 1959. One of the things that attracted me to him.

BECKY: Yeah, so he had a lot of things that he had to talk about. But Warren, before we jump into what happened this weekend, why don't we start off with the headline that the guys were just talking about, JP Morgan. You said before that you own shares in JP Morgan in your private account, not for Berkshire.

BUFFETT: Right.

BECKY: So, you get to vote on this, too. ISS came out with this recommendation, in terms of what they're saying about the directors, three directors they're saying you shouldn't vote for. They actually have some pretty harsh language in some of the things that they were talking about. They said, "The board appears to have been largely reactive, making changes only when it was clear it could no longer maintain the status quo." What do you, as a shareholder in JP Morgan think?

BUFFETT: Well, I don't know the details, but if you're the director of a— a company like JP Morgan— you cannot know the details of what's going on with trading or anything of the sort. You really— your key decision is whether you believe that you have the right CEO If you have the right CEO the board has done its job, and— and if you prevent the CEO from overreaching in terms of (UNINTEL) or something. And— and I've written about that. And— and I think they've got the right CEO I— I— so I think they're— they're done their job.

BECKY: Y— you told us last week that— that you think he should maintain both his chairman and the CEO Titles as well.

BUFFETT: I think— I think it's fine if he does. Sure.

BECKY: Okay. So, you're on board— not just as— an outside observer, but also as a shareholder in JP Morgan?

BUFFETT: Right.

BECKY: Let's talk a little bit about this weekend. It was a big weekend— if you had to pick your headline from what happened over the weekend, what would it be?

BUFFETT: I think it's just that everybody had a good time, including me and— the board members, the managers— and certainly the shareholders. I— I— I probably waved many thousands (UNINTEL) as I went around and— and— you know, they all call me Warren, which I like. And— and— certainly in terms of the sales at our various enterprises, they all broke records. So— people seemed happy.

BECKY: Some of the questions that jumped out at me— that jumped out to me as being some of the ones that were maybe some of the most persistently asked questions, had to do with your investigating style, because the Heinz deal is a different deal than we've seen in the past. It's one that links you up with private equity, which you haven't done before. It's one that takes on some leverage, and there have been some questions that people have asked. Just, does this signal that you're looking at things differently? Does it signal that— you'll be getting into deals you might not have in the past? And does it mean that you're not all that confident in where the market's headed overall?

BUFFETT: No. Well, we took— we took on leverage when we bought— BNSF, the railroad. And— and— and we, in no way consider— our— our partners in this as— as private equity. These are people that buy for keeps. They— they run businesses, I mean, they actively— and— and they will keep running them.

So, this is not a private equity firm. These fellows are not planning to make their money on some override on other people's money. They have big sums of their own money in this— deal. And— Jorge Paulo Lemann and my— my main partner in this— he'll— he'll keep the stock indefinitely, as will we. So, it's a partnership.

And our preferred stock introduced some leverage for our partners, but it's nonthreatening leverage. You know, it— it— it's held by their partners. So, we have— between the— between the two of us we have 16 billion— of equity in this deal and they have the more leveraged play, because we have this preferred stock.

BECKY: There was a question asked over the weekend about a column that had been written about this deal that suggested that, you know, the— the money that you had that wasn't in preferred shares, and the common was dead money.

BUFFETT: (CHUCKLE) If that 4 billion is dead money I'll be very surprised. And— and that's what our partners own. I mean, we each own 50 percent of the equity. And if it works out as we hope— the rate of return on that 4 billion, our 4 billion, their 4 billion of common, will be higher by a considerable margin than the rate of return on the preferred stock we got. But that— that's the way it should be.

BECKY: So—

BUFFETT: That's not dead money, by a long shot.

BECKY: Are— are people wrong when they assume that you're looking at deals like this because you look at the stock market and you think that it— it's not as cheap and you can't get as much value as you might have been able to get there in the past?

BUFFETT: Well, we always prefer to buy businesses, and that's what we consider Heinz to be. Well, we'll— we'll be in Heinz forever and— if a few of our partners decide to sell out at some point, I hope they sell to us. So, this— this— you know, we— we'd like to buy— we'd like to have bought 100 percent of Heinz, but we— we love the idea of Jorge Paulo Lemann being our partner. So— if it takes 50 percent of the equity to bring him in— that's fine with us.

BECKY: We— talked to you about the jobs report on Thursday of last week. And you said you wouldn't have put money on it, but if you had to bet you thought it would be a weaker number. It came in at up 165, which the market took as a huge roaring success. One sixty-five still isn't great growth, and it's certainly down from where we've been before we got into this new year. What do you think about that number? And again, your— your read on where you see the jobs market.

BUFFETT: Well, it's a good thing I didn't bet on it, isn't it? (LAUGH) I— I— I don't pay that much attention to the numbers from month to month. But in terms of our businesses, and we have 70 plus direct businesses and a lot more indirect— we're seeing the same thing we've been seeing for four years and that's gradual improvement in— in— in the economy. And we're— we cut across the whole economy, so I think it's a pretty good— a pretty good— view of what's going on.

And what you are seeing now is certain areas, which didn't participate initially, like home building, coming back fairly strong. Our— our— we had record sales at Furniture Mart last year during this week— shareholder week, 36 million. It looks like— we know we'll have another record, it'll be about $40 million in one week. And the retailers out there know what that is. The— the biggest— our biggest gains, 30 percent same in flooring. And— and so people are buying carpeting and— and— that area is— is— is coming back. But overall the economy is— is moving forward but— at a slow pace.

BECKY: Why? What— there's been a lot of questions about why businesses aren't investing more, why they aren't hiring. What— what do you think the problem is?

BUFFETT: Well, they always hire— they— they invest— they hire in respect to demand. Now we had a record investment last year, and well over another record this year. I mean, we— we have lots of projects going on that we think make sense. But— businesses respond to demand and demand as come back, but slowly. Now I can see demand coming back faster in the residential area now than— than a year ago or 15 months ago and— and that makes a difference. And it kind of filters down through our brick business, carpet business and insulation business. But, it's not roaring back.

BECKY: Right. I know that— you're not somebody who looks at the market averages on— on a daily basis—

BUFFETT: No.

BECKY: —or cares about any of these things. But when you start seeing the trend that we've b— been seeing, which is— almost a straight march up, it seems like we're hitting new highs almost every day— and that's the type of thing that catches Main Street's attention.

We've got a lot of individual investors who are sitting around wondering if they've missed everything, if they should get back in, if they— if it's too late, if they've missed the train. I mean, w— what— what would you tell those people who are sitting at home wondering what the Oracle of Omaha thinks about when it comes to the market today?

BUFFETT: Well, they should pay— they should pay more attention when they're crossing those milestones on the downside, that's when stocks are getting cheaper. Right? That's when stocks are going on sale. But people do get more excited when they see new— well, I can remember when it was a big time when the Dow c— crossed 100. (LAUGHTER) And— and I certainly remember well when it was a thousand, I mean, that was a magic number.

So— probably in— in my lifetime and certainly in your lifetime, you know, you will see markets that are far higher than this. I mean, the— the retention of earnings by American industry and the growth of the country, — will cost stocks to go higher over time. You're not getting everything out of the stocks in terms of the divi— the dividends they pay, compared to the earnings, so that retention builds it up.

It's exactly like if you had a savings account and you only took out part of your interest. Your savings account would grow. So, I don't get too concerned about it, given level. You'll see— you'll see— you will see numbers a lot higher than this in your lifetime, Becky.

BECKY: You know, I— I know you watch the show and— and you probably have seen what Joe's been talking about. For— for quite a while now he's been talking about how this is something that reminds him of what he's seen in the past. And Joe, maybe you want to talk a little bit more about this, just what you've seen with the market, your theory about how things continue to climb and this feels really different than what we've seen in the past.

JOE: And I don't want—

BECKY: What do you think, Joe?

JOE: There— there's two things that— that scare people, that's when you're— and— and people do the same thing with human nature, they— they ride things all the way down and they think it's too late to sell. And then when things are going up, they— they— a lot of times they're not on board. And if they start out not on board, they never do get on board. And— and watching this happen— this time, every time we hit a new— a new high, people say, "Well, I can't buy now."

And— and that usually indicates that we're not near the end of— of something. And that— that's only been my— and my other point, Warren, I just get so irritated with— with sell side people that— they're— they're always saying, "I'm constructive long term, but in the— you know, there could be a pull back any time. I'm looking for, you know, five to ten percent any time."

And they— they say that as they miss thousands and thousands of points. And they're not committing new money. But they— they never— you— you can never pin 'em down on being wrong. And that's what— that's w— what I think they're most motivated. So, it's just sort of— just having seen it for so many years, it just gets— just a pet peeve of mine. And— and— you know, when it's just— when it's just utilities moving and just bond equivalents moving, it seems like— you're— you're not really at the end of— of a— of a run, of a bull run. I don't know.

BUFFETT: Yeah. Yeah.

JOE: But—

BUFFETT: When— when people talk about— you can see a pull back, of course you do. It— they pull back any day for the next thousand, ten thousand days. Nobody knows what the market's going to do the next day. But you shouldn't pay any attention to that. I— I bought a farm in 1985, I haven't— haven't had a quote on it since.

I bought a piece of real estate in New York in 1992, I have not had a quote on it since. I look to the performance of the assets. Maybe those— m— maybe my farm and my— my— my piece of real estate have had pull backs, but I don't even know about 'em. People pay way too— way too much attention to the short term. If you're getting your money's worth in a stock, buy it and forget it.

JOE: I—

BECKY: I mean, is that— is that an— oh, go ahead, Joe.

JOE: Oh, no, I— I was just— I— I've just got this sort of exciting feeling— with me 'cause I'm saying, I— I'm not sure whether Warren is— whether this is going happen or not, but, you know, he's given me a brick, and he's given me— you know, some ketchup (LAUGHTER) and— and—

ANDREW: And a Marquis jet card but that— that came up—

JOE: That didn't work. But there is a jet right behind him. Is this a surprise today for me, Warren? Is that— that one behind you? Are you going— is— is that going be mine?

ANDREW: You're going wait all three hours of the show.

JOE: Yeah— is— are you going— that's going be the—

BUFFETT: Hey, you got to stick around, Joe. Be sure to stick around, Joe.

ANDREW: There's a big unveil going around at the end of this program.

BUFFETT: There— there's—

JOE: I mean, it— is—

(OVERTALK)

JOE: Uncle Warren, it's beautiful. It's beau— it's beautiful.

BUFFETT: There's— there's— there's a name on that plane, Joe, and we'll look at it later.

BECKY: I can see it from here (LAUGHTER). I'm not going give it away, though.

JOE: Can you see the ribbon on the side?

BECKY: But yeah, that is the Global 6000. We're going be talking more about this, too. So, it's a new— it's a brand new delivery. We're going talk more about this a little bit later, too, because—

BUFFETT: But we can put you behind the wheel, Joe. Don't worry. (LAUGHTER)

BECKY: I'm not riding if Joe's behind the wheel. Can I just say that? Warren, let's— let— and let's talk (CLEARS THROAT) about the Fed. The reason so many people think that equities have done so well, at least in part, is it's not just the economy improving, it's also what the Fed is doing to make every other asset class look not nearly as— as strong as equities.

BUFFETT: Sure.

BECKY: You— how much do you think the Fed has done— how much— how much of this boom, I should say, in stocks do you think is coming from what the Fed's done?

BUFFETT: Well, it— it— when interest rates are low, and people expect them to stay low for a while— it pushes up the value of all other assets. I mean, and— interest rates act like gravity to other asset prices. Everything is based off them. So, when there are high interest rates there is a lot of gravitational pull down on the value of assets, as we found back in 1981 and 2 when— when— when the rates got to extraordinary levels.

If you guaranteed people that the long term rate would be 1.7 percent, or ten-year rate, or— you know, and short term rates would be practically nothing— you know, stocks should be, you know, selling at least double where they are now. The question in people's mind is how long it lasts. You don't— you have the strong feeling it doesn't last forever, but interest rates have a powerful effect on all asset— all assets. Real estate, farms, oil, everything else— it— they're— they're the cost of carrying other assets. They're the alternative. They're the yardstick.

BECKY: But if— if you had to look at it, would you say that 50 percent of the market's rise— it's come 50 percent from the improving economy and 50 percent from the Fed? Or does one side have a heavier weighting?

BUFFETT: I don't know the answer to that. Both— both are— are very important. If the economy had gone no place— and interest rates had come down like they have— stocks would be cheaper than they are now. And if the interest rates had been somewhat higher during this period, and— and business had come back, stocks would be somewhat higher. I don't know how to break up the two.

BECKY: Is— if you were Ben Bernanke, you know, we just heard from them last week, or when we got the FOMC minutes. We heard that they've said, "Look, if this isn't enough, we're prepared to do even more than $85 billion a month."

BUFFETT: He's a gutsy guy. I mean, he— he— he said, back in September of 2008, he would do what it takes, and he's been doing what it takes ever since. He is the man and he can do what it takes. He— he— he is— he is the man that's dealt a heavy response— a huge responsibility— to get the economy going and to keep it going. And he has used monetary policy— in a way I've never seen before.

But, we faced a situation I hadn't seen before. So, I— I'm a huge admirer of his. I don't envy the job of playing the hand out from here. But I— I think he— he— he's done very, very well in— in— in terms of what he's done for— for— for the United States.

BECKY: And you've been very outspoken about how much you admire him and— what a job you think he's done. But you've also said, over probably the last year or so, that you thought maybe if it were you in that seat, you would have taken your foot off the gas a little sooner.

BUFFETT: Probably. Well, I— I might not know how to take my foot off the gas. (LAUGHTER) If— if he— if he call— when he decides to sell or quit buying, but— with— with single selling at some point, if he calls me and asks me how to do it, you know, I will— I will tell him to call Charlie. (LAUGHTER)

BECKY: Put that in the too hard file, right?

BUFFETT: Way too hard.

BECKY: All right. If— if you'll bear with us, Warren, we're going slip in a quick commercial break right now. (MUSIC) When we come back, we will talk more with Warren Buffett. He is spending the entire morning with us, so stay tuned. We'll get his thoughts on Europe and whether it is safe for investors, when we come back. And then a little later this morning, we will also be joined, live, by Berkshire Board Member, Microsoft Chairman Bill Gates. Buffett and Gates together, live, starting at 8:15 Eastern time. Squawk will be right back.

CHARLIE MUNGER (on tape): Cyprus demonstrates it's an old truth. You can't trust bankers to govern themselves. A banker is allowed to borrow money at X and loan it out as X plus Y. We'll just go crazy and do too much of it, if the civilization— doesn't— doesn't have rules to prevent it.

What happened in Cyprus is very similar to what happened in Iceland. It was stark raving mad in both cases. And the bankers, they'd be doing even more if they hadn't blown up. I do not think you can trust bankers to control themselves. They're like heroin addicts.

BECKY: That was Charlie Munger who sat down with us on Friday. We are live in Omaha this morning with Berkshire Hathaway Chairman and CEO, Warren Buffett. And— Warren, you've heard Charlie's comments. What he was talking about there ended up with bankers, but it started on what he thought about Cyprus, some of the things that are happening in Europe.

Over the weekend, when the two of you were on stage, it seemed like you— you disagreed a little bit about the state of Europe, just in terms of— how great of an investment it may or may not be right now, how safe of an investment it is. You talked about how you see— things— you'd potentially be interested in a deal coming out of Europe right now.

BUFFETT: We've bought— in the last 12 months we've bought a couple smaller businesses in Europe. We've bought some European stocks. And— the fact that there are troubles in Europe, and there are plenty of troubles, and they're not going go away fast, does not mean you don't buy stocks. We bought stocks when the United States was in trouble, in 2008 and— and it was in huge trouble and we spent 15 1/2 billion in three weeks in— between September 15th and October 10th.

It wasn't because the news was good, it was because the prices were good. And if you believe that Europe is going to be around, which it certainly is, and it's going have huge amounts of purchasing power with its citizens and all of that— then you— you look at— you actually look at troubles as possibly being— offering you an opportunity to buy.

I bought my first stock, you know, when— when the United States was losing the war, right after Pearl Harbor. I didn't buy it because I thought losing the war was a great idea, I bought it because I thought stocks were cheap and that eventually we'd win the war. And the same way in Europe.

BECKY: So, you've been buying European stocks. Has that been disclosed already?

BUFFETT: Well, we've bought some in our— in— in our re-insurance company we have over there. We spent a couple billion euros— a year or so again. And— and— and— and we would look at more. I mean— if we find a good business, if— if Coca Cola were based in Amsterdam, instead of Atlanta, you know, we'd love to buy it. And— and— if the— if— if we get it cheap enough, that— that— that's— we— we like good companies at— at cheap prices.

BECKY: Would you buy in some of the Southern European countries, too? And specifically in Greek, Italy and Spain? And I ask that, because Wilber Ross joined us recently and said that he'd be interested in making some deals in Greece.

BUFFETT: Well, I don't see it as impossible. I think— I think there's a higher hurdle— to clear in looking at business in those areas. But many of those businesses are international businesses, too. But I— you know, the— the answer is, if I understand the business well and I trust and admire the management and the price is right— we'll buy there.

BECKY: Hmm. Charlie did a crack on the stage on Saturday that if— if it was in Greece he'd hoped you'd give him a call before you went ahead and buy it.

BUFFETT: Yeah. (LAUGHTER) I'll— I'll— I'll do that. But he says no to everything I come with, so it really won't make much difference.

BECKY: Andrew, I know you have a question, too.

ANDREW: Hey Warren— I— this is really actually more of a follow up from— from our— from the meeting on— on Saturday and it came after you had commented— during— during the meeting we got a number of emails asking for the follow up. So, here's the follow up.

It was a philosophical question— really related to the division of— of having a chairman and a CEO— and whether they should be the same person. You had commented about the reasons for having (Warren's son) Howard— be— be the eventual successor, non-executive chairman to sort of oversee things and be a check on the CEO.

After you said that, during the meeting, invariably I think I got maybe half a dozen emails from people and the audience said, "Well, then follow up and— and— and ask should that be applicable across the board?" And— and I guess given the news this morning related to JP Morgan, you— you could put it in that context. But— but more broadly philosophically, do you think there should be a separation between the chairman and CEO, now that you're thinking about— the future of Berkshire in— at least in that way a little bit?

BUFFETT: Yeah. I— I think e— I— I think either system is okay. But the one advantage of having the chairman separate from the CEO is that it becomes easier to change the CEO if you have the wrong— person in the job. And the biggest problems with CEOs is not— the occasional one that is crooked or— or— or just absolutely terrible, the problem is, is if you get somebody that's reasonably good, but— but— you can come up with somebody w— better.

I mean, we have all kinds of second string— quarterbacks or third string, you know, in— in pro football or something, and they're— they're very good, but you still want the top guy in there. And— top person playing in— in the position. And— and it's very difficult— when the— you have the chairman and CEO and they're likeable, and they have appointed you to the board, they're doing their best, they're doing a reasonable job, but you could get— you could get somebody better and perhaps you should.

And— and that is not an easy thing. When people come into board meetings, you know, six times a year, four times a year and they have a lot of committee meetings and they want to get planes back out of town— it's— it's— it's not easy to change when you've got somebody that's good but not great. And— so I— that is a reason to separate the two.

On the other hand, I don't think that it's— it's key to do that at— I do think it's important at Berkshire, because— my son Howard, with the non-executive chairman, he would have no function— you know— in terms of capital allocation or anything else, it would just be if there was one chance in a hundred that we came up with the wrong CEO it would be easier to make a change.

BECKY: Is that almost a lead director position?

BUFFETT: It's— it's— it's almost similar to the lead director. And one of the— one of the beneficial things that have come out of securities regulation in the last ten years or so is the idea of having a meeting once a year of the board, without the CEO there. I— I've been a participant— as a director, in those situations, and directors say a lot of things and subjects come up— when the CEO isn't there— that don't happen with the CEO— in person. And— and some impor— (CLEARS THROAT) some important things.

BECKY: Why isn't that preferable all the time, instead of just some of the time?

BUFFETT: Well, I think if you do it once a year, it's often enough.

BECKY: No, I— I I'm sorry, I mean that set up in that situation? What— why is it a situation that you think is only good in some cases and not in others?

BUFFETT: Well, I—

BECKY: For— for example, why is it not a good idea for Berkshire right now?

BUFFETT: Well, Berkshire does it now.

BECKY: Oh, you do it right now?

BUFFETT: That— that— yeah, we will have a director's meeting later and then—

BECKY: And you won't—

BUFFETT: —they'll ask me to leave. And— and— and I— and you get a little nervous, as— as— if you're gone an hour or two (LAUGHTER) and they're still meeting. But— no, that— that— that's required, I believe, at— at— at public companies.

BECKY: How—

BUFFETT: And it— it it's been good at Berkshire.

BECKY: How long were you out of the room the last time this happened at Berkshire?

BUFFETT: Well, I go— I go back to the office and they're meeting in another room. And I— I kind of hope that they're having a little post-meeting chatter or something. But it's— Ron Olsen will be the guy that usually comes around and— and he's come— around as late as an hour later. The— for example, I mean, I— you know, I— I don't like a lot of security or anything and— and the board— I don't know, two years ago or three years ago said, "You're going to have more." You know, and— and— and—

(OVERTALK)

BUFFETT: —I mean, things like they— they— they— they don't want to talk to me directly like that when I'm in the room. It's a little embarrassing to be the one that brings it up. But, I— I can say I've been on one board where a lot of change happened because the CEO let the room.

BECKY: Is the additional security the biggest thing the board has ever imposed on you?

BUFFETT: They've made suggestions on a few other things, but— but— that's the most recent ones that I remember. Yeah.

BECKY: Okay. Guys I think we're going to send it back to you, to slip in another quick break. But we do have a lot more to come— from— Warren Buffett right here in Omaha.

BECKY: Good morning, everybody, and welcome back to Squawk Box. We are live in Omaha with Warren Buffett, the chairman and CEO of Berkshire Hathaway this morning. And right now we are sitting on a Global 6000. Warren, this is part of a signature series for NetJets. You just started taking delivery of these planes, I believe, in December of last year.

BUFFETT: Right.

BECKY: But this is a series of planes that you specifically designed with Bombardier— because you wanted— certain things that you wanted in these planes.

BUFFETT: Yeah, people of NetJets did. But I actually made a suggestion or two myself. (LAUGHTER)

BECKY: What was your suggestion?

BUFFETT: I— I— I like a wide bed. (LAUGHTER)

BECKY: So that bed back there?

BUFFETT: That back there.

BECKY: All the way back. These planes can hold up to 13 people. They also have special— crew quarters where you can actually sleep in them, and I guess that's so you can take longer flights so people—

BUFFETT: That's right. That's right. When you need a crew change— in route.

BECKY: Okay, so you've got these planes that are out here, and we're going be sitting down with (NetJets chairman and CEO) Jordan Hansell in just a moment to talk more about that. But one interesting thing is that this weekend happens to be a huge weekend for NetJets, because so many people are coming not only here to the Berkshire Hathaway annual meeting, but also to the Derby.

When— when I saw Bill Gates earlier this weekend, he said he thought just basically— looking at the runway, he thought there were about 25 percent more jets than there were last year at this time— private jets. I talked to Lou Simpson over the weekend, and he suggested that he thinks it's part of the wealth effect— people really starting to buy into what they're seeing in the stock market. What do you think?

BUFFETT: Yeah, well, we're— we are seeing in— in flying the people that own the planes, or fractions of the planes, are flying more hours than they were. It— it was interesting to me. Whe— when the— when 2008 came along, in the fall, people already owned the planes. They were paying a monthly management fee. They had their homes— vacation homes wherever they might be in Florida or Colorado. But the flying fell off dramatically. I mean, very, very, very rich people cut back in a significant way. It— it was like somebody blew a whistle. And— and it's been coming back from that.

BECKY: Well, was that— was that in part, you think, just because of— the appearance of austerity? Or do you think that that was really that they just feel like this is a luxury that they can let go before everything else?

BUFFETT: I— I— they— they just felt poor, but they were still very rich, you know. No, I don't think it was— they were embarrassed getting out of a plane. But I think— that— they and their families in some way— they had to hold. They had the plane. They were paying. (LAUGH) But, they just— changed their behavior very, very significantly. We saw it in a lot of places, but it surprised me the extent to which we saw it with the planes. Now— now like I said, it's come back— dramatically since then.

BECKY: Okay. Again— what do you about this particular plane? Have you spent time on the Global 6000?

BUFFETT: I— I've flown it once and I— and— w— once— (LAUGH) and it's a very powerful sales tool. (LAUGHTER) Jordan— Jordan will be working on me here in the next— few months, I'm sure, and— I'm— I think it'll be— he probably has a patsy. (LAUGHTER)

BECKY: Okay, again— this is the Global 6000. We're going to go back outside and we're going sit down with Jordan Hansell, who's the chairman and CEO of NetJets, along with Warren Buffett when Squawk Box comes right back.

BECKY: Good morning, again, everybody and welcome back. We have been speaking all morning long with Warren Buffett. Joining us right now— joining the conversation is NetJets chairman and CEO, Jordan Hansell. Jordan, thank you, very much, for hosting us here today. We appreciate it.

HANSELL: Thank you for letting me do it. It's been fun.

BECKY: You know, we were just talking inside— inside the Global 6000, I might add— about— just the idea of how many people are coming back and what the numbers are like. When— when I talked to Bill Gates this weekend, he said just by looking around casually at the number of private jets on the runway when he came in, he expected that it was something like 25 percent more in terms of people who are coming to the annual meeting on private jets. Was he right?

HANSELL: I think he's in the ballpark. We had a record number of flights for us coming in and out of— Omaha this year for the meeting.

BECKY: What— what— what do you attribute that to?

HANSELL: I think it's a fact of the economy coming back and people starting to feel better about things and more optimistic and— and they want to be here to hear what Warren and Charlie have to say and they want to do it efficiently.

BECKY: Is this the biggest weekend for you just in terms of— I mean, I— I've heard that in the past, and I— I— I kind of make that number up and throw it around. But in terms of both the Berkshire Hathaway meeting, and the Kentucky Derby— when you add them up?

HANSELL: It's a big weekend— our biggest weekend and day is the Sunday after Thanksgiving. But this one— this one comes — ranks right up there.

BECKY: This one ranks right up there, too. So Kentucky Derby— did you have a similar gain there?

HANSELL: We did. We had a great trip down to there— great set of trips down to the Kentucky Derby, too.

BECKY: Okay, so— Warren, you see what's going on. You see what's happened. Is it— is it a situation where people who hadn't been buying before are buying in? Is this— people who are just now feeling like they can do something like this? Or is this— a resurgence of all the customers who were there who have come back and maybe are using it more frequently?

HANSELL: It's both from our perspective. We've got people who've been in the program flying more, and we're up— year over year, 55 percent in terms of new owners— people who've just come to the program for the first time.

BECKY: Fifty percent in terms of that?

HANSELL: Uh-huh (AFFIRM). Uh-huh (AFFIRM).

(OVERTALK)

BECKY: Can you give us numbers on that?

HANSELL: In terms of new owners. Well, I like to keep a secret unless Warren tells me I'm supposed to tell be telling people (LAUGHTER), so I can speak generally —

BUFFETT: Don't let her work on me. (LAUGHTER)

BECKY: So, 50 percent in terms of new customers. That's interesting.

BUFFETT: Well, we keep looking for Joe's name, too. But—

BECKY: Yeah, has Joe—

(OVERTALK)

BECKY: —yet?

JOE: I— we haven't— we haven't shown the jet from the other side, and— and Andrew says that's where the n— my name is. But I— I'm g— yeah, you know, the more you talk about—

ANDREW: There's a whole red ribbon. They're going pan around at the end of the show.

JOE: The more you talk about it without doing it, I— I think that I'm getting my hopes up and it's not real. Hey— hey, Warren, I— I had— I was thinking about— the business of NetJets. And you remember the— the— the— the bumpy period you had w— can you explain— it— it was based on the dropping value of— of the jets themselves, that thing, and— how does that work? It's all— it's all accounting, but there're a couple of really tough years. Why are you in a business that— that you— that you can't necessarily insulate against the next big break? Or— or have you done something differently this time to make sure that that doesn't happen again?

BUFFETT: Oh— we're not— we're not insulated against the major downturns in the economy. But— but that's part of— that's part of the business. Incidentally, the— you know, the— the— Burlington Northern peak was 219,000 carloads and it got down to 152,000 carloads. So all of our businesses— maybe with the exception of insurance— but all of our businesses— showed declines of one sort or another, and some quite significantly— during the— recession. And you would expect— aircraft— to be— in that group. But—

ANDREW: H— hey—

BUFFETT: —that doesn't mean it isn't good business over time. See's Candy doesn't make any money in eight months of the year, but— but Christmas always comes around and— and the— metaphorical equivalent of Christmas (LAUGH) comes around in the— in— in— in the— in the jet business.

ANDREW: Warren— you know— (Legg Mason Capital Management Chairman) Bill Miller had made the argument or at least in the question, Becky asked it during the meeting about airlines and— and given all the consolidation whether you'd be interested in those. Do you think about NetJets in that context at all in terms of— an c— a competitor— trying to come in? You— you know, we had talked to— one of the reasons I think you said during the meeting that you wouldn't want to buy an airline is that there's always a new competitor. Is— is there— is there a moat in your mind around jet— NetJets?

BUFFETT: Yeah, the— there— I— I think there have been dozens of companies that have gone into fractional ownership— arena, and— and I believe and Jordan confirmed it— I think we have over 60 percent of the market— in the United States. So— people do come in one way or another, but— they really can't match, you know, the— the breadth of our operation, the service— the safety— precautions that we— we follow. So, it's not a field— it's not like the airline business. There will be nobody come in, in my view, that— that— goes into fractional ownership business and— and— has any kind of success. In fact— people have— people (LAUGH) have been going out of it for— for some time, and— and— and like I say, our market shares held steady the l— it— it's in the low 60s, I believe.

HANSELL: That's right. Yeah, we've had steady market share for— for some time. And— and— unlike the airline industry, we've been differentiating quite a bit and you see the two aircraft behind us. Those are signature series aircraft. They're completely different than anything you can get anywhere else. It's not like flying for Delta or for United and you're either on a 737— doesn't matter where you are.

BECKY: And— and you're kind of taking deliveries—

JOE: You— you're not— oh— oh, sorry, Beck— you—

BECKY: I think— go ahead— go ahead, Joe.

JOE: No, you go ahead and then I'll— and then I'll ask. I have a totally separate question.

BECKY: Okay, let me ask real quickly. Let's talk about the signature series behind us, Jordan. You started taking delivery of these in December of last year. How many do you have now?

NetJets CEO Jordan Hansell and Warren Buffett

HANSELL: Right now we got eight on the fleet, two of which are leased to provide us with core, but six that we're flying fractionally.

BECKY: And how about— how many more deliveries you'll be taking?

HANSELL: We'll be taking about another eight this year, and of course we have— up to 120 that we can take over time.

BECKY: And this is part of that initial deal that you got to go in and help design some of these.

HANSELL: That's exactly right. Both of these aircraft, the Phenom and the Global 6000 were completed with the heavy input from the folks at NetJets.

BECKY: Yeah, we should point out the— they have the big one behind them. That's the Global 6000. Behind me is the Phenom, and I think that one holds seven passengers?

HANSELL: That holds, seven. Uh-huh (AFFIRM).

BECKY: This one holds 13.

HANSELL: That's correct.

BECKY: And the distances between the two for—

HANSELL: 2200 miles, 2300 miles depending on your flight pattern— nautical miles in the Phenom, and 6,000 nautical miles for the Global.

BECKY: Is there a big demand for this? Do people get to request this as part of their package? Or is it just luck of the draw?

HANSELL: No, they get to request it. If they're an owner, they obviously are going get it faster. I've been trying to talk Warren into it here for a little while, but we— and we'll see when he— if he ever decides to take that plunge he'll get it even more. But— (LAUGHTER)

BUFFETT: He's checking my credit. (LAUGHTER)

HANSELL: That's right. That's right.

BECKY: Hey Joe, what was your question?

JOE: Mine was about kind of the air taxi business, and I wonder whether that's viable and whether— I don't— maybe NetJets wouldn't even play there in the low end. You know, there's— I don't know how you do it. You buy a Honda jet that doesn't even have a bathroom, but— but there are people that want to— want to operate between cities that are 80, 100, 200 miles away. And— and— you know, there's— there's capacity, but there's a way of booking these flights. I guess NetJets doesn't play there, does it Jordan? Is— is it a viable business? Will that be a business some day?

HANSELL: NetJets had not played in that arena, and a lot of— people have tried. It's a very difficult place to operate, and so— we've not looked at it— in some time.

JOE: Yeah, and I— I don't know if that even possible to— to eventually do that. But is that your s— what's your smallest jet? Was that the one that we just saw that— that— that holds seven? Or do you— do you have Citations?

HANSELL: That's right.

JOE: Oh, that's the smallest one? Okay.

HANSELL: Well— the Phenom will be the new small cabin aircraft for us. It will replace everything we had in that category before. It— it will be the smallest jet we offer in the fleet.

JOE: Okay.

BECKY: Jordan, when you look around, the— the biggest difficult thing you face right now is what?

HANSELL: Oh, I think— waiting for the economy to gain full stream. We're seeing it pick up in the United States and Europe remains anemic. As it continues to pick up, we'll do better. We've been working very hard. The team's done a terrific job getting ourselves in a strong position to compete forcefully when the time comes, and I think we're starting to see that in the United States already.

BECKY: You are getting record numbers? I mean, we talked about before about how these are record numbers for some of these things. I mean, does that mean you're 100 percent back from any of the downturn?

HANSELL: No, we're still working our way back, and I think we will be for a while. But we're starting to see those early turns. And— and as you suggested, some of our performance is at record levels. So we couldn't be happier.

BECKY: Well, w— one of the things we talked about— is— with housing, we talk about how maybe it's up ten percent with Case-Shiller, but it's still 30 percent below the peak. Where are you versus the peak?

HANSELL: We're still roughly 20 percent down versus the peak. And the industry is over that— beyond that— 30 percent down or so. So we're in better shape on a comparative basis, but we have to remain vigilant.

BUFFETT: The contracts are generally for five years, and so we had— a huge amount sold in 2007 and they matured in 2012. And there were— quite a few in 2008 before the crash. So, you had people who'd made a lot of money, you know, financial types particularly and— and— they might not be in the same frame of mind now that they were in 2007. (LAUGH)

BECKY: Got it. Jordan, thank you, very much, for joining us this morning. We really appreciate your time.

HANSELL: Thank you for having me.

BECKY: Again, Jordan Hansell. We are approaching the top of the hour right now. That means it's time for us to take a very quick break. When we come back, we will have more from Warren Buffett. Still ahead, we're going be talking about the discussions this week in shareholder meetings. We'll also be talking about the business of Berkshire and some questions about the session. And then in the 8:00 a.m. eastern hour, we have another Squawk newsmaker. Berkshire and Microsoft chairman, Bill Gates, will be joining us live. Stay tuned. Squawk will be right back.

ANDREW: Let's get back to Becky in Omaha who's got our special guest in the morning.

BECKY: Andrew, thank you. We've been speaking all morning long with Warren Buffett. He is fresh off of this weekend's annual shareholder meeting here in Omaha. And, Warren, we haven't spent much time talking about— Berkshire in particular. You did report your earnings after the bell on Friday.

One of the things that was very strong were the insurance operations. And that's because— you were able to get strong premiums and you didn't have to pay out a whole lot in terms of catastrophe dollars. People might be surprised when they realize that Sandy— Hurricane Sandy happened this weekend but— or this— within this past year. What— what— what's really happening in terms of catastrophe?

BUFFETT: Well, the first quarter of the year usually is a very low period. The third quarter is most— the one most prone to catastrophes. Sometimes you get some in the first quarter, and— and we had a few hailstorms and things like that. But— but it was generally a benign quarter for— the insurance world, and— and we shared in that. But our insurance business is really doing very well. (LAUGH)

BECKY: How— all the insurance businesses just in general?

BUFFETT: Yeah, they really are. I mean, it— it's led by Geico. I mean, Geico is— is— is having a phenomenal year in terms of new business and— and the profit is fine, too. But— I just hope it keeps up. (LAUGH)

BECKY: You— also nominated— or elected, I should say, a new board member.

BUFFETT: Right.

BECKY: Meryl Witmer. She is— a 51-year-old who's coming in. She is a general partner at Eagle Capital, which is an investment partnership. You've changed the board pretty significantly over the last several years.

BUFFETT: Yeah, we're moving. We have now— we have six directors over 80. We have six under 60, and those six under 60 are the ones for the future. And— and we've been adding in that category. We've now had

(NBCUniversal CEO) Steve Burke and now we have Meryl joining us. And we've really got a terrific group— of— of younger directors that— fit— just perfectly.

We— we want directors with business savvy that are shareholder oriented, and that have a particular interest in Berkshire. That's not the criteria that most companies set out. But that's— that's what we care about at Berkshire. They're— they're the ones that will care about addressing the issues of succession and that— that— are— are— they're wonderful in terms of— understanding the allocation of capital. And—**so** we've got a great board.

BECKY: Is— is that why you wanted Meryl with her background— as an investor— really kind of overseeing potentially what (Berkshire portfolio managers) Todd (Weschler) and Ted (Combs) are doing?

BUFFETT: Well, not so much overseeing it, but just understanding how to pick the Todds and Teds of the world— when the time comes up, maybe down the line. Meryl— understands businesses. She's— she's gone along— with Todd— on various— trips to various companies. She understands management. She understands capital allocation.

And a lot of people with very big names really don't understand that part of the business. They understand, you know, medicine or a whole bunch of other subjects very well. But, we're in the business of capital allocation and we're in the business of— of getting great managers and then keeping them happy. And it's a different place than most.

BECKY: You didn't give away any secrets this weekend when it comes to succession. But you've told us the— this weekend and in the past that the board knows that there are three people right now who could step in and take over your job as CEO. And you've said in the past that these are three people who are currently at the company. You've said that they are men.

And I couldn't help but notice when I was looking around the floor this weekend— normally the way it's set up is that the directors sit on the floor directly in front of the stage. The managers sit up to the left in sort of the bleacher seating. I— I noticed that there were three managers who were sitting on the floor with the directors, and that was (Reinsurance executive) Ajit Jain, (BNSF CEO) Matt Rose and (MidAmerican Chairman & CEO) Greg Abel. It that a coincidence that those three were on the floor and you happened to have three names that are out there?

BUFFETT: Certainly could be. (LAUGHTER) But— they were there particularly— because I thought there might be some questions— relating to the railroad or— or— relating to our utility business— that were technical in nature. And I— I really wanted 'em where I could spot 'em easily and get a spotlight on 'em and get a microphone to 'em. That— so I— I asked— I asked those managers to— to be there. And— as you noticed, we did get— one question that— Greg— answered one question and Matt answered— but I would have— not have known— the answer, as well.

BECKY: Okay. In terms of other things that came up this weekend— Andrew touched before on the question that Bill Miller asked— of Legg Mason. His question was again related to the airlines. He's been on Squawk and talked about his investment thesis. He has bought into a lot of these airlines. And he points out that after the merger— the latest merger with USAir to go through with American, the top four carriers are going to be carrying 90 percent of the traffic. And he sees that as a great reason to be buying into these stocks right now. You were not as convinced. Your reasoning behind that?

BUFFETT: Well— to have the airline industry be a wonderful industry— you'd want one air— airline that was carrying 90 percent. As it consolidates, that helps to some degree. As they go through bankruptcy and they modify the labor contracts, it helps to some degree.

But for 100 years, airline tr— (LAUGH) tra— transport has not been a good business. If you've got it down to few enough competitors— it— it— it could happen, and maybe— maybe four with 90 percent will get the job done. But the problem is with— a seat on— on an airliner as a commodity to a great extent.

And the incremental cost of the last seat to the airline is virtually zero. Got these huge fix costs, so there's this temptation always to tr— try to sell that last seat. And unfortunately, when you sell the last seat cheap you may sell the first seat pretty cheap, (LAUGH) too. Bill's a very smart guy, and— the airline industry may have finally got to the point of concentration that enables it to become a decent return on capital. But I've seen enough times where that's been said before that— I'm skeptical myself and I'm— you know, I hope Bill's right for his sake, and also for the airline's sake. I don't have the conviction.

BECKY: Another question that came up on stage was just (Pimco co-founder) Bill Gross and his outlook for where things are headed. There's an article in today's Wall Street Journal that talks about Bill Gross and other people who have been bear— very bearish on bonds— and says to this point, it hasn't been an accurate reflection. But— your take on what Bill Gross has been pointing out on this is what?

BUFFETT: Well— I don't know the exact specific comments. In terms of— terms of bonds, some day they will sell the yield a whole lot more than they're yielding now. I— I don't know when— when it'll happen.

BECKY: So you agree with him on that— on that point?

BUFFETT: Oh, it has to— it— it's going to happen. And question is— is— well, all— the question is always when. I'm no good on that. The question is to what degree it happens. But you could have interest rates very significantly different than what they are now— in some reasonable period in the future.

It's not a game that I can play. I mean, I— I don't have any special insight into that sort of thing— I was in— that it will happen. In terms of stocks, you know, stocks are reasonably priced. They were very cheap a few years ago. They're reasonably priced now. But stocks grow in value over time because they retain earnings and they expand o— basically the companies (UNINTEL). You know, I like owning stocks. I do not like owning bonds now. There could be conditions under which we would li— we would own bonds. But— they're conditions far different than what exist now.

BECKY: Well— it's always been— standard investment advice that you have some sort of a blend of stocks and bonds so that you keep things— just for— for— the man on the street, I should say, for the average investor who is kind of looking at this, getting a little bit of advice. Joe went in not long ago and talked to a retirement specialist who told him he should be 40 percent in bonds. I just wonder if this is a very different time.

BUFFETT: No, I— you shouldn't be 40 percent in bonds. The— you know, my family— any— anybody that— I've advi— and they are a lot of typical people. I mean, they're not— they're not— super-wealthy or anything of the sort. You know, I— and bear in mind they have the proper attitude and if the stocks go down 20 percent in the next month, they're not going be bothered.

But I c— I would have them having enough cash on hand so they feel comfortable, and then the rest in equities. Or if they— you know, if they're farmers or something, I mean, they could apartment houses or other things. But I would— I— I would have productive assets. I would favor those enormously over fixed dollars investments now, and I think it's silly— to have some ratio like 30 or 40 or 50 percent in bonds. They're terrible investments now.

BECKY: Theyj— so now. This is not just your— your lifelong look on it. This is particularly to—

BUFFETT: Oh, it's now. No—

(OVERTALK)

BUFFETT: I— I bought bonds back in— in the— in the early '80s. We— we— we bought— we made a lot of money and we bought zero coupon bonds that— I bought 'em personally. And— no, it— it— the price of everything determines its attractiveness.

And— the price of stocks was way down a few years ago. The news was terrible, but the stocks were cheap, you know. News is better now. Stocks are higher. They're still not— they're not ridiculously high at all, and bonds are priced artificially. You've got some guy buying $85 billion a month. (LAUGH) And— that will change at some point. And when it changes, people could lose a lot of money if they're in long-term bonds.

BECKY: And— leak— Luke— Lee Cooperman's point when he talked to us about it was that this is kind of like bending down to pick up a quarter in front of a steamroller.

BUFFETT: Yeah, well, it— I'm not sure it's even a quarter.

BECKY: Yeah. (LAUGHTER) So, it is a concern for you. If you look at the pension funds, though, a lot of them— are being forced out into other places to try and seek the yield. Because they've promised or they're expected to return around eight percent a year or something just to meet their obligations. It's a much more difficult game.

BUFFETT: Yeah, chasing yield— is— is crazy. You know, just because you'd like to earn eight percent, (LAUGH) or— or— or you'd like to earn ten percent or you'd like to earn six percent. The world isn't going to adapt to that. You— you have to think about what is the most intelligent thing to do and if— if that produces five p— percent or six percent, that's the best you're going to do.

But to— to get enticed into some investment that— is riskier that you don't understand because somebody promises you a higher yield— I mean, I can—

you know, I can take it down to the waterfront or something like that and they'll promise you 15 percent or something. (LAUGH) And it just doesn't make any sense at all. And— but, pension funds— you know, they— they haven't been that well managed over time.

BECKY: We spoke with the CEO of Lloyd's of London last week and talked to him about some of the insurance businesses, and he said he's a little worried about hot money getting into the insurance arena because he thinks it could— very likely create a bubble there.

He's not saying that it's happened yet, but he says as you see hedge fund managers and others who are looking for yields, they look at insurance stocks and it seems like potentially a good place to put that. But he's worried about that being fast money that is in the market and back out. And it's not good, he thinks.

BUFFETT: Well, money is capacity in terms of insurance. I mean you— you need to have money to get people to trust you to write insurance policies that you'll pay off. So when you bring more money in, it's just like bringing in more capacity. It's just like bringing in more steel capacity or autoc capacity.

You know— it's likely to affect the supply side of the equation. And if the demand side doesn't change, prices come down. So it— he's correct in that and, of course, a number of money managers, they talk about— you know— some things uncorrelated and other things. They'll— they'll sell what they can sell.

And— and— they get special tax treatment if they— put these things together in— in some offshore locations. They can keep their— their manager's money for managing the money. They can keep that from hitting their U.S. tax returns. And so it's very attractive for the money manager to create it. And then the question is whether it's attractive for the investor when the game is all done.

BECKY: Right. Warren, do you mind if— we slip in a quick break here?

BUFFETT: Oh, I think you should have a commercial, yeah.

BECKY: You're in favor of capitalism and—

BUFFETT: Absolutely.

BECKY: Anyway, when we come back, we will have much more from Warren Buffett right after this break, including his thoughts on— the railroads and JCPenney. And later, Microsoft chairman and CEO— Microsoft chairman, I should make that— Bill Gates is going be joining our conversation. Everything from the third anniversary of the flash crash to the future of Microsoft. We'll cover it all when Squawk Box returns.

BECKY: Good morning again, everyone. We're joined this morning with— by Warren Buffett, who's the chairman and CEO of Berkshire Hathaway. And, Warren, we've been talking about some of the Berkshire businesses and some of the things that happened over the weekend. We have not talked much about the railroads to this point. When— you look at what's happening with Burlington Northern, where are you just in terms of carloads coming back?

BUFFETT: We're running about 185,000 cars— a week. We'll— in the— the peak comes in the fall. My guess is we'll peak at maybe 205 or a touch higher. That will not be quite as high—

BECKY: A bit below.

BUFFETT: —it's below—

(OVERTALK)

BUFFETT: Yeah. Yeah. And we're gaining share this year, so far, which I like. And— and— it looks to me like we will— have record earnings at the— at the railroad— this year. It— it— it's been a terrific acquisition for Berkshire.

BECKY: Is it still not back to the peak just because of the housing situation? Is that the biggest—

BUFFETT: That— that's part of it. But it's— it's— a general business activity, and— coal is down— significantly from— 2006. Oil is up quite a bit— a lot. So it's a mixture of things, but and (UNINTEL) the rails as well. Business has come back. It's come back year by year, but it's not where— where it was in— in two— in 2000— actually 2006.

BECKY: The oil situation— that's because— Burlington is the largest player in the Bakken shale formation area.

BUFFETT: Yeah.

BECKY: And—

BUFFETT: Fortunately they found oil where our railroad tracks happen (LAUGHTER) to be.

BECKY: How— how big of— of— of a game changer is that?

BUFFETT: Well, oil is now— petroleum tr— petroleum products throughout the country will be about five percent of our car loadings, and that was about two— two and a half percent. But— and that's a lot. I mean, it— it— it— nothing like coal or anything. But— we are now carrying about 650,000 barrels a day of— of oil.

And— the country not too long ago was producing about five million. So it— it's a very significant part— of— of— of the oil production in the country. And I've talked to a number of producers, and they're very happy with it. We spent a lot of money to have the— just some of these to— to carry this— quantity. And we expect the quantity to— grow quite a bit.

BECKY: There are people who have suggested that— pipelines will eventually siphon away some of that. How long of— how long away of a change is that from happening?

BUFFETT: Well, pipelines are carrying a lot of oil now, and— and there'll be more pipelines created. Surprisingly, oil moves through pipelines a lot slower than it does by rail. So, if you want to get oil to a given refinery and that happens to be the best— where the best price is, A) the pipeline may not fit that perfectly, but even if it does, you can get it there considerably faster if— with rail. On the other hand, it costs more per barrel— barrel to get it. So it's a tradeoff, but it gives— it gives the producer— a lot more flexibility in terms of— in— in terms of refineries— than— than a pipeline system.

BECKY: There was a suggestion over the weekend from President Obama that— he'd be in favor of exporting liquefied natural gas. I think he said something by 2020 he does expect United States will be an exporter— a significant player in that. Are you in favor of exporting liquefied natural gas?

BUFFETT: Well, it would be good for the short term, but— but— but in the end, I regard this huge finding we've had of both oil and gas— in terms of fracking— well, I mean, it— it's a huge natural resource. And— my— my general feeling is that— that— that we oughta save that for— grandchildren.

So I've often said that you can't rob your grandchildren. But— but in terms of a natural resource which is— although we found much more of it— but it's still— it's a finite asset. And if you're thinking about the country for hundreds of years to come, I— I d— I don't think I'd be in favor of it.

BECKY: I mean, Charlie's said in the past— the idea of American independence is crazy. American energy independence is crazy because he thinks you should use up everybody's resources before you use your own.

BUFFETT: I think that was pretty smart, actually. But it— it's not good for the economy, (LAUGH) in the short term. But when you've been using Saudi oil all through the 1930s and 'course during the war years, that's one of the arguments for having it developed in this country. But as— in— in terms of having an energy source in c— in times of trouble. But in the '50s and '60s, we shoulda been using the other guy's oil more and we'd have more of it now. And we've got— we've got a whole lot more than we thought we had now. It's finite.

BECKY: Andrew has a question, too.

ANDREW: I— I have a question, actually— Warren, we have newspapers sitting all around the set. It reminded me to follow up with you. We had a number of people also e-mail in— after we had talked during the meeting— about newspapers. And— and— and the suggestion that I think you made and Charlie made was that your— your acquisitions and investments was— in newspapers you consider to be an exception or an exception to the rule in terms of businesses. A number of people— e-mailed in and said, "Would you ever buy additional newspapers— personally?" Meaning— meaning would— would you use your personal account to go and— and buy newspapers in the future?

BUFFETT: Yeah, it'd be— it would be pretty awkward if I got offered a newspaper now having bought 'em for Berkshire. It'd be very awkward if I go on and buy it for myself. If it happened to do better than the ones we bought for Berkshire. (LAUGH) I'm sure I'd be criticized. So any newspapers we buy in the future— I— I could have started out and just bought newspapers personally, perhaps, and— and said this is a sideline.

But I c— I can't do anything that looks like I'm in competition with Berkshire. And the paper I bought would either do better or worse than the group we've already bought. And if it did better, I'd be in trouble. If it did worse, I wouldn't be that happy about it. (LAUGH) The— the newspapers do not meet our size criteria— on— on an individual basis, although they do meet the earnings criteria now on a group basis, now that we've bought a group of 'em. Newspapers will decline in earnings over time.

(OVERTALK)

JOE: We— we got— Andrew's got to give it up. Give it up. Sell your— sell that dog crap stock and buy some Comcast. Sell your New York Times and buy something that keeps moving (LAUGHTER) into the— into the future. Just give it up. It's not going happen for you. It's— Warren c— that's— you know, Warren—

He's doing it 'cause he likes local newspapers. He has fun with 'em. He's not doing it to make money.

Your— your options are never **going** back. They're never going be worth anything, and the stock that you own is just going to zero. Give it up. And, Warren—

ANDREW: Thank you, Joe. Thank you. I got to try, Warren, right?

JOE: Hey— I can't even believe you'll ask about newspa— let me see. What else can we— no, but, hey— you know, that one buggy whip company that's still left, Warren? Do you have an opinion on— (LAUGHTER) No, no, I'm not going ask you about that.

BUFFETT: I— I'm trying to buy it. I'm trying to buy it.

JOE: Are you? Just— just for— a vanity buy. I'll tell you what I was thinking of, and—

BUFFETT: National— National Buggy Whip. You'll— you'll see it in our portfolio. (LAUGHTER)

JOE: I— I really want to know the answer to this and what— what you think. Larry Summers— zero interest rates. Let's do all of our infrastructure improvements that— that we need right now. I mean, it— it had such— just on s— on the surface, sounds like a slam dunk. But we would be borrowing money, probably more money from China.

We— we'd— we'd still be— you know, it wouldn't be deficit neutral. Is there a payoff? You got a brand new bridge. Does suddenly the— does GDP grow faster? Does something happen because you— you do all those improvements? Is that something that— that we should do right now while we can?

BUFFETT: Well, certainly the country should have— have— a first class infrastructure. Incidentally, we have that in the railroads. I mean, the— the railroads have never been in better shape— physically— than they are now. They're in dramatically better shape than they were.

JOE: Yeah, but the private sector—

BUFFETT: Sometimes—

JOE: —did that, didn't it, Warren? Didn't the private s— I mean, I— I—

BUFFETT: Mostly.

JOE: Well, yeah, that's great.

BUFFETT: Overwhelmingly.

JOE: Well, that's great. But what about— is— is it a good investment for taxpayers? I know you would like to bring percentage of GDP that we spend on government or still I figure if you think we're still too high— should we— take it from somewhere else to do this? Should we not do it right now? And I'm— I'm talking about, you know, airports— all— all the big heavy things that only the government can really do, maybe in a public/private— partnership. But really government spending— should we do that?

BUFFETT: Well, it depends what you do. (LAUGH) You know, you have a congress that might appropriate the money— have bridges to nowhere. But you also might have, you know, them do something like the interstate highway system which was a stroke of genius back in the Eisenhower years. It depends on the projects.

But— but certainly, you want a great highway system in this country, and— and— and you want— you want a very s— a very sensible— well controlled— airport system. And then the question is, I mean, do you raise— gasoline taxes, for example, and devote it to highways? There— there're a lot of ways to go. It doesn't have to be done by bonds. It can be done by— by in effect what are user fees. I mean, that's done when you build toll roads, for example.

JOE: Yeah. Yeah, I— so I'm— I'm trying to figure out whether you're giving me— an unequivocal yes, or— I don't— I don't— you know, 'cause that— that's something you would hear about a lot. It would create jobs. At least we wouldn't be d— you know, digging a hole and then filling it back up like so many, you know— like— like so many government p— I mean, at least we'd have something to show for it when it was all said and done.

BUFFETT: And— and actually, in— you know, in the '30s, I mean, you know, that's— Boulder Dam, TVA - I mean— there could be a lot of useful projects, and— and the question is whether you finance 'em by bonds or user fees is another question. But I think you have to really look at the specifics of the program. There was no— there was no better investment than the interstate highway system.

ANDREW: We got to take a break now, I guess, to pay for our infrastructure. Anyway— thanks, Warren. Still to come, we're going— get Warren's take on health care and why he backs Jamie Dimon, which we already know that.

JOE: Okay, thanks— Andrew. We are speaking to Warren Buffett, Chairman and CEO of Berkshire Hathaway, fresh off— this weekend's big— shareholder meeting. Can— can I ask him a question be— Becky? Or— or you want to—

BECKY: Yeah, yeah, yeah. That's—

JOE: Okay.

BECKY: —that's what we thought. No, no, jump in, Joe.

JOE: I got a shopping list here— of some— some— some companies—

(OVERTALK)

JOE: —because I don't understand you sometimes. I— I'm bored with ketchup, okay? I'm bored with some of the— they're great businesses, the things you buy. I— I understand that. But I'm just trying to get you to expand your— your universe here a little. And I still don't understand, and I'm not talking newspapers, even though it's media. But big media, big media.

And I got a list of companies here that I want to tell you why you've never really gotten that interested about— okay. Do you like Disney? Do you like that model? You got theme parks, you got movies, you got— you got cable. You got Comcast, the parent (company of CNBC) here. You got News Corp, Viacom, CBS, Time Warner, even Google or Facebook or something. This is the future, Warren.

I know you— sometimes you don't think you understand technology. But what makes you hesitant to— to do something that's so ubiquitous and that— and as we get more advanced as a culture, you know media gets more and more— gets bigger and bigger as a percentage of what we spend our— our— our leisure time doing? Why can't you— you make an—

(OVERTALK)

BUFFETT: No. There's no question. And— and— it's going get bigger. I just don't know if I look out ten years, I don't know which— which of those company's you named— will be doing— the best in. It— it's— it's an industry that's subject to a lot of change. And it's much easier for me to predict that ketchup will be do well or Coca-Cola will be doing well in ten years. And some of the companies you name will undoubtedly outperform the ones we own. It's just I don't know which ones.

JOE: Well, if you don't know it—

BUFFETT: And—

JOE: —well, how am I—

BUFFETT: Those are dyna—

JOE: —how am I supposed to—

BUFFETT: Those are—

(OVERTALK)

JOE: How is anybody else supposed to know then if you don't know? And do you think—

BUFFETT: Well—

JOE: —do you think that you are, like, an old dog with— with new tricks, or something? Does someone know how this is going work itself out? Is there anyone on the— on the planet that knows—

BUFFETT: Sure.

JOE: —how it's going— really?

BUFFETT: Sure. There— there are people— a lot of— all kinds of— a lot smarter about some of those companies than I am. And that doesn't bother me. I— as long as— as long as I can make money with— with ketchup and

Coca-Cola and I— and I don't really think I know which one of that— list that you ran off, there'll be— (COUGH) there'll be a couple big winners in that list and there'll be a couple little— really surprise you on the downside. And, you know, you know enough about the history of the stock market to look at the tech companies that have fallen by the wayside, for example. But you— you will have a bigger winner in that group—

BECKY: But who knows?

JOE: Warren—

BECKY: Who does know? I mean, if somebody knows it, do you— do you know if there's anybody that you would listen to when it comes to those things—

BUFFETT: Oh, there isn't anybody I'd listen to. But there are people in our office, for example, that would buy some of those companies. Yeah, I can tell you that—

BECKY: —DirectTV is one that both Todd and Ted have put some money on.

BUFFETT: They've put money on DirectTV, I think they put— one of 'em at least has put money on Viacom. Liberty Media— maybe both of them, I'm not sure.

ANDREW: Warren— Warren—

BUFFETT: So—

ANDREW: —do you feel any better—

BUFFETT: I'm not— I'm not— I don't—

ANDREW: Do you feel any different about IBM—

(OVERTALK)

ANDREW: —since you've bought— since you've bought IBM, it's had— a couple tough— tough quarters.

BUFFETT: Yeah, they— I think— I— I— I think we'll be right about IBM. But I said at the meeting, in terms of the certainty of conviction, I feel more certainty of conviction in terms of where Coca-Cola will be in ten years— or Heinz for that matter— than I do about IBM. But I feel enough conviction about IBM to put a lot of money in it and I like very much their financial policies. I— and I— I like their position in— in the world. But I don't think it's as bulletproof as something like Coca-Cola.

JOE: And content—

BECKY: You— you said the other day that you—

JOE: Oh, sorry.

BECKY: —you have bought more IBM shares though, right?

BUFFETT: Pardon me?

BECKY: You said the other day when we asked you, you have bought some more IBM shares this— this year, before the earnings—

BUFFETT: Yeah, we bought a few.

BECKY: —report.

BUFFETT: Yeah, we bought a few, yeah.

BECKY: Joe, I'm sorry, go ahead—

JOE: I was just getting back to this media, 'cause I'm trying to understand, I don't know what the landscape looks like. And Warren probably— doesn't necessarily. Do you— does— does it look like the pipes, Warren, eventually become more commoditized— and— and— we've— you know, people have been saying content is king for— forever.

And then it's hard to— content is so— it's a creative area and it's so hard and it— it's so— specific to the people running it or the— the people that you bring in that— that— that are creative. I guess that makes it difficult too, if you're going invest just in content, that's hard—

BUFFETT: Yeah.

JOE: And— and then you don't even know whether to keep the distribution because of— you— technology is— Andrew always brings up the disintermediation of all these different technologies. So it really is difficult to do, but there's just such a potential, it seems like, to me.

BUFFETT: Yeah, the— well, distribution was incredibly valuable, for example, when there were three electronic highways, you know, the three big networks. And you could run a test pattern on one of 'em and— and get— and get a reasonable audience practically. So— when it was limited— when distribution was limited, that distribution was really valuable. And there were a couple of big VHS stations in the big markets.

And— and— and the profit margins were fantastic. But as distribution became more ubiquitous in all kinds of forms, then as you say, content, you know, content is where the money is. And— and— and content will always be where the money is. That's why sports players, you know— they'll make, you know, millions of dollars a year when— when you can remember when— you know, DiMaggio was playing for $25,000 a year, something of this sort.

But content— distribution magnifies the value of content. And— you want to be— unfortunately I don't— I don't— (LAUGH) you know, I don't have any talent, so I can't cash in on that. And talent usually gets its share of— of the revenues. If you own distribution and there's very little in the way of competition for your distribution, you can make a lot of money. And that's what's shown by what the networks and the TV stations did— in the past.

JOE: All right.

BECKY: You know, this was— a big weekend at Berkshire, and there were a number of events that took place. And— Joe, you know Andrew was out here. He was here for all of this. The new issue this year was the 5K race that— Brooks Running Shoes put on on Sunday. Warren, you showed up for it. Andrew—

BUFFETT: Oh, I participated in a big way, I shot off the gun.

BECKY: Yeah, you shot off the gun. (LAUGH) But you showed up. Andrew told us that he was going to show up, so we were there, waiting to shoot him. There's Warren shooting off the gun. They were looking and looking and looking, and I was not there, I wasn't— but I never claimed I would be. In fact, (LAUGH) I said there was no way I was getting (LAUGH) up that early on Sunday—

JOE: Is that Burke?

BECKY: —which is the only day in the last three weeks I've slept in.

(OVERTALK)

BECKY: That's Steve Burke—

JOE: Oh my God.

BECKY: —he did show up for the race and Andrew didn't.

JOE: So that looked like—

ANDREW: Steve— Steve Burke—

(OVERTALK)

BUFFETT: Steve does very, very well—

BECKY: Steve Burke is a board member—

(OVERTALK)

ANDREW: And he did it— he— he—

BECKY: Yeah, Steve Burke is a Berkshire board member.

ANDREW: He beat every board member. I think he might've even beat most Berkshire employees. I think he did it in under—

BUFFETT: That was a fast pace.

ANDREW: —20 minutes and—

JOE: That was a fast—

(OVERTALK)

ANDREW: —frankly, you know, he's the boss, so I didn't want to have to, you know—

JOE: Oh, you were hungover, probably—

ANDREW: —even—

(OVERTALK)

BECKY: You would've lost so badly—

JOE: You didn't even show?

ANDREW: I would've lost so badly—

BECKY: You would've lost so badly.

ANDREW: —I didn't even— I couldn't— couldn't bring myself.

JOE: Did you say you were going be there and then didn't—

ANDREW: I did— I didn't say— I said I co— was contemplating.

(OVERTALK)

BECKY: He did say he was going be there. He did say he was going be there because they were looking for him with the cameras to shoot him.

BUFFETT: I— I waited to shoot the gun, I kept, "Where is Andrew? Where is Andrew at?" But Steve Burke ran a 2:39 marathon one time. (LAUGH) I mean, we— we—

JOE: He was amazing.

BUFFETT: —have some real talent on the board.

JOE: Wow.

BUFFETT: Yeah, 2:39. Yeah—

JOE: That's scary.

BECKY: Yeah.

ANDREW: Yeah, thank you, Becky, for raising that issue, I— I— I appreciate—

BECKY: You're welcome—

(OVERTALK)

ANDREW: A great— a good excuse to talk about—

BECKY: —sort of cocktail sister over here.

ANDREW: Yeah, thank you.

BECKY: Yeah. (LAUGH) It gives you that excuse to talk about what?

ANDREW: Oh, I said it was a g— it was a good excuse to talk about the wonders of— of Steve Burke's running performance, which wa— was outstanding. We should say.

JOE: I mean— do we know that— was it really under tw— under 20 minutes? I mean, I don't even know if I've ever run—

ANDREW: Yeah—

(OVERTALK)

ANDREW: That's what I heard.

JOE: It was under 20 minutes—

ANDREW: That's what I heard. Yeah, no, he's fast—

BECKY: I want to say 18 something, but I don't know if I'm making that up—

ANDREW: I think 18— 18 minute something— around 18 minutes, yeah—

BECKY: Oh, under 21. Under 21 I'm told. I'm told under 21—

JOE: Under 21.

BECKY: Anyway, it was a lot faster than Andrew or I did. So—

JOE: Yeah, I know.

BECKY: —way to go. Hey, very quickly, before we go to a break Warren, I wanted to ask you about J.C. Penney. We've been watching this story very closely. There was a story recently about how I think Goldman Sachs had been potentially lining up— a line of credit for them. It's got to be a company that you've been following too, because Fruit of the Loom is a supplier—

(OVERTALK)

BUFFETT: Well, they're a supplier, but I thought— I worked for J.C. Penney— as you fir— for a considerable period. I— I— I've got a rooting interest for them, I don't have a financial interest. But— and I— I would like to see .J.C Penney— succeed.

BECKY: You would like to see them succeed. Do you think they're going to?

BUFFETT: I think it's very tough. I mean, they— they obviously alienated a significant part of their customer base— in the last 18 months or whatever it's been. And— retailing is— it's a tough game. And you've got very, very smart competitors who are out there doing smart things every day.

So when you lose momentum and when you turn off a significant part of your— no— percentage of your customers, it is a big job to get back. I— I really hope that (new CEO Myron) Ullman pulls it off. I mean, I— I— I'm for him and— and— I think, you know, that they've got a good man in there to do it. But— but I'll just have to wait and see the figures.

BECKY: They've been burning through cash pretty quickly.

BUFFETT: Sure.

BECKY: Has it ever gotten to the point where as a supplier you've gotten nervous about it?

BUFFETT: No. But— but you worry about that if you're a retailer getting to that point. When your— when your suppliers get worried, you've got troubles. But that is not the case with Penney.

BECKY: So you've never actually worried about it?

BUFFETT: No, no.

BECKY: All right, Warren, thank you again— if you'll let us, we're going jump in for another quick break.

BECKY: Welcome back everybody. We are speaking with Warren Buffett this morning. I've been talking about a lot of things. Warren, the annual meeting is— a place where you see a lot of— people that— it's just an amazing place to people watch. You see some huge— successful people from the worlds of business and beyond. This weekend, some of the people who I ran into here were Bill Ackman— Bill Miller, who we talked about, Lee Cooperman was here, Mario Gabelli was here, and people like Kathy Ireland were here too.

BUFFETT: She beat me. (LAUGH)

BECKY: She beat you in the golf— it was—

BUFFETT: In the putting.

BECKY: —the mini putt. Right, it was mini-golf putting scene. One of the people who was here though— that really caught my attention who I haven't seen here in the past was erk— Erskine Bowles. He came in this weekend as well. We— we spoke with him very recently about his new plan.

This was kind of— Simpson-Bowles 2.0, where he's coming back at the Congress again and saying that we still have a lot that needs to be done, that the sequester is stupid. When he was on with us the other day, he said it was three times stupid because it had dumb cuts the way you use it, and it's not attacking what we should be attacking, which is really the entitlements. Where do you come down on this argument?

BUFFETT: Well, Congress— (LAUGH) Congress originally set it up and said, "We're going to propose something so dumb that we can't possibly do it." And then they did it. (LAUGH) And so it— it— you know, it— it is a stupid way— to enact— a cut in the budget. And— and like I say, it was designed to be stupid. And Congress at some point will face up to the fact that their job is to design— a responsible, long-term budget plan.

And some things immediately that— make sense in terms of where the economy is now and where expenditures should be made, where taxes should be raised, and whatever the case— this business of getting it, you know, to provide— the middle of the night— some crazy compromise. And then letting things like the sequester kick in, you know, it's just— we deser— we deserve a Congress better than that.

BECKY: The biggest issue that you've talked about for a long time is health care costs, it's something that—

BUFFETT: Right.

BECKY: —Erskine has spoken an awful lot about as well. And we've done just about nothing to try and get those costs under control—

BUFFETT: That's right, that's right. We— we are a very rich country. So we can get away with— with the— the sort of deferring things like that. I mean, we— we can get— we— we can— we can— mismanage in significant ways. But because we're so rich, you know, it doesn't— we— we don't go under. We're not a Greece or something like that because of it.

But— but health care costs are the biggest factor that make us noncompetitive, certain industries, noncompetitive in the world. We have— anywhere from this 6¢ on the dollar to my 8¢ on the dollar disadvantage in costs from that one item— against the rest of the world. Imagine if we faced a 6¢— 6 percent — six percentage point disadvantage in terms of our cost of our steel or something like that? I mean, it would be a national emergency. But health care marches on.

BECKY: The Affordable Healthcare Act— is, you know, now being— brought in more into play all the time. Does that help or hurt the situation?

BUFFETT: Well, I— I don't know the answer to that. But I know that we are not addressing the costs overall. And— and it isn't— it isn't government the problem, it's the whole system. And— and we need some very, very good minds— to tell us how we can get to something like 15 perhaps in G.D.P. going to health care.

If the rest of the world is anywhere from, you know, 8 percent to 11 percent or something to the sort, we oughta be able to figure out how— how to have a very, very good system for all Americans with 15 percent of G.D.P. And it— I would love to get, you know, to have the Cleveland Clinic and the Mayos and Kaiser just ta— give them that task— to design a system.

BECKY: Toby Cosgrove was here this weekend, too—

BUFFETT: Yeah, he's a terrific guy.

BECKY: —head of the Cleveland Clinic too—

BUFFETT: He's a terrific guy.

BECKY: But he was talking about how they are rolling this program out into the— looking for a lot of other ways to try and get that there. But— the idea of getting down to 15 percent, how do you do that without crushing innovation and without hurting the quality of care the people receive?

BUFFETT: We operated— we operated at five and a fraction percent— what, 45 years ago and— and we thought we had a reasonably good healthcare then. The GDP has grown like crazy. So it isn't like the— the— the base from which we're working. I don't know enough about health care to design a system. But there are very smart people— that I really think— if you gave them— the responsibility for actually just looking at the whole system.

And— and why do we have this runaway situation? We have terrific health care, but we do not have more doctors per capita, we do not have more hospital business per capita, we do not have more nurses per capita than country after country. And that, you know, we've got this huge cost and now the problem, of course, is that we're spending $2.6 trillion or $2.7 trillion a year on health care.

It's as big as the governmental receipts total. And those dollars all have a constituency. And so it— it— it is— it is a tough problem. We'll— we'll attack it and— and solve it. But there is no— there's no real incentive— to bring down the costs. In terms of the research we're doing, nobody's doing research that will focus— or at least I don't know of it, that's focused on bringing down costs of health care.

They're— they're— they're looking for ways, and they'd be very expensive ways, to deliver even better ca— care. And I— you know, I applaud that. But when you've got these kind of expenditures going on, you have to have somebody focused on bringing down cost.

BECKY: The way Washington has gone about this, so there are a lot of people who have pointed out we have brought down— the rate of increase for spending, I should say. They're not cutting spending, they're bringing down the rate of increase for spending over the future years.

As part of what the sequester's doing too is trying to take out and strip out some of those costs. People say, "Hey, we've done a much better job and maybe we'll be okay even if there's not a grand bargain that gets reached on either sen— either end. Maybe we've already cut enough." What do you think of that?

BUFFETT: Well, we've— we are so rich. We can afford a lot of slop. (LAUGH) But that's no reason to have it. And— and we aren't so rich that we can afford all kinds of slop. And— and you know, what— there— there are choices that are going have to be made. And— and— and so far, I've— you know, I admire Erskine and— and Alan Simpson enormously.

I mean, they were given the task of working in a bipartisan manner to come with made— something that made sense over the longer term. Nobody likes it 100 percent. But they got Tom Coburn and Dick Durbin to vote for it, they got 11 votes out of 18. That's a monumental achievement. And you know, they've basically been ignored.

BECKY: When it comes to Social Security, everybody we talked to says, "Oh, this is a pretty easy fix." If it's such an easy fix, how come we haven't done it?

BUFFETT: Because it's the third rail of politics. (LAUGHTER) You know, in the end, nobody wants the vote recorded that affects any voter of their district negatively. And particularly if it's a large group of voters. And they worry about losing in primaries. They don't worry so much about the general election and— and the fact that primaries have become the important election in this country, for most people in Congress, I think drives them into more and more intractable and more and more— fringe-type positions.

BECKY: Andrew, you have a question too?

ANDREW: Yeah, Warren— where do you stand on— on repatriating money from abroad and— and what type of either a tax holiday we should have or— or— or maybe— a longer-term corporate tax plan that— that works globally?

BUFFETT: Yeah, well, if we have a tax holiday, I can guarantee you (LAUGH) we'll have a ton of money will come back. They may have already borrowed money to repurchase shares or— pay dividends, so now they would use it to replenish, take care of the money they've borrowed. If you give people a tax holiday, there will just be more money invested abroad, because obviously they're going invest it abroad and get taxed at 5 percent or something like that.

And you think you can get it back into this country, it will push investment abroad. And come— companies now that have tons of cash are borrowing money, you know, in the United States, and they are going use it to repurchase shares. So the idea that if that money came back, it would— it would come back to pay back the debt — it's— it's somewhat disingenuous, the argument that's made, that— that— this is a terrible thing, because it forces companies to keep their money abroad. It doesn't force us to keep money abroad. We just have to pay a normal tax of 35 percent. The— the tax that was paid originally to the foreign country plus the supplemental tax to bring it up to the U.S. rate. And— people can bring it back, they just don't want to bring it back. And they're hoping, like, that they can get a tax (LAUGH) holiday and then they'll bring it all back that time and then they'll start accumulating it again.

BECKY: It'll—

BUFFETT: That's what happened after the last one.

BECKY: If they would were to overhaul the corporate tax code though, I mean, would it be something that you would think would be okay if they lowered tax rates to 28 percent, like Simpson-Bowles suggested the first time around?

BUFFETT: Right—

BECKY: I mean, the problem is, a lot of companies don't pay 35 percent—

BUFFETT: Of course. And— and what'll happen is that they have something to bring the rate down to 28 percent. Ev— every single company will figure out what— when they like at all the— if it's revenue neutral, there will be some companies who will pay more and some that will pay less. And everybody that will pay more will go straight to K Street and get every lobbyist that they can lined up and the lobbyists will kind of like the proposal because it drums up business for them.

And— it will be very hard to get data. That doesn't mean I'm against it. It just— I'm just get— laying out the difficulties. If you talk about a revenue-neutral bill, you're going to have a lot of people that are opposed to it being enacted.

BECKY: Okay, we can continue this conversation in just a moment, but we are up against— the end of the hour. So right now, we're going to take a quick break. When we come back, Microsoft Chairman Bill Gates will be joining Warren in a very special interview. We'll get his thoughts on everything from philanthropy to the global economy to the future of Microsoft.

BECKY: This is the— the site of the Berkshire Hathaway Annual Shareholder Meeting, and that's where— the Berkshire Chairman and CEO Warren Buffett— spent all weekend on the stage and different venues, talking to all types of people. There were about 40,000 shareholders who were here this weekend.

But Warren, we get the chance now to sit down with you and— and— talk about the perspective of where things are headed in this stock market right now. People look at you. You're called the "Oracle of Omaha" because they think that you are one of— if not the greatest investor of all time.

We've been watching where the markets head. We've been watching the new numbers that they run through, the Dow above 15,000 and the S&P above 1,600. That's the type of thing that makes people sit up and take notice, even when they are not people who pay attention to the stock market every day, right? It's got people worried, it's got people eager, it's got people anticipating about what comes next. What do you say to those people who are just looking for any sort of advice on what they should be doing right now when it comes to the stock market?

BUFFETT: Well, I— I never know what comes next. No one knows what comes next. And— and— but what you do know is that over— a long period time, American business is going to do fine. And— they not only get dividends, but they retain earnings and— values will build over time. You know, Berkshire's value will build over time.

But you can go down— up and down the list, and they will, and— you never know what they're going do next week, you never know what they're going do next month. Anybody that tries to buy and sell stocks actively and my— view is making a terrible mistake, anybody that owns a cross section of American business at these prices, I think will do very well over a ten or 20-year period. And I have no idea of, you know, how they'll do in the next ten days, and I don't think they should think about it.

BECKY: You said earlier this morning that you remember when the Dow went above 100?

BUFFETT: Right.

BECKY: When was that?

BUFFETT: Well, it was in 1942. I— it hit a low of 92 on the Dow and I bought some stock and I watched it go down and then I watched it go up finally. And the Dow crossed 100. And it was before I got out of— college that— or right when I got out of college that it crossed 200. And— I've watched it cross 300, 400, (LAUGHTER) right? And it'll— it'll go far higher over time. Just because businesses will become more valuable over time.

I mean, it— it's going to happen. But if you think you can buy and sell stocks based on current news or something of this sort, I— I think they're give— they're giving away an enormous advantage which you have. I— I bought a farm in 1985, I haven't had— had a quote on it since.

But I know what it's produced every year. And I know it's worth more money now. You know, it— if I'd gotten a quote on it every day and somebody's said, "You know, maybe you oughta sell because there's, you know, there's clouds in the West," or something. (LAUGH) It'sj— it's crazy.

BECKY: You know, over the weekend— or on Friday, we should say, we spoke with Charlie Munger who's the Vice Chairman of Berkshire. And— he talked about how he thinks bankers are like heroin addicts because— they get addicted to things like leverage and different things.

And yet, the biggest investment that Berkshire has— in a stock is in Wells Fargo. So not all bankers are created equal, I guess we read into that?

BUFFETT: No, that's true. And— and a lot of leverage has been taken out of the system. You— you hit right on it when you said because of leverage. Leverage is like heroin, people— in— in— in investments. I mean, everybody starts saying, "I could make a little more money if I leveraged up." And of course, that's the way they felt about housing. And— and that's why we got into all this trouble.

People wanted to borrow every dime they could against their house. So when they went down a little bit, they— they had negative equity. So leverage is— is catnip to people in— in— in— in finance. And it's particularly troublesome— in banking because you can issue a government-guaranteed piece of paper. So there is no market system that puts the limit on the leverage that you— you can obtain.

They can— in fact, people give you— all the money they— that they have. And they— you've got leverage of a hundred for one, if the deposit is guaranteed— by the— FDIC. So they have the ability, they had the ability to leverage up. And they had s— they had special purpose vehicles and— and through derivatives they could leverage more.

And it— it's just tempting because it's the way to increase earnings. That's how Freddie and Fannie got in trouble. Freddie and Fannie had a perfectly decent mission. But then they just build— huge portfolios and they had the ability to leverage, 'cause the government was behind 'em. So anything the government is behind, particularly, you need someone that can put their foot on the amount of leverage that they have.

BECKY: Last time we spoke with you, I think you said that you were still buying Wells Fargo in the market, that you were still adding—

BUFFETT: That's right.

BECKY: —to your— to your— to your— are you continuing to do that?

BUFFETT: We— we've bought Wells Fargo probably every month this year. Yeah. Uh-huh (AFFIRM).

BECKY: Moody's, you're not buying. You've been selling that, at least that's what we—

BUFFETT: We've— we sold— we sold some last week, yeah.

BECKY: You sold some last week on Monday through Wednesday, there was a filing on that. The obvious question becomes, are you going keep selling that? You going—

BUFFETT: Yeah.

BECKY: Drop down?

BUFFETT: I guess the obvious answer is I don't tell. (LAUGHTER) If we sell, we have to announce it as long as we have more than 10 percent. And then if we get to 10 percent, we don't have to announce it after that.

BECKY: But are you—

BUFFETT: We don't have to announce it very quickly—

(OVERTALK)

BUFFETT: —after we do it. Yeah, yeah, we have to announce it.

BECKY: So there would be an advantage to owning less than 10 percent, because—

BUFFETT: Well, we—

BECKY: —then you're—

BUFFETT: Yeah. But you know, if— we've done— I mean, we're selling Moody's at six times what we paid for it.

BECKY: Okay. Joe, I know you have a question too?

JOE: It's more of a comment. I was listening to Charlie and thinking about, you know, Andrew has written— a book on this. And— and w— Warren, Charlie was saying, you know, and they— they're— they're going do it and then they're— they're going— leverage to the point where they blow up and— and that'll be fine. And— and in any business, if you mess it up and you blow up, then you quickly learn you don't do it next time.

But it's that— it's the— either the government backing or being systemic so that you take down a country like Cyprus, that's what makes the difference. So we're back to two big d— if you're too big— and— and you're systemic and you take everyone down then you can't fail, so you can do these things. But in a perfect world, is it better to regulate these guys or just make it so that they can fail? I mean, it— it seems like it would be self— correcting, that bankers would not be able to—

(OVERTALK)

JOE: —they wouldn't be able to act like that, bankers. If they were going l— if they were going go out of business, somebody else, who was more prudent, would— would obviously take the place of those guys. But as long as they can't fail, then we need regulation.

BUFFETT: And one of the problems is, Joe, that when they fail, the people at the top often went away rich. So it isn't— it— it isn't like their calculus, when they leveraged up, was that if they would lose everything if it went bad and they needed society to bail 'em out. So it— it was the shareholders that— that lost 90 percent or more in— in— in— in— certain of the banking institutions.

But the managements, I don't know a CEO of one of the really big institutions, whether it's Freddie or Fannie or— or— or— or— AIG or— or— or a number of the banks, where the CEO went away— in— in any kind of financial distress at all. They went away rich. So they had a different calculus. And they— and— and in the case of the banks, they were off— able to offer government guaranteed deposits.

And in a case of Freddie and Fannie, they had the implicit guarantee of the federal government. And that enabled them to leverage to the sky. And I think it's perfectly appropriate that they be regulated in terms of the amount of leverage they— they could have.

ANDREW: Warren, would you put Berkshire and specifically I guess the insurance business has, given the size, in this systemically-important category that— that— that sometimes we put some of the big banks in?

BUFFETT: No — we can't— we can't issue government-guaranteed paper and— if you look at our resources, our earning power and everything, it— it's— it's an incredible percentage— you know, of anything bad that can— can happen to us.

BECKY: Well, for you specifically, the AIG got us in a lot of trouble. Should they—

BUFFETT: AIG has lo—

BECKY: Should the regulators be looking at the insurance companies as potentially the ones that could really get us in a mess next time around too?

BUFFETT: Well, regulators are looking at insurance companies all the time. I mean, we are regulated. And—

BECKY: But the insurance industry is saying, "No, you shouldn't look at us." Or— who's right?

BUFFETT: Now, I— no, the— the insurance companies are all regulated, but they're regulated by the states primarily—

BECKY: No, but they— by the states instead of the federal regulators who look after the banks.

BUFFETT: Yeah. I— AIG got in trouble basically 'cause— in terms of the deriv— derivative position they had. And I think they're changing the rules on derivatives. If the rules in terms of— of— of collateral and so on had been what they're going to be— it would've been a somewhat different struggle. It was— it was a very recklessly-managed institution.

BECKY: I— I guess my question gets back to the idea though that how safe should Americans feel if an insurance company can get us into that position, derivatives, if that's taken away, you think that can't repeat itself in other insurance—

BUFFETT: I— I think it—

BECKY: —agency?

BUFFETT: I don't think— I don't think— an AIG would be the type of problem. It— Berkshire itself, I mean, we have $200 billion in net worth, we always have $20 billion of— of equity, you have 200 derivative contracts. Lehman had hundreds of thousands, Bear Stearns had hundreds of thousands.

BECKY: Right. And—

BUFFETT: So—

BECKY: —the— the big— the big weapon is going to be something we haven't thought of, probably—

BUFFETT: That— that— (LAUGH) the next— we will have another bubble w— and it will burst, it won't be the same as the last one. That's been the history. We don't— we don't have one internet after another. You have housing after the internet. That— that—

BECKY: Andrew, I'm sorry—

BUFFETT: But capitalism will continue to have excesses, you can count of that.

ANDREW: Hey, Warren, I—

BECKY: Andrew, I'm sorry, you had a quick question—

ANDREW: Yeah, I just— I just wanted to ask, you know, a lot's been made of the fact that— you had a bear, a short seller, Doug Kass there— asking questions and I— I wanted to just get a postmortem. How— how do you think it went and w— what was the hardest question you think you got?

BUFFETT: Well, I don't think we really got any particularly hard questions. But— but (LAUGH) I think if— I think if—

(OVERTALK)

ANDREW: We tried to throw in some zingers.

BUFFETT: (LAUGH) Well, you know, we'll— we'll give the best answer we can. I mean, that doesn't mean we have— I don't have an answer, if you ask me what the stock market's going do next week, I have no answer at all. But— so there's plenty of questions I can't answer. But— but I— I thought the questions were good that we got generally, and— I think we—

JOE: Warren, Warren, Warren. You— you invited—

BUFFETT: One—

JOE : —you invited a guy who short your stock to come out after you— after you knew you were going report a 51 percent jump in net income. (LAUGHTER)

BUFFETT: That's the danger of being short. (LAUGH)

JOE: I mean, I— I can't— bring 'em on. You know, hey, that— I mean, and you knew you were going get 50 percent increase in net income and you got a guy who's short your stock. I mean, I— he shoulda known. He shoulda stayed home.

BUFFETT: He wants to come back next year, I have to say—

JOE: Oh, I'm sure he does. (LAUGH) I'm sure he does. God, it was the greatest thing in the world. But— you're not going give him a hu— you're not going give him $100 million, I guess, Charlie said no?

BUFFETT: (LAUGH) No, I don't— I don't think we can give him $1 million. (LAUGHTER) Maybe even a dollar. (LAUGH)

ANDREW: You can— you can double— what he manages if you gave him a million. No, I'm kidding. (LAUGHTER) I'm just joking.

BECKY: All right, guys. We're going take a quick break. (MUSIC) When we come back, Warren Buffett and I will be joined by a legend in the world of business and technology. Microsoft Chairman Bill Gates of the Bill and Melinda Gates Foundation, he's going be joining us for the rest of the show. This is just a few minutes away. Stay right here.

JOE: Welcome back to Squawk Box. Let's get back to Becky Quick in Omaha— with two special guests, I see them on, I don't recognize this other guy. Actually, I do recognize him. (LAUGH) He's pretty well known. All right, right back to you, Beck.

BECKY: Joe, thank you. You know, we've been spending the morning with Berkshire Hathaway Chairman and CEO Warren Buffett. Now we are joined by another very special guest, Microsoft Chairman Bill Gates of the Bill & Melinda Gates Foundation, and Bill, thank you very much for being here this morning.

GATES: Great to get up. (LAUGH)

BECKY: Well, we are thrilled to have the two of you sitting here with us together. People are going be watching this, realizing that you are two of the richest men in the world, and that's because you are two of the brightest businessmen. We've been watching the markets. We've been watching what's happening.

And I know that this is not something that either of you spend a lot of time wondering about. But our viewers are going to have a question, just what you think about where we've seen the markets headed. And we've talked with Warren about this, this morning. Bill, your thoughts. And again, I realize you don't look at these numbers every day. But people want to know what you think about this.

GATES: Well, I know less than Warren does. (LAUGH)


Microsoft Chairman Bill Gates

BUFFETT: You're in trouble.

GATES: You know, there's always the question of what's going happen with interest rates. It has this fundamental effect on things. You know, certainly you could say equities are a good deal relative to bonds at this point. But, you know, if interest rates are going go shooting up, you'd like to, you know, sort of stay short, (LAUGH) stay liquid. And so, it is definitely a overreaching figure that people have to think about as they're investing right now.

BECKY: In— in terms of what it could mean, what we haven't talked about this morning with either one of you is the currency markets. There are a lot of people trying to figure that out. Because it seems what central banks are doing right now is chaotic, particularly when you look at what the Bank of Japan's doing with the yen and what that means around the globe. Have either of you spent much time— thinking about that or going through any of those maneuvers? Any big thoughts from either of you on it?

BUFFETT: We talk about currencies. (LAUGH)

GATES: Yeah, they've been times in the past in between, like, World War I and World War II, where it was an effort for people to pr— depreciate currencies. I think this, in terms of simultaneously people trying to stimulate their economies by having very low interest rates and— weak— weakening their currencies, it's pretty unique.

And it's unfortunate for somebody who's trying to reboot their economy that they don't— they can't relatively get their currency much below. In the EU, they've given up that tool altogether. Everybody else, you know, you're— you're fighting— everybody with— almost everybody, with weakening currencies.

BUFFETT: It's easier to predict that interest rates will go up at some point, and probably substantially, than it is to predict which currency will— will gain versus another currency when that happens.

BECKY: I guess the big question is when, on all of those issues.

(OVERTALK)

BECKY: Like, when these things will run. Today happens to be the three-year anniversary of the flash crash. Since that time, there have been a lot of things that have shaken investors' confidence. You look at Libor and the rigging scandals that were there. You can just look through some of the issues at the CBOE, some of the things that they've been talking about at the CME, too.

On Friday, I sat down with Charlie Munger. And he talked a little bit about the high-frequency traders. Listen to what he said in terms of who he was comparing these traders to. Oh, we don't have the sound bite. But at the time, Charlie said this is basically legalized front running. What do you—

BUFFETT: I agree.

BECKY: —guys think about that?

BUFFETT: I agree. I mean, it— that— that's why these fellows exist and why they— they spend all— enormous sums on trying to get the speed of transmission, you know, that's— a millionth of a second or a thousandth of a second faster than the other guy. I mean— you know, it— it is not contributing anything to capitalism. And whoever gets the information, you know, can front-run just that slightest bit faster than somebody else. And they have algorithms that obviously— they're working with. They make money. But that is not money. Berkshire Hathaway, General Motors, IBM, does not make more money because somebody is front-running by a nanosecond— under orders.

BECKY: You know, it raises the question though, whether average investors can get a fair shake on Wall Street. And that's probably always been a question that's been out there. I don't know if this time it's a whole lot different than others. I mean, my dad has always looked at the market as kind of a Vegas in terms of being able to get in. Bill, you're looking at me—

GATES: Well—

BECKY: —skeptically.

GATES: —if you buy a stock and hold it for many years, the percentage effect of all these things we're talking about, you know, assume you didn't sell during the flash crash— or I guess some of those got reversed. You— you're— you still have— a bet that's fundamentally based on— on that business. I don't think trading in and out of the market with high frequency— makes sense for most— most people. And these frictional costs just add to— the fact of how crazy it is. I mean, you might as well go to Las Vegas.

BECKY: Okay. So—

(OVERTALK)

BECKY: —buy and hold is the solution to a lot of these problems, in other words—

GATES: Yeah. And that's really the— the primary function of the market is to have people provide capital to businesses— (UNINTEL) devaluation of those business— and that works just fine without— this high frequency or even— day-type trading.

BUFFETT: The flash crash didn't hurt any investor. I mean, you know— you're sitting there with— with a stock. And, you know, and the next day it— it— it's gone past. The— the frictional cosst in— in investing for somebody that does it in a real investing manner are really peanuts. I mean, they're far less than the cost in real estate or farms or all kinds of things. So it's— unless you turn it to your disadvantage by trying to do a lot of trading or something of the sort, it's a very, very inexpensive market to operate in. And— and all that noise should not bother you at all. Forget it.

BECKY: Hey, Bill. The— we talked with Warren earlier this morning about how once a year, he leaves the room for the Berkshire board meetings. And the directors sit around and talk about things that maybe they wouldn't feel as comfortable talking about in front of him. He doesn't know what they're talking about. You do. Can you give us any— any insights as to what type of things they brought up? (LAUGH)

GATES: Well, I agree with Warren. This is— one of the great improvements in— boards, is you get that person who's so wise, knows the company better, you know, has— a relation with everybody, get him out of the room and say, "Gosh." Part of the function of the board is to say, "Is our CEO— doing the best job possible? Is our CEO the right person? Are there things we're seeing where we could support the CEO in— in a different way?"

You know, in Warren's case, we've talked about security or— you know, health or— you know, make sure that we're performing our fiduciary duty. I think that's— a great thing. And it gets the board to think, "Boy, we are supposed to be, in certain cases, an independent voice." And we sit and talk about it. And— then we welcome— welcome Warren back into the room. (LAUGH)

BUFFETT: I wonder what they said. (LAUGH)

BECKY: So I know Joe Kernen has a question from back at Studio Two. Joe?

JOE: I— I want to ask— Bill if— some questions about his— philanthropy. And— and it would— based on something Warren said earlier. But— but first, I— I— I think we got to just ask you— about— you know, these— all these— tablets and, you know, PCs. Everybody's writing off the PC. You still do— Microsoft still does $80 billion a year doing— I don't know what the hell it does. But obviously there's something going on in the PC world to still do that— revenues like that. But what's the world— going look like? And— and— how does the cloud factor into what Microsoft will do in the future?

GATES: Well, the cloud is a gigantic opportunity. Because right now, there's so many things that you can in computing that just wouldn't have been possible before. So you've got a lot of the top companies going to seize that opportunity. In terms of the devices themselves, now Windows 8 really is revolutionary in that it takes the benefits of the tablet and benefits of the PC and it— it's able to support both of those. So, you know, if you have Surface, Surface Pro, you've got that portability of the— of the tablet but the richness in terms of the keyboard, Microsoft Office of the PC.

But as you say, PCs are a big market. The— it's going be harder and harder to distinguish products whether they're tablets or PCs— with Windows 8, Microsoft is trying to gain share in what has been dominated by the iPad-type device. But a lot of those users are frustrated. They can't type. They can't create documents. They don't have Office there. So we're providing them something with the benefits they've seen that have made that— a big category, but without giving up what— they expect in a PC.

JOE: Bill, what— what do you make of— of— of what's happened to— to both Apple stock price— and have you frankly— people have compared Apple to— to Microsoft over the— what may be the next decade, suggesting that they may grow more slowly.

GATES: Well, with tech companies, whoever's the leader is always questioned, you know. They say, "Is this the end of them?" And— there's more— more times people think that's the case than it really is the case. Eventually, they're right. And— they remember, "Okay, we said these people would— you know, have challenges."

You— we've got some amazingly strong companies— Apple, Google, Microsoft— companies coming up like Amazon, Facebook— Samsung, to some degree— Wong's in that mix. If you do deep software both on the client and deep services— if you have things that are unique for businesses which is a particular strength of Microsoft, the software business is an amazing business to be in, both in terms of growth and the profitability dynamics.

BECKY: How— how big of a problem is China when it comes to that?

GATES: Well, China has been— a disaster if you say per unit of your product that gets used, how much do you get paid? It's been over ten to one— versus— the United States. And even, like, four to one versus India. And so it is a uniquely high piracy market. Now, the trend line, that number's been coming down somewhat.

The place we have piracy in China that we don't in most of the world has been government institutions— state-owned enterprises, and large businesses. All over the world, you have— the challenge is you get down to the consumer, even to some degree, small business. But here, we have— a challenge with these large entities. It is improving but fairly slowly. So there's a constant dialogue with the companies, the government, about how to get compliance rates up— up to be higher.

BECKY: Okay. We're going continue this conversation with Warren Buffett and Bill Gates. Squawk will be right back.

BECKY: Again, Warren Buffett and Bill Gates are here with us. And— Bill, I wanted to ask you a little bit about something you wrote in your annual letter this year. Just in terms of measuring innovations. You were talking about this specifically for delivery systems, things like for the next seed that's out there or for an immunization, getting those to the people who need them. And you talked very specif— specifically about how you need to measure how that is working. And I had never thought about it from that perspective before. Can you explain what you mean by that? Because there were some big terms . I had to read through it about three times before I kind of got the concept.

GATES: Well, capitalism works best when things can be measured. And helping the poorest are the same. You know, you may have government donors or philanthropic donors. And so picking, say, which seed to improve,

and then you improve it, does the farmer really use it? Does it give them productivity? Do they— have you educated them in the best practices?

Or have you created something that requires fertilizer which they can't get— or tools that they— they don't have available? So there's all this well-meaning— thinking going on. But the actual benefit always ends up being so much less than, you know, people with new tools might think. And the only way to get around that and to see where it's hard and to see what you need to do more of, is to be able to measure, measure the health improvements and measure the agricultural productivity.

And you'd be amazed at how weak these numbers are. Most of them are just huge interpolations where they measure— less than 1 percent. And they sort of assume that the rest is the same. And even population numbers, GDP numbers— as you get to these poor countries— it makes the normal statistics that you look at, which sometimes have flaws, they are so much worse.

And so our foundation's had to invest in, okay, how could we do satellite maps to look at these crops— and see what's going on with them? How can we use more surveys, more regular surveys, to ask people about health-type things? And that's been— a big way of seeing that some interventions just aren't working, and some are miraculous.

BECKY: You pointed out that this is something that's really nec— necessarily, particularly in times of tight budgets. And we have seen tight budgets all the way around the globe. We've gone through a very difficult point where I know charitable giving suffered in a big way, too. Have you seen, you two with your globetrotting efforts to try and— raise awareness of philanthropy and get people to give more money, has it improved, like we've seen the wealth effect with jets and other issues?

GATES: Well, you have this trend of there being more rich people— billionaires or whatever level you take. And so that will lead to philanthropy going up over time. Then you have the— the idea is that— is it something people consider that lots of people are doing? And I'm optimistic that's going up over time. So you had the blip of— the financial crisis that— that hurt a lot of things. The government budgets are very tough because when you talk about aid to the poorest, overwhelmingly, that comes from government budgets.

I mean, philanthropy is fantastic. But in terms of buying AIDS drugs— the vast majority of that is the generosity of the U.S. government. When you look at buying bed nets, when you look at all the different aid activities, and— most countries, as they've squeezed their budgets, have cut back on those things. A few like the United Kingdom have gone up— even despite big budget cuts. So it's harder to raise money— now than— than it's ever been.

BECKY: Joe, I know you have a question too?

JOE: Based on something Warren said earlier— when he's— addressed it to— to Mr. Gates, and Warren pointed out that a lot of— of basic science and a lot of money that goes into science is— is directed towards extending— longevity rather than figuring out a way to pay for it. And it's very expensive.

A lot of these things that we come up with, whether it's drugs that cost $200,000 or $300,000 a year or— or techniques or organ transplants or whatever it is, not everyone— we can't afford for everyone to live forever. Are— are we not funding some of this properly in terms of what we're doing? And— and— if this is a throwaway, Ray Kurzweil, thinks that by 2045, we're— we may be able to do something in terms of living much longer than— than we live right now. How are we going do this?

GATES: Well, they— there's two key factors from this. The first two is the ratio of your working life to your retirement life. And so if that ratio's staying the same, then you know, it's all okay because your contribution to retirement health care is scaling up with the extra length of that retirement period. So, you've got to look at that variable. The other variable that's interesting and— the foundation funded a thing called "The Global Burden of Disease," is the— chronic diseases— where you're sick but staying alive—

like a Parkinson's or— diabetes, or versus acute disease— like a lung cancer where you don't live very long.

The rise in chronic disease is a big challenge. And we need to get our innovation, our risk-takers, we need big incentives for them to go after these chronic diseases. Because only by having lots of solutions there— do you avoid the— the reduction in acute, which gives you longevity throwing things completely out of whack. So overall, I'm optimistic, not like— I'm not optimistic like Ray Kurzweil. He— (LAUGH) he—

JOE: 2045.

GATES: —his longevity—

JOE: Imm— immortality by 2045, a transplanted or— I don't know what we do with the brain. That— that makes it a little bit more difficult. But— we might make it. I'm optimistic. I don't know. We might make it to— (LAUGH) we might make it to for— but it's going be expensive if no one dies.

BECKY: Warren?

BUFFETT: Well, Bill and I talked a lot— over the— last couple of years about the incentives in medical research are not to bring down cost. They are— they are actually— whether, not— perhaps by accident, but they are actually going to produce more and more increased cost. Because— they— somebody goes to work on a given solution to a given problem, the cost of that solution is not really part of the calculation— or any significant part. It's just getting the answer, and no matter what the cost is.

BECKY: But— I guess we want that, but we can't pay for it.

BUFFETT: The problem.

BECKY: That's the problem with it. Andrew, you had a question too?

ANDREW: Yeah. I would be— going just follow up with Bill. You know, on the last hour, Bill, we talked to Warren a little bit about tax policy. And I— you know, there's now a conversation about capping charitable ded— charitable deductions. And I just wanted to get your thoughts on, you know, what you think the impact of that will be, and— and if something like that existed, how it might've changed or would it have changed the way you approached your philanthropy, and— and the same for Warren?

GATES: Well, the answer is— is no, it wouldn't have changed what I do in terms of charity. You know, if you give away 90 percent of your money, the deduction doesn't— is not— not beneficial to you— in any— any meaningful way. I do think that the— having an estate tax where giving to a foundation— is exempt from that, and having charitable deduction, is a very good thing.

You know, limiting it to a 28 percent rate, I— I don't think will have a dramatic impact. It— it probably would have a slight negative impact. But I don't think that would be super dramatic. If they were going get rid of that deduction altogether, I think that— that could change behavior and— and would be unfortunate.

BECKY: Warren?

BUFFETT: Well, yeah. In the case— in the case of Bill and myself— I got to use less than 1 percent of what I— (CLEAR THROAT) gave away in terms of a charitable deduction. Less than 1 percent of that showed up on the income tax return. The last 99 percent I got no deduction for at all. And I'm sure— you know, Bill and I might have carry-forwards that, you know, mine's $11 billion and his is probably— (LAUGH)

GATES: Yeah, I— I had— I gave $20 billion in 2000 and that— that expired; 98 percent of it expired unused.

BUFFETT: Yeah, well my— 99 percent. Mine expires— but anyway— it's not a factor. I would say this. Of the people at the high end in our giving pledge, I don't think it would make a lot of difference. I think sort of in the intermediate area of— of wealth and income, I— it could make a fair amount of difference.

BECKY: Okay. Where— we're going take a quick break. When we come back, we will have much more from Warren Buffett and Bill Gates.

BECKY: Welcome back to Squawk Box everyone, I'm Becky Quick. And we are live in Omaha, Nebraska this morning. We are joined by Berkshire Hathaway Chairman and CEO Warren Buffett, and Microsoft Chairman Bill Gates, who is on the board of directors for Berkshire Hathaway. And— guys, one of the things that we haven't touched on today is what's happening with immigration.

Bill, I know this is something you've talked about in the past where you do believe that immigration laws need to be altered. It looks like we are closer than ever to getting something done. How important is it in terms of what it will mean for technology workers, though?

GATES: Well, I think there's two issues here. One is the high-skilled worker part— where this group of eight has come up with something that's— that looks pretty good on that and it's— bi— bipartisan. And then there's the overall issue where you have this great injustice of a kid who— is undocumented, not being able to get scholarships, not being able to participate in a lot of things. So I think it'd be fantastic— to get this issue resolved. And as you say, it looks more hopeful now than— in the past.

BECKY: And the one question people had is whether the situation would— in Boston would make it much more difficult to get through the House in particular. The Boston bombing.

BUFFETT: It shouldn't. It shouldn't. No. I mean— take one case and then extrapolate it, and— and— and say that that should affect all of immigration policy does not make sense. And look, we— we ought to be attracting the kind of people we want to attract. And we certainly— do not want to kick out of this country, you know, all— billions of people— that— that are here. And I think it's in both parties' interests (LAUGH) now, which it's more important, to— to pass an immigration bill— and— so I think you'll see it. I mean, it— it's in their self-interest.

BECKY: You mean because of the voting pattern—

BUFFETT: Yeah—

(OVERTALK)

BECKY: —that what happened in the last election?

BUFFETT: —the Republicans that are scared silly that we got— losing more and more of a minority vote— in the future and— and the Democrats are for it based on principle. So— (LAUGH)

BECKY: Another issue in Washington is— the online sales tax,— being collected by online retailers. That again is something I think the Senate's expected to vote on today. Is it fair? Is it right? And should online retailers be protected— in a way that they hadn't been before, either one of you?

GATES: Well, the bill that asks them to collect these taxes make a lot of sense. It— it's very unfair to the person who's got a physical store that not only do they have those expenses— but that the other person isn't collecting the sales tax. So this— this is— it's a good thing for state budgets. It's a good thing for fairness in terms of the— the competitive framework.

BUFFETT: Yeah, I think the fairness argument is compelling. You've got thousands of merchants here in— in Omaha. And to have people walk into those stores, look at the item and then order it from somebody out of state and then not pay a sales tax have it be a differential cost, I think— just— it's just unfair.

BECKY: Yeah. Joe, you have a question as well?

JOE: (LAUGH) Yeah. I— I mean, as long as— as— Gates is CI— there are big issues that I'm thinking about. And I— this is something that was in the news last week. I'm just— I'm going to ask it a certain way, Bill. Bioethics. Is it keeping up wi— with technology? And I'm talking about the Chinese scientists have put a bird flu together with the swine flu. Do you think about technology and— and things like this and— and I mean, you— you talk about a brave new world that we're in. Are— are we safe? Can we trust all these different countries though, to abide by— you know, prudent science when we've got this stuff— at— at our disposal? I mean— a very contagious bird flu virus would not help anyone.

GATES: Well certainly, the whole area of genetics, though, give us a lot of ethical challenges. And if you want to think about a nightmare scenario that's even worse than— a nuclear bomb going off— bioterrorism is the area that you— you've got to be concerned. Because, you know, the right sort of construct— either intentionally created or unintentionally created, could do so much damage.

The— in the scientific community, there's been this debate about, should— should scientists figure out which mutations would cause, say, a flu to get worse? And then they can see if that's starting to happen and— be more alert. Or should they not try out those things because that information might be— get into the hands of somebody who would misuse the information?

And that is a very tough discussion. Lots of reasonable scientists have disagreed— about the— the right approach there. But— it— it is an area, you know, we're lucky that we haven't had a bad flu pandemic— and the fact we had a scare and it wasn't that ba— that bad, made us get a little more prepared. But we're— we— we would still— it— it would still be a huge problem.

BECKY: Warren, you've spent a lot of money trying to prevent nuclear— bombs from getting into the wrong hands.

BUFFETT: Yeah, and nuclear, chemical and biological. I mean, there are per— people in the world that wish ill on— on— theie neighbors and— and— and— would like to— kill as many people as possible. And— the choke point— is not so much knowledge anymore, with knowledge spreading so much, but— but materials. And— and— I think we've been very fortunate and probably quite vigilant, you know, since 1945 when we unleashed the atom— in avoiding it. But the biological, you know, as Bill says, is probably more of a danger than— than the nuclear.

BECKY: We're going to— go to a quick break right now. And— Joe, I think when we come back, we'll have some final thoughts from Warren Buffett and Bill Gates.

BECKY: (LAUGH) Welcome back, everybody. Right now we have more from Berkshire Hathaway Chairman and CEO Warren Buffett, and Microsoft Chairman Bill Gates who is a board member at Berkshire Hathaway. Gentlemen— I was thinking about how much Berkshire has changed. And Warren, you've written about this in the annual letter. But— when you look back to just— about eight years ago, you can look at the biggest bu— businesses for Berkshire outside the insurance companies. It's MidAmerican, Lubrizol, ISCAR, Marman, and BNSF. And four of those companies were not part of— of— of Berkshire just from when Bill joined the board back in 2004.

BUFFETT: Yeah, we had one of those then, yeah.

BECKY: How has your investing strategy changed, and why?

BUFFETT: Well, we've always liked buying businesses. But we've had much— a fair amount more success in the last eight years. So well, you named five companies. We had one of those earning a little less than $400 million pre-tax then. Now we got the five making a little more than $10 billion. So it— it's— we're transforming Berkshire as we go along. It's a work in progress.

BECKY: You know Bill, from the perspective of being in the board— has your job changed over that period of time? Is it different as you've been— adding more businesses and the business just looks so different?

GATES: Well, the key role of the board is— supporting Warren, talking about the succession plan. And so that's pretty much the same. It's m— it is more about wholly-owned businesses and less about trading stocks. And in that sense— the— the value's very enduring. Because those business franchises are— you know, just— amazing assets. So it's— I think it's a really great maturation process— that bodes well for the— the future of the company.

BECKY: The future of the company. How will the board's role change with the next CEO who comes in? My guess is, things are going be run a little differently.

GATES: Well, you'll certainly have a period of supporting the new CEO where— you know, we'll have some institutional memory and— want to make sure he— he gets into the job very well. So I think things will be more intense then— than they have been. You know, there'll be a lot of questions about the company that— all of us on the board will, you know, lend our time and our reputation to talk about what an enduring— incredible company Berkshire is, and make sure that's— that's really what's— what's happening.

BECKY: You— you've talked about how succession is the number one topic that the board talks about. You have a board meeting that starts in about half— or I guess an hour and a half from now. Is that going be the top— topic of discussion today as well?

GATES: It's always the— the main topic. Warren's good about letting us bring up anything we want. But we all know that— that's— that's what— the main thing we're there for, and— we go through it— even when there isn't that much of a change. We make sure that nobody in the room— has new information or new thinking— because it's such a critical decision.

BECKY: All right. Andrew and Joe, I'll give you the last 30 seconds each if you have a quick question that you want to ask.

ANDREW: Hey Bill, you have a very special friendship— with Warren. And I— I never even like to think about this. But in— in a post-Warren world, ten years out, do you imagine you'd still be a board member of Berkshire Hathaway?

GATES: Absolutely. Absolutely. That's one of the things— that I can do as a favor to Warren.

JOE: You g— we got no time, Warren. You going give me the jet — I mean, I— is there some kind of ceremony or something that you've got planned, (LAUGH) it's— it's— we— you got like, 40 seconds now. You're not going to, are you?

BUFFETT: No, I was planning— no, no. I was planning to do it until he said "ten years out," and you said 25 years out.

JOE: I— I know. I heard— I heard that. What— that— that was— that was cold, man.

ANDREW: That was—

JOE: That was cold.

(OVERTALK)

JOE: —past 92?

ANDREW: No, no, no, no, no. I meant ten years— no, look. Warren's going live till— till at least over 100, 100— (LAUGH) and I'm thinking ten years— no, it's ten years after.

JOE: You know what? Warren, I— I heard that question. That was cold, Warren.

ANDREW: No, no. Warren, I— I—

JOE: I heard that, too.

ANDREW: That wasn't the intention at all.

JOE: You know Sorkin, he's going live forever 'cause he's in his 30s.

ANDREW: No, Warren's going live forever.

JOE: Yeah, he is. (LAUGH)

ANDREW: We're all going— to be very happy about that. So— it's been great to—

BECKY: Guys, I will let you in on a secret real quickly. Just that even if you think I never do anything for you, I just want to tell you about the hazards of working here. We're in a big hangar, there are a lot of birds. One pooped on my head ten seconds before we came back to air. Look. (LAUGH)

JOE: Oh my god.

BECKY: It's there. (LAUGH)

BUFFETT: Only in Omaha.

JOE: Only in Omaha. Indoors, holy smokes. All right. That was great, thank you, thank you.

BECKY: Warren and Bill, thank you both very much.