CHARLIE ROSE: Warren Buffett is here. As you know, he is perhaps the world's most respected investor. He's also chairman and CEO of Berkshire Hathaway.

He has been on this program many times. I last spoke with him over a year ago at the peak of the worst economic crisis since the Great Depression. At that time, he said that America had been struck by an economic Pearl Harbor, but much has changed since then, and he's here to tell us how he views a global and American economy in recovery.

His own company reflects the progress made in recent months. Last week, Berkshire Hathaway struck a $26 billion deal to buy all of Burlington Northern Santa Fe railroad, the largest acquisition in company history. He called the deal an all-in wager on the American economy. He is in New York for a town hall event that he held with Bill Gates at Columbia University yesterday. He graciously agreed to stay over in New York an extra night, and I am pleased to have a good friend of this program and a good friend of mine back at this table. Welcome.

WARREN BUFFETT: Thank you, Charlie. Pleased to be here.

CHARLIE ROSE: Great to see you. It has been, certainly from the middle of 2008 to the middle of 2009, one incredible year.

WARREN BUFFETT: One incredible year. One to a lifetime, I hope.

CHARLIE ROSE: Yes. Tell me about it for you.

WARREN BUFFETT: Well, it was-- it really was an extraordinary time in this country. We came closer to a financial meltdown than certainly any time I have ever seen, and probably in certain respects even -- there was even more panic than the Great Depression, because it came on so fast and so unexpected.

And the whole country wanted to deleverage, corporations, individuals, and fortunately we had a government that responded. It was -- when we talked last, it was a little question of whether Congress would respond like they should. They finally did, and I -- I felt they would in the end. I mean, in the end, they come together for things that are this vital to the country. But we had the right people in Washington. If we'd had a group that behaved like a deer in the headlines, that deer would have gotten run over.

CHARLIE ROSE: So Paulson and Bernanke and Geithner were the right people at the right time, and you don't know what might have happened if others had been in those positions of power.

WARREN BUFFETT: I can think of others-- I'm not going to name them-- but I can think of others where the ending would have been with us in the abyss rather than just peering down into it.

CHARLIE ROSE: You made some investments during that period.

WARREN BUFFETT: Right.

CHARLIE ROSE: General Electric, Goldman Sachs.

WARREN BUFFETT: Goldman Sachs.

CHARLIE ROSE: But you just pulled out the big elephant gun.

WARREN BUFFETT: Well, we may have used most of our powder on that one.

(LAUGHTER)

CHARLIE ROSE: You said I stretched to the last nickel for this one.

WARREN BUFFETT: Yes.

CHARLIE ROSE: Why did you do it?

WARREN BUFFETT: Well, I felt it was an opportunity to buy a business that is going to be around for 100 or 200 years, that's interwoven with the American economy in a way that if the American economy prospers, the business will prosper. It is the most efficient way of moving goods in the country. It is the most environmentally friendly way of moving goods, and both those things are going to be very important.

But the biggest thing is the United States is going to do well. I mean, we can't move the railroad to China or India. They haven't figured out how to do that. So you know, it's sort of like if you remember that song about New York-- we have to make it here or we can't make it anywhere.

CHARLIE ROSE: Frank Sinatra.

(LAUGHTER)

WARREN BUFFETT: But it does move 400 -- it moves a ton of goods 470 miles on one gallon of diesel. It replaces -- a train replaces 280 trucks on the road. It emits far less into the atmosphere that's damaging than trucking, and it moves-- I'm talking about the whole rail industry-- it moves 40 percent of the goods.

CHARLIE ROSE: And you have new ports of entry like Houston that are bringing a lot of goods...

WARREN BUFFETT: Oh, sure.

CHARLIE ROSE: ... through the Panama canal.

WARREN BUFFETT: And we're going to have more people in this country and they're going to be using more goods over time. And sure, there's a bad year from time to time. In the next 100 years, there will probably be 15 bad years, and I don't know what order they'll appear, but I also know the railroads will be essential to the country.

CHARLIE ROSE: Now, when you called Charlie Munger and said I'm thinking about this, did he say right on, Warren? Or did he say, how about this?

WARREN BUFFETT: Well, if Charlie said "right on, Warren," I would figure I had the wrong number. No, that would be a wrong number.

CHARLIE ROSE: That's not the likely reply.

WARREN BUFFETT: That might be my wife or my, you know -- but Charlie gave kind of a low-level grumble, and that is a real endorsement from Charlie.

CHARLIE ROSE: But I mean, he also pointed out, it is said, that, you know, there was-- this was a regulated industry.

WARREN BUFFETT: Sure.

CHARLIE ROSE: This was an industry that was capital-intensive.

WARREN BUFFETT: Very capital-intensive.

CHARLIE ROSE: This was an industry...

WARREN BUFFETT: You spend money...

CHARLIE ROSE: That was unionized.

WARREN BUFFETT: It was unionized. You spend money in this business regularly every day. You're spending a lot of money to repair track, add rolling stock, whatever it may be. So it's capital-intensive, and it is regulated, and it will continue to be regulated, and it will continue to be capital-intensive.

I think that what the service provided by railroads is so important in many ways. I mean, it's the right way to move goods around the country to the extent that you can do it. And it's far, far more attractive in terms of global warming than using trucks, for example. So it will be here, and if we get a reasonable return on the added capital investment-- because it will take added capital investment-- we'll do OK.

CHARLIE ROSE: Reasonable return is good enough?

WARREN BUFFETT: Reasonable return is good enough, Charlie. I mean, 50 years ago, I was looking for spectacular returns, but I can't-- I can't get them. We have-- we have eight or $10 billion to invest every year. And we're in the utility business, and it's the same thing there. When we build electric generation or something of the sort, we shouldn't expect a spectacular return. We're building things that are essential to society, and people need our services. They really don't have any choice in the case of the electric utilities, for example, and sometimes in case of rail. And we should get a decent return on that. Enough to encourage us to keep putting money into the business, but we're not entitled to spectacular returns.

CHARLIE ROSE: You carry coal?

WARREN BUFFETT: Well, that's a big one in terms of tonnage, yes.

CHARLIE ROSE: And if, in fact, we wean ourselves off coal, is that a big problem?

WARREN BUFFETT: Well, we will wean ourselves off coal over time. We can't change 40 percent of electric generation that goes-- that comes from coal. We can't change that next week or next month or next year, but we will reduce it over times, and we should reduce it over time.

CHARLIE ROSE: And you can add other things to carry and changes will be...

WARREN BUFFETT: There will be more grain to move, and there will be more all kinds -- chemicals-- or whatever it may be. There will be more things moving around this country 10 or 20 or 30 years from now.

CHARLIE ROSE: Knowing your idea about moats, is it a pleasing idea that no one is likely to get into the railroad business?

WARREN BUFFETT: If they wanted to reproduce the Burlington Northern Santa Fe, it might take $100 billion or so.

CHARLIE ROSE: And 100 billion years.

WARREN BUFFETT: They'd have to be a real sport.

(LAUGHTER)

CHARLIE ROSE: And they are also modernized today, are they not?

WARREN BUFFETT: Enormously. Enormously. The railroads-- take a railroad like BNSF. They're moving far more ton miles of product with less in the way of people, less in the way of fuel. Railroads have become far more efficient over the years. There were a million and a half people employed in the rail industry after World War II. Now there are about-- less than 200,000 in the United States, and they're moving far more goods. So it's really become efficient. You watch those 130-unit trains double stacked...

CHARLIE ROSE: You had other railroad companies in your portfolio.

WARREN BUFFETT: Right.

CHARLIE ROSE: You're selling them?

WARREN BUFFETT: I've already sold them. Yes. I've done that just to facilitate the transaction. I think they're good investments, but I would have held them if this hadn't happened.

CHARLIE ROSE: When you look at the future, there's also the argument made that this is something that goes with your philosophy today-- get out of cash and get into assets. Because we don't know what's going to happen to the dollar.

WARREN BUFFETT: Well, cash is always a bad investment. I mean, when people say cash is king a year ago, I mean that's crazy. I mean, cash wasn't producing anything, and it was sure to go down in value over time. And then you always want to be sure you have enough. It's like -- like oxygen -- you want to be sure it's around, you know. But you don't need to have -- you don't need to have excessive amounts of it around. And cash, we will always have enough cash around.

CHARLIE ROSE: Yes.

WARREN BUFFETT: But anytime we have surplus cash around, I'm unhappy. I mean, I would much rather have good businesses than cash. And we found a chance in the last year, thereabouts, to deploy -- we came in with something over $40 billion in cash ...

CHARLIE ROSE: Right.

WARREN BUFFETT: ... and we have got about $20 billion now, and we've had some earnings. So, we -- we've put a lot of cash to work. And I like that. No, I'd much rather own a good business than have cash.

CHARLIE ROSE: And it is a hedge against the dollar?

WARREN BUFFETT: Well, you can say all assets are a hedge against the dollar. I mean, but -- all you know is that the dollar is going to be worth less 10, 20, 30 years from now. I say "worth less." Not worthless.

CHARLIE ROSE: Right.

(LAUGHTER)

WARREN BUFFETT: You want to watch that. But it will be -- you know, and that's true of almost every currency that I can think of. The question is how much it depreciates in value. But cash -- cash is not a place...

CHARLIE ROSE: Now, why is that?

WARREN BUFFETT: Well, because ...

CHARLIE ROSE: ... that the dollar is going to be worth less?

WARREN BUFFETT: Because we'll print more of them in relation to the amount of goods that are moving. You know, if we dropped -- if we dropped a million dollars of cash into every household in the United States today, everybody would feel very good except the people that invested in things that were denominated in dollars. You know ...

CHARLIE ROSE: Exactly. Got it.

WARREN BUFFETT: There will be no tendency toward deflation in this country over time or -- or virtually ...

CHARLIE ROSE: A tendency towards inflation.

WARREN BUFFETT: Absolutely.

CHARLIE ROSE: OK.

CHARLIE ROSE: In all the conversations we've had, I never thought that I would sit with you and we would talk about a 50:1 split of a class B stock.

WARREN BUFFETT: Right. Right.

CHARLIE ROSE: I mean, this had to be a hard one or not?

WARREN BUFFETT: I think I had a lobotomy one night and I didn't know about it. It is -- it is not -- it is not natural for me, but it was needed to facilitate the small shareholders of BNSF getting the same deal as the big shareholders.

CHARLIE ROSE: Right. Right. Right. Will it also qualify you for the S&P index?

WARREN BUFFETT: Well, it probably makes it a little less -- a little more likely over time that we get in there (ph). It makes it easier for S&P, because we're by far the largest company that's not in the index ...

CHARLIE ROSE: Yeah.

WARREN BUFFETT: ... and -- and we'll probably-- my guess is that they'll consider us for it.

CHARLIE ROSE: And you'd like that?

WARREN BUFFETT: I certainly wouldn't mind it. But I don't -- but I don't -- I mean, it's not -- it's not on my wish list for Christmas.

CHARLIE ROSE: It is not on your high lust list.

WARREN BUFFETT: No, no, no. The big thing is what happens to the value of the company. And the shares will take care of themselves if we build value.

CHARLIE ROSE: Yeah. When you -- when you look at the railroad business, it has a romance to it. You had a railroad track, I guess, in your attic, didn't you or some ...

WARREN BUFFETT: I still do. I still do. I hope they don't make me sell it for antitrust reasons.

(LAUGHTER)

CHARLIE ROSE: Take a look at this tape.

(VIDEO CLIP)

WARREN BUFFETT: My heart's beating faster after watching that. Throwing Grace Kelly in the middle of the road, I would have paid more.

(LAUGHTER)

CHARLIE ROSE: J.P. Morgan also owned the railroads, didn't he?

WARREN BUFFETT: Yeah, and he was -- he ...

(CROSSTALK)

WARREN BUFFETT: In fact, there was a huge fight over the Northern Pacific ...

CHARLIE ROSE: Right.

WARREN BUFFETT: ... which is one of the predecessor roads. And -- and you had -- you had two factions, and Morgan was lined up on one side. Yeah, he was -- he was very involved.

CHARLIE ROSE: Last night at Columbia, you said that the economic panic is over.

WARREN BUFFETT: Yes.

CHARLIE ROSE: Where do you think we are?

WARREN BUFFETT: Well, I can tell you where we are today. I can't tell you, you know, what's going to happen tomorrow. But we've got 70-some businesses -- so I get a lot of -- the panic is over. I mean, now money's flowing. I mean, because we're in a recession, there's not as much demand for money, and money isn't flowing to really dumb projects like it was a few years ago, but money is available now. And the panic is gone, and credit defaults spreads have come down dramatically.

But that panic that spilled over into the real economy last fall, really, has -- it's left -- it's left real scars on the American public psyche. I mean, the reset of how they spend their money and how they're thinking about their future changed in a big way last fall, and that -- that has not come back. And so in our businesses, they've bottomed. But they're not -- there are very few upticks. It's more or less flat right now. But it will come back, Charlie. I want to emphasize that. But it has not changed much since so far.

CHARLIE ROSE: Do you have any sense of timing about that?

WARREN BUFFETT: I really don't. I mean, you know, it -- I keep watching, and it will come back. And people are not panicked anymore, but they're behaving differently than they did a year ago.

CHARLIE ROSE: Saving more, taking less risk.

WARREN BUFFETT: They're taking less risk, and they're more worried about ...

CHARLIE ROSE: Budgeting better.

WARREN BUFFETT: They're worried about their future, more people are. You know, they have -- they have seen something happen that they didn't -- wasn't really in their -- in the scope of what they thought was possible.

CHARLIE ROSE: You have said for a long time that we are too much of a consuming society, not enough of a saving society. Will we now become a saving society?

WARREN BUFFETT: Yeah, we'll probably become a saving society, but of course the government demands for borrowing will be such that even with a lot of borrowing from abroad, there will be a lot of borrowing required from within the country.

CHARLIE ROSE: And where is the consumer demand going to come from?

WARREN BUFFETT: Well, it will come back eventually. I mean, we -- you know, our system will still work. But we have -- you know, we talked last year about the patient, you know, being on the floor with a cardiac arrest ...

CHARLIE ROSE: Yeah. Right.

WARREN BUFFETT: ... and we're not out of the hospital yet. But we will come out of the hospital. This -- the things that made America what it is have not disappeared, and they will -- they will assert themselves with time. But if you have way too many houses, you know, it's going to take time to work that off. If you've got a commercial real estate problem where people just borrowed too much money and bought in at too low cap rates and all of that, that does take time to work off. That's happened to us in the past, though, too. It happened in the 19th century, it happened in the 20th century at various times, and we've always come back stronger.

CHARLIE ROSE: Commercial real estate is really in trouble.

WARREN BUFFETT: It's a mess.

CHARLIE ROSE: You're in the underwear business, you're in the ice cream business. You're also in utilities.

WARREN BUFFETT: Right.

CHARLIE ROSE: There was even a depreciation in demand on the part of -- for electricity?

WARREN BUFFETT: It's amazing. We're -- in both Iowa, Midwest, and then we also have the Pacific Northwest and the mountain states, and everywhere you expected to see a big drop in industrial demand, but if you take weather-adjusted behavior of residential customers, it fell off. And it was like nothing we've seen since World War II. You know, it doesn't mean that it goes down 20 percent in residential or anything, but this was an absolutely different experience than anything we've seen since World War II in residential usage.

CHARLIE ROSE: Is one of the things that is going to come out of this crisis, that the demand for products, somebody else is going to have to shoulder that demand, create that demand, other than the American economy?

WARREN BUFFETT: No, the American -- the American economy will come back. It won't be tomorrow, and, you know, it won't be exactly the same. But in the end, we have not -- we've not changed the American people in their capacity to innovate or their excitement about -- about becoming more prosperous, and coming up with new ideas. There are -- businesses will be formed. Businesses will expand. But not much tomorrow.

CHARLIE ROSE: You have said we may need more medicine. Meaning more stimulus? More what?

WARREN BUFFETT: No, we had a lot of medicine, and we're going to have a lot of after-effects from the medicine.

CHARLIE ROSE: We'll talk about that in a minute. Yes.

WARREN BUFFETT: Yes, but they -- the stimulus was not perfectly executed. Nothing's perfectly executed, I mean. I shouldn't be criticizing. But ...

CHARLIE ROSE: Why shouldn't you be criticizing? Don't we learn from that? I mean ...

WARREN BUFFETT: Well, oh, yeah, no, but I mean, overall, if they get the job done, I don't believe in picking too much at given -- given actions. But, you know, there should have been more infrastructure in there, and they hung a Christmas tree under it -- as I said, sort of like mixing half a tablet of Viagra with candy. I mean, it would have been better to leave out the candy and have the full take -- full dose of Viagra.

(LAUGHTER)

CHARLIE ROSE: But do you think we need a new stimulus, and because the other one -- the previous one, the only one was flawed?

WARREN BUFFETT: No, I think we can reserve judgment on that. I think just the holiday season will tell us something when it comes. And I would say that so far from what I've seen, you know, I don't think it's going to be that big of a holiday season, but we'll know -- we'll know that in a month. And let's see what happens on that.

CHARLIE ROSE: You've also said that America will still be the best place to invest your money.

WARREN BUFFETT: Absolutely.

CHARLIE ROSE: In terms of American companies, in terms of everything.

WARREN BUFFETT: Everything. You know, if you look back a couple of hundred years, we've gotten where we are not because we've gotten smarter or not because we work harder. We've got it because we found ways to unleash more of the human potential. And what does that? Well, a rule of law helps. A market system helps. Equality of opportunity helps. All of these things that are still a fundamental part of the American system. As a matter of fact, the American system is now better than it was a couple of hundred years ago, because until the 19th Amendment, you know, we've had half the talent in the United States that wasn't entitled to do much. So we've got a great system.

CHARLIE ROSE: But what's happened is that the rest of the world, especially China and India and places like that, have grown and have enormous potential now and that are growing faster than we are.

WARREN BUFFETT: That's terrific.

CHARLIE ROSE: That's terrific? It means the pie's bigger?

WARREN BUFFETT: Sure. The world is not a zero-sum game. I mean, if we had our choice of being an island of prosperity in a world of 6.5 billion people, most of whom were struggling, or being the same country with other people prospering, the latter is much the better choice, particularly in the nuclear world. You do not want -- you don't want billions of people with nuclear capacity ...

CHARLIE ROSE: Right. Right. Right.

WARREN BUFFETT: ... envying you and feeling that somehow you've gotten all the goodies of the world. So, we will grow slower relative to a China, significantly slower, but they're starting from much of lower base.

CHARLIE ROSE: But at some point, mid-century, they'll have a larger economy than we will.

WARREN BUFFETT: It's going to be a long time.

CHARLIE ROSE: You don't believe that, though?

WARREN BUFFETT: Well, larger on a per-capita basis is a long way ...

CHARLIE ROSE: I don't mean per capita, but a larger growth economy.

WARREN BUFFETT: That's true.

CHARLIE ROSE: They'll have a larger growth domestic product than we will.

WARREN BUFFETT: They have four times as many people as we have, they're going to -- they will have a larger overall economy. You know, they will grow faster than we will grow, but they're starting from a much lower base. I mean, you know, I'll meet some guy in the street today whose net worth will be growing faster than mine on a percentage basis, but if I start with a big enough number, it will be a while before they catch me.

CHARLIE ROSE: Oh, yes. This is also different for China. They now, you know, have certainly -- you are invested in a Chinese automotive and battery company ...

WARREN BUFFETT: Right.

CHARLIE ROSE: ... of which the founder, a 43-year-old entrepreneur, is somebody that you would admire wherever he was from.

WARREN BUFFETT: That's right. And some of the things ...

CHARLIE ROSE: And he has a bit of you in him.

WARREN BUFFETT: Well, yeah. He speaks Chinese, I don't. Yeah. That fellow is probably going to do remarkable things.

CHARLIE ROSE: He's the richest man in China now.

WARREN BUFFETT: That's right. But I think if he does remarkable things, that's going to be good for the United States. I mean, if he develops better battery technology, we will get it, believe me.

CHARLIE ROSE: OK, but there's the question that has been raised. In the past the United States has always been on the cutting edge of technology. Your great friend Bill Gates is testament to that.

WARREN BUFFETT: Sure.

CHARLIE ROSE: But are they developing the capacity -- he's going to lead in batteries. Somewhere else they say China is going to lead in solar technology. Somewhere else say, they do more -- is this ...

WARREN BUFFETT: Well, we don't know...

CHARLIE ROSE: Are we looking at that hard reality?

WARREN BUFFETT: Well, it's better to have the whole world, the talent of the whole world working on things like battery technology or whatever it may be. I mean, I'd like -- you know if we're going to add the resources of a whole bunch of other people to help solve our problems, I'm all for it. If we get there first and they copy us, fine. If we get there first and we copy them, fine. I mean, it is not like they're going to be able to horde the technology and we'll never see it.

So, you know, I'd like to see -- I'd like to see the United States come in first on everything, but I don't -- I don't think it will be terrible if somebody in China or India comes up with something that enables this country to deal with its problems. We'll get the technology.

CHARLIE ROSE: It may very well be that this -- the world will be waking up. I saw today that President Medvedev basically said in a sort of stern message to the Russians, that we can't just depend on the export of oil and energy. We have to begin to think about how we restructure -- all the things -- sounding like an American ...

WARREN BUFFETT: Yes.

CHARLIE ROSE: ... speaking about the economic reality of today.

WARREN BUFFETT: And the reason he's saying that, it is because it's so darn obvious. I mean, you know, they did count on oil. They've been counting on it too much. And -- but the beauty of it is, you know, we don't have a monopoly on the system. I mean, we can -- a market system can exist elsewhere. And that does cause people to work on things that other people want. I mean, you know, it's much better than having a central planner.

CHARLIE ROSE: When you look at today and what we face in terms of the job reality, are we going to have the capacity to create the kind of jobs or will we have to settle at a new unemployment rate that we're not familiar with?

WARREN BUFFETT: No. We'll create new jobs. I mean, we've been through all kinds of tough unemployment cycles. In the early '80s being probably the toughest. It really looked tougher for the -- not in the financial world. But in 1981, 1982,you know, we were at 10 percent unemployment, and Volcker was applying, you know, a battle axe to the economy, and people said, you know, Germany and Japan are going to produce everything, what will happen to this country.

We've created millions and millions and millions of jobs since then. But, you know, who would have thought when Paul Allen and Bill Gates were in Albuquerque, you know, eating pizza and drinking coke at 2:00 in the morning, you know, that they were a big part of our future. But that's going on right now. I mean, who would have thought the Google guys were doing what they were doing, you know, a few years back?

We have -- we can't predict what it will be. I sat there in that room in Columbia last night with 1,000 people. If we'd had that same 1,000 people back in 1790 and I gave them some pep talk like this and they'd leave the place and they'd all go back to their farms and say, that's fine, but, you know, what the hell are we going to do, you know. If farm implements get better, well, there is no jobs. But they wouldn't have been thinking about the automobile and the airplane and the electric -- all of that. I can't tell you what it will be, but I can tell you it will happen.

CHARLIE ROSE: You have also said and been very clear that you think in this conversation and every other one, you know, that we had to pour a lot of money at a crisis, and we may very well have presented ourselves with a problem that is as difficult as the crisis.

WARREN BUFFETT: Well, when you -- when you use old medicines in unprecedented dosages, and even invent some new medicines as we had to do last fall -- you know, there are side effects and after-effects. And probably they're somewhat proportional in certain ways to the extreme nature of the dosages. So, you know, we cannot keep running fiscal deficits like we are currently without having a lot of consequences over time. And ...

CHARLIE ROSE: $1.4 trillion for 2009.

WARREN BUFFETT: Yeah, a lot -- you know, that's just, you know, even for a guy like me, I mean ...

CHARLIE ROSE: Those are real numbers.

WARREN BUFFETT: Trillion gets my attention. So, you know, that has consequences. And we are not saving $1.4 trillion to finance that deficit. And we faced huge deficits in World War II. I mean, relative to GDP then, to fight a war, and there were inflationary consequences after, even a little bit during the war.

CHARLIE ROSE: So inflation will be inevitable because of the amount of money we ...

(CROSSTALK)

WARREN BUFFETT: And then the question is whether -- and basically, it's Congress. I mean in the end, Congress is the one that determines the value of the dollar over time. They -- if they follow policies that require us printing too much of it, monetizing debt and all of that sort of thing, dollars -- dollars will become worth a lot less.

CHARLIE ROSE: So Congress has to do what?

WARREN BUFFETT: They -- they have to, once the economy is rolling again, they've got to -- they've got to apply some, you know, they've got to raise taxes now that income will go up as the recession ends anyway, but they're going to have to -- they're going to have to close the gap between expenditures.

CHARLIE ROSE: They've got to find more revenues.

WARREN BUFFETT: They've got to ...

CHARLIE ROSE: The expenditures is a harder thing to do than the -- finding the revenues. Isn't it?

WARREN BUFFETT: Yes.

CHARLIE ROSE: I mean -- go ahead, tell me. Which is easier, cutting expenditures or raising the revenues?

WARREN BUFFETT: They have got to do one of the two, because the gap between the two, you know, is as wide as the percentage of GDP -- is wider as a percentage of GDP than we've ever seen except in wartime.

CHARLIE ROSE: It's now what, ten percent?

WARREN BUFFETT: Yes. That's exactly. Just a touch over ten percent is the gap. And that's huge.

CHARLIE ROSE: And what's acceptable? Six?

WARREN BUFFETT: Well ...

CHARLIE ROSE: It was six during Reagan. It was six ...

WARREN BUFFETT: We can work -- if we have a gap of about 2, 2.5 percent and we have sort of normal growth, then debt as a percentage of GDP doesn't grow. So, the country gets more valuable over time and we have more productive capacity, and all. So we can handle more debt, but it should not be -- it should be proportional to, in a sense, the wealth and earnings of the country. And -- and we can take a couple of percent gap over time, and have that debt not grow proportionally.

CHARLIE ROSE: Right.

WARREN BUFFETT: It's about -- the net outstanding is about 55 percent of GDP now. There's nothing wrong with that. But you don't want to just keep climbing. And at a point it gets out of control and interest on debt compounds and all of that sort of thing. But of course, in good years, if you're going to average 2 percent, you'd better not have 2 percent be the base, because you'll get into years like this with ten percent, and it will pull the average up a lot.

CHARLIE ROSE: This question is asked frequently. Will at some point the deficit and the debt and the decline of the dollar get to a point that people who hold our debt will no longer want to buy and then we're in a crisis?

WARREN BUFFETT: Well, the rest of the world doesn't have much choice, in a sense. I mean, if we -- if our current account surplus -- deficit, is $400 billion, we're handing $400 billion to the rest of the world. They've got to buy something with it, and one way or another they have to buy something in dollars. I mean, if they get those dollars and they buy government bonds of the United States and they decide to sell them to buy stocks, you know, they still get dollars when they sell the government bonds. They can -- they can choose among assets. They can't really choose not to invest in the United States.

CHARLIE ROSE: But they can choose as to where else they go for new investments, can they not?

WARREN BUFFETT: Well, they -- in effect, if we're running a $400 billion deficit figure, the rest of the world is getting $400 billion worth of I.O.U.'s of one sort or another from the United States.

CHARLIE ROSE: Right. Right.

WARREN BUFFETT: Now, if they invest that in France -- because some say the Chinese buy stuff from France -- now France has got the dollars. The only way you can bring down that is to actually get rid of the current account deficit over time. And -- but in any event ...

CHARLIE ROSE: And that's having to do with the costs and savings, the consumption savings rate.

WARREN BUFFETT: But if you are running a $1.4 trillion deficit, even if you are exporting $400 billion of I.O.U.'s in effect to the rest of the world, that leaves another trillion. And, you know, the domestic savers are not going to come up with a trillion. I mean, so these numbers are unsustainable over time, what we're doing. It is true, though, that if you keep flooding the world with your debt and people see your fiscal policies are sort of out of control, they're going to get less and less and less enthused about your debt, and then one of two things happen. Either you keep paying more and more to roll over that debt or you start monetizing it like crazy. And I mean, the Federal Reserve can buy the debt and issue -- issue currency for it, but then the currency gets worth less.

CHARLIE ROSE: But is what you just described the reality we're facing if we don't do something dramatic soon?

WARREN BUFFETT: Fairly soon. And we still want the economy to come back. I mean, we want to put out the fire. You know, but then make sure ...

CHARLIE ROSE: You worry about that later after we put out that fire.

WARREN BUFFETT: Then we don't -- (inaudible) just squirting water on those buildings. We have to know when the fire is out.

CHARLIE ROSE: Yeah, but how do we know that? That's my question.

WARREN BUFFETT: Oh, well, well, we will know -- unemployment will top out late. But we'll know when the economy is really coming back.

CHARLIE ROSE: What will be the indication of that for us?

WARREN BUFFETT: Well, it will be -- it will be retail sales. It will be automobile sales. It will be when home construction starts coming back. It'll be -- there'll be plenty of economic signs -- they may be a little late in getting recognized. There's you know, the depth (ph) comes a little late.

CHARLIE ROSE: Right. Right.

WARREN BUFFETT: But we'll know. We'll know. We won't know -- we won't know when the turn happens, but three or four months later, we will know it's happened.

CHARLIE ROSE: And it's inevitable that's going to happen in the next year or two or later?

WARREN BUFFETT: Well, I like two better than one. But when you say inevitable, that doesn't mean it can't happen earlier.

CHARLIE ROSE: But I mean -- what would you worry about that might -- that we might not come back the way we ought to, that somehow there have been repercussions from this that will have lasting impact?

WARREN BUFFETT: Well, there will be some lasting impacts of certain types, but in terms of coming out of it, I don't worry. If you had some big exogenous event -- if you had a major-- either by a country or by terrorists -- sort of a 9/11 squared or something ...

CHARLIE ROSE: Right. Right.

WARREN BUFFETT: ... a huge anthrax attack or something like that, you know.

CHARLIE ROSE: Or oil went to $250 a barrel or something like that.

WARREN BUFFETT: If oil rose to $250 a barrel, there can be certain exogenous effects that could ...

CHARLIE ROSE: So, that kind of thing would worry you the most that's likely to happen. Otherwise ...

WARREN BUFFETT: I mean, for some reason or another, 5 million barrels a day of oil out of the 85 million barrels, you know, got shut off, and more or less looked like permanently at the time, you know, there would be a lot of disruption in this world.

CHARLIE ROSE: When you look at the lessons we have learned, one was as you have suggested, way overleveraged.

WARREN BUFFETT: Yes.

CHARLIE ROSE: We also experienced a bubble, a housing bubble. We will have other bubbles.

WARREN BUFFETT: We'll have other bubbles. I'll guarantee you.

CHARLIE ROSE: Are we going to go back to the same kind of leverage?

WARREN BUFFETT: Not for a while. We learn lessons and they last for a while, and the deeper the wounds, to some extent, the longer they last. I was a beneficiary of that. I mean, I got out of school in 1951, and all of my competitors were still worried about the Great Depression, and my memory wasn't good enough so I had forgotten. So, this -- this will have -- this will have an impact on thinking for quite a while in certain respects. But fear, greed, folly ...

CHARLIE ROSE: Not going to change.

WARREN BUFFETT: No, we haven't -- we haven't gotten rid of those. We get smarter in all kinds of ways. We don't get smarter emotionally.

CHARLIE ROSE: Why is that?

WARREN BUFFETT: It's just the way the human animal is put together. You know I mean ...

CHARLIE ROSE: The memory fades and all of a sudden the new temptation is there.

WARREN BUFFETT: Yeah, you know, and plus, you know, plus being greedy can be fun for a while, I guess. You know, leverage can be fun when it works.

CHARLIE ROSE: Yes.

WARREN BUFFETT: Leverage -- leverage is one of those things that works 99 times out of 100, and when it doesn't, you know, it's all over.

CHARLIE ROSE: How do you explain the fact that you always enjoyed making it more than even spending it? You enjoy making it and investing it, but not necessarily spending it.

WARREN BUFFETT: Well, I have everything I want in life, so there's nothing to spend it on. I mean, I could have 10 houses instead of one, would I be happier? No way. I could have 10 cars instead of, you know, two in the house. I wouldn't be happier. You know, it would drive me crazy. I could have a 400-foot boat, you know, and then I've got to have a crew of 50 or 60, and some of them (inaudible), sleeping together -- I mean, who knows what would be going on. So I don't -- if I wanted to be a ship's captain, you know, I'd have gone into a different profession. I have everything in life I want.

CHARLIE ROSE: And what you enjoy doing is studying where we are, understanding, doing the kind of analysis through conversations and reading ...

WARREN BUFFETT: I love working -- I love working with the people I work with. I love just viewing the human scene, but I mean, I have an ideal life. I get to do what I want to do every day. So, you know, and money can't -- can't buy any more than that.

CHARLIE ROSE: What do you think of a value added tax?

WARREN BUFFETT: Well, I don't -- I basically don't like it because it's somewhat akin, it is not the same, but it's somewhat akin to a sales tax. I mean it has -- it has ...

CHARLIE ROSE: It's regressive.

WARREN BUFFETT: Yeah, it's regressive, and, you know, we don't need more regressive taxes in the United States.

CHARLIE ROSE: That's why you don't like cap and trade.

WARREN BUFFETT: Yeah, well, that's right. In terms of the way it falls on people, absolutely. I think that if we're looking for more money, we ought to look to guys like me. I mean, I am still paying a lower rate on dividends and capital gains than my cleaning lady. It's, you know, in terms of her payroll tax, just to start with. And so, I just think that we've gotten so far out of whack in terms of who's been prosperous in recent years, and most of the economy -- most people have been left behind, you know. So we learn that a rising tide lifts all yachts.

(LAUGHTER)

CHARLIE ROSE: But there are not a lot of guys like you to start with.

WARREN BUFFETT: Well, there are some.

CHARLIE ROSE: Well, but you're the top of the list there with -- you and Bill. But there is also this -- what is an appropriate rate of taxation of people like you before, as some conservatives and supply-siders argue, you begin to somehow inhibit growth?

WARREN BUFFETT: Yeah. Well, I -- I worked through all kinds of systems of taxation.

CHARLIE ROSE: Right.

WARREN BUFFETT: And I worked with rich people, you know, even in the '50s and the '60s, and I worked with them when the top rate was 70 percent. I worked with them when capital gains rates were 39.6 percent, and not one of them said, you know, it's 1:00, and instead of working this afternoon I think I'll go to the movies because my marginal rate is so high. I mean, if anything, they worked harder, Charlie.

CHARLIE ROSE: The reason they got rich is because they worked hard.

WARREN BUFFETT: I never had one person -- I had hundreds of people ...

CHARLIE ROSE: Yeah.

WARREN BUFFETT: ... you know, in the partnership ...

CHARLIE ROSE: Right.

WARREN BUFFETT: ... and not one of them ever came to me and said, "Warren, I decided to hell with it. 39.6 percent, I'm not going to invest my money." What would they do with it, stick it under the mattress?

CHARLIE ROSE: Does that mean that the American system is in a sense a bit unfair and geared to the rich?

WARREN BUFFETT: Well, I think it has become more geared to the rich as time has gone by, and I think that the rich have, you know, obviously a disproportionate impact, you know, on how Congress behaves, and...

CHARLIE ROSE: Money in politics.

WARREN BUFFETT: You basically have to -- if you have a very rich country with a great number of superrich, you have to fight against a plutocracy. I mean, you know, the Congress has to be your bore (ph) -- for the principles of democracy to win out over a plutocracy, and we've done that well in this country. But it's a constant fight. I mean, you know, K Street is not populated by a whole people -- a whole bunch of people who represent my cleaning woman. And if you look at the Forbes 400, you'll find that, you know, they find their way to K Street, and it finds their way to them.

CHARLIE ROSE: Sure. They have multiple voices on K Street.

WARREN BUFFETT: They care. Sure. They care.

CHARLIE ROSE: So, what would you do about that?

WARREN BUFFETT: Well, it's always a problem.

CHARLIE ROSE: Yeah.

WARREN BUFFETT: And you want a prosperous country so you want a whole bunch of rich people, but you also want everybody to do reasonably well in something as prosperous as we have. We have $45,000 of GDP per capita in the United States ...

CHARLIE ROSE: Yes.

WARREN BUFFETT: ... but we've got -- we've got almost 60 million people living in households where 20 -- the top income is $21,000 or less. That's the top of the 60 million people. So we can do better. Now, we have done better over time. I mean, we put in Social Security and we've done things in the country that have worked in the direction ...

CHARLIE ROSE: Medicare and Medicaid.

WARREN BUFFETT: Yeah.

CHARLIE ROSE: Yeah.

WARREN BUFFETT: But a prosperous country should not just be prosperous for the people like me who are wired in a particular way at birth -- no credit to me -- but I happen to know something about capital allocation. It wasn't, you know, I could have instead -- I could have been -- I could have been wired, you know, so I was, you know, I don't know -- a great ukulele player. But there's more money ...

CHARLIE ROSE: Sometimes you can be both.

WARREN BUFFETT: Yeah, well, not often. Not in this case anyway. But there's more money in what I do.

CHARLIE ROSE: Yes.

WARREN BUFFETT: And you don't want to mess up the market system that works to bring out of people what their best talents are, but the market system is not perfect in any kind of distribution of wealth. And taxation is a way where you get to the excesses of what the market system produces and where you take care of the people that get the short straws. In a country as prosperous as we are, nobody should get a really short straw.

CHARLIE ROSE: You know, some people are going to hear you say that and they'll say, "Warren is talking about sharing the wealth. There he goes .."

WARREN BUFFETT: Well, I'm talking about sharing the prosperity.

CHARLIE ROSE: You're ...

(CROSSTALK)

WARREN BUFFETT: I'm prosperous because of the society around me. Stick me down in some poor country and I'll walk around and say I allocate capital, you know, and they'll say, so what? What we need is a guy with a strong back. You know, and I don't have a strong back.

CHARLIE ROSE: But can you row a boat or something?

WARREN BUFFETT: Yeah. Something like that.

CHARLIE ROSE: Right.

WARREN BUFFETT: So -- so society -- listen, when a couple of middleweights fight it out on Pay Per View this weekend and get $49.95 from me, or whatever it maybe, and I can't remember their names two weeks later, you know, they are benefiting not because of their own talent that much, but because some guy invented television and then invented cable television, and learned how to change a stadium of 15,000 people into a stadium of 300 million. So they benefit from society. We all do. And some like me benefit enormously from society, you know. I can't do it by myself. Stick me on a desert island, you know, you do not want to be on the same island.

CHARLIE ROSE: There is this, also. The Bush administration says that when the economic crisis came, they treated it with a tactic, which was doing what they did. They worry that what the Obama administration is doing is a strategy to put in place a different attitude about the relationship between the government and the economy.

WARREN BUFFETT: Yeah, I don't think the Obama administration wants the government to take over the economy. But they did -- they took on a situation -- and incidentally, I can give credit to the Bush administration in that last four or five months of 2008. I mean, a lot of right things were done. I mean, when George Bush said, you know, if money doesn't ease up -- if money doesn't ease up, this sucker can go down. That was one of the most profound economic statements ever made. He became the economist in chief as far as I was concerned at that point.

But so I give them credit, too. But the Obama administration, they're not running General Motors because they want to run General Motors. I mean, it isn't like that Barack Obama grew up wanting to run the whole American economy. They're doing well...

CHARLIE ROSE: Although he might want to buy a railroad, though.

WARREN BUFFETT: Yeah, well.

(LAUGHTER)

CHARLIE ROSE: That's going to be ...

(CROSSTALK)

WARREN BUFFETT: He'll buy it from me.

CHARLIE ROSE: But go ahead. It's a good -- but ...

WARREN BUFFETT: They are doing what is necessary in their view to get this economy righted. Nobody makes perfect decisions on this. And they're doing things I'm sure they don't like to do. I don't think they want to run General Motors, you know, or Chrysler or anything of the sort ...

CHARLIE ROSE: Or own AIG?

WARREN BUFFETT: No.

(CROSSTALK)

WARREN BUFFETT: That is no fun. Or prop up Freddie and Fannie.

CHARLIE ROSE: So, all these people who think that somehow there's some new idea about -- they use the word "socialism," but something else in terms of ...

WARREN BUFFETT: Yeah, Barack Obama ...

CHARLIE ROSE: You don't buy that.

WARREN BUFFETT: Barack Obama wants a much more prosperous economy, embodying the principles that have made it prosperous, but I think he does want to make sure that the bottom 20 or 30 percent does better than it has done in the last 20 years while the top has prospered so much.

CHARLIE ROSE: That brings us to the question beyond whether Congress has the will or not, there is this idea, which is how do you create a new regulatory platform and architecture. And you've got on the one hand the administration comes in and says let the Federal Reserve do it, then you have Chris Dodd who says no, no, no, don't do that. And then Barney Frank says I'm somewhere halfway in between. Where is Warren Buffett?

WARREN BUFFETT: I am 100 percent for the independence of the Fed.

CHARLIE ROSE: Right.

WARREN BUFFETT: I mean, if you have a central bank that is bowing to the will of Congress, either directly or indirectly, through some of the various (ph) mechanisms, it would be a disaster.

CHARLIE ROSE: Who wants to be in on their monetary decisions or oversight or whatever...

WARREN BUFFETT: Yeah, you've got to hope you've got a good Fed chairman and some good members, but -- and we've done that generally. If Paul Volcker was -- you know, he was essential to this country coming out of that 1979-'82 period like we did. Ben Bernanke was essential to keeping us from going into the abyss last September. We need -- we need an independent Fed, and I think every country needs an independent federal bank.

CHARLIE ROSE: But does that mean they should be the regulator as well?

WARREN BUFFETT: Somebody has to regulate, and banks do need regulation.

CHARLIE ROSE: Do we need one regulator, one big regulator that will ...

WARREN BUFFETT: Well, if it was me, I would like it. I mean I -- I -- because you need -- you need somebody that does have a big stick.

CHARLIE ROSE: Yes.

WARREN BUFFETT: I mean, left to their own devices, people will take on too much leverage. They may not this year or next year, but the financial institutions, particularly if they're promising they're going to increase their earnings per share every quarter, and they'll do off-balance sheets, things -- all of these sins that were committed a few years ago.

CHARLIE ROSE: Right.

WARREN BUFFETT: You know, Freddie and Fannie did a lot of them, too, and they were regulated by Congress.

CHARLIE ROSE: And they had 200 regulators marching into the office every day.

WARREN BUFFETT: So we've had Congress regulate the two of the five or six most important financial institutions in the United States, and it was a total flop. So it's tough being a regulator, and -- but you want somebody that is independent, somebody that has got real muscle, and hopefully somebody that, you know, who has an understanding of what you need to do to keep the system working well.

CHARLIE ROSE: And that's the Federal Reserve.

WARREN BUFFETT: I think they're good at it. Yes. You know, they weren't perfect this time around, and, you know, but Congress wasn't perfect, either.

CHARLIE ROSE: But once the problem came, they responded, and you had untold admiration for Bernanke.

WARREN BUFFETT: If he hadn't have had the authority he had...

CHARLIE ROSE: Yeah.

WARREN BUFFETT: ... and maybe -- maybe if he even had and thought he had a little more authority than he even did have last fall -- I mean, there's something to that, you know. I mean, you had to have somebody that would step up and guarantee money market funds, you know, keep commercial paper flowing, do these things that not many people could have done. And certainly Congress couldn't have done them with the speed -- you know, and speed was absolutely essential. I mean, you did not have a lot of time to save this patient.

CHARLIE ROSE: And they understood that, too.

WARREN BUFFETT: And they really understood it.

CHARLIE ROSE: And reacted. And gained a lot of power and used it. There's also this -- you cannot establish a particular leverage ratio, can you? You can't say that 15:1 is as far as it should ever be.

WARREN BUFFETT: No, if you have a bank that owns nothing but short-term government bonds, they can have 50:1, and if you got them, you know, they've got a whole bunch of money lent out to other guys who were leveraged in various ways, in various speculative things, five to one is too much, so pure numbers don't work.

CHARLIE ROSE: So what works?

WARREN BUFFETT: That is the problem. That is the problem.

CHARLIE ROSE: That's why...

WARREN BUFFETT: No, I mean, if you could just stick a bunch of ratios out there, it would be all over.

CHARLIE ROSE: But what works? I mean, it's the problem, give me a possible way of dealing with the problem.

WARREN BUFFETT: I would like to have a very smart, strong regulator that understood the nuances of different kinds of leverage and what it might mean. And one who would be willing not only to use those rules of individual institutions, but who would speak out to the country. You can’t speak out too often and have it meaningful, but who would speak out to the country about a generalized problem. Because that’s what we needed. It wasn’t -- it wasn’t the fact that it was bank "A" or bank "B" or bank "C." What was happening was that you were having a bubble that everybody was joining in, and speaking out on that -- which requires a lot of guts and may even get ignored, although if it comes from somebody that is running the Fed, you know, or whomever, or the president of the United States, I mean there can be people that will have an impact on that.

CHARLIE ROSE: You’ve said that you’re not in favor of too much coddling and that you’d like to see the stick used more.

WARREN BUFFETT: Absolutely.

CHARLIE ROSE: Tell us what you meant.

WARREN BUFFETT: Well, what I mean is, that if you run a financial institution -- and it’s financial institutions overwhelmingly that do tend to create the problems because there’s this aggregation of capital -- if you run a financial institution that in effect can bring down the system, unless the federal government steps in ...

CHARLIE ROSE: Right.

WARREN BUFFETT: If you get to that point, I think something very bad should happen to you. I don’t think you should walk away with a lot of money or even with 10 percent of your previous net worth or anything of the sort. And I think the directors who selected you and let you operate in that manner should have some real downside. You know, I’m not for shooting them, but I’m for ...

CHARLIE ROSE: But the threat of it would be...

WARREN BUFFETT: I want to make it painful for them. I mean, seriously ...

CHARLIE ROSE: Painful would be they -- what, they can’t buy insurance?

WARREN BUFFETT: No, yeah, well, I would probably have in terms of the very large financial institutions, if they have to go to the government, you know, and the government had to act -- because there are going to always be too big to fail institutions.

CHARLIE ROSE: Right.

WARREN BUFFETT: It drives regulators crazy, but that’s the reality of it-- and if an institution comes in and says, "If we go down, we’re pulling the whole country down with us," I think that the directors and the CEO of an institution like that, I think the directors say -- should certainly have to give back -- you know, they should -- five times the highest fee they’ve received in the previous year, because you’re sitting around those places now getting $200,000 to $300,000 a year, you know. And for the -- all I want from my $200,000 to $300,000 a year is somebody that is selecting and designing a compensation system for the person they put in charge, the CEO, who should be the chief risk officer. I want them to have a system that penalizes that person very, very significantly, and if they don’t -- they don’t create that kind -- if they pick the wrong person or they let that person go off the reservation, I want them to pay, also.

CHARLIE ROSE: All right. So, let me just --you want there to be a penalty for directors who do not do their job.

WARREN BUFFETT: Yeah.

CHARLIE ROSE: But you recognize that there are going to be financial institutions that are too big to fail. It has been and will continue to be.

WARREN BUFFETT: It will continue to be.

CHARLIE ROSE: You can't simply say we're going to let anybody fail no matter how big, no matter what the consequences.

WARREN BUFFETT: No, we're just going to have a mom and pop bank on every corner, and it isn't going to work.

CHARLIE ROSE: Do you think that the financial community has any sense of I'm sorry?

WARREN BUFFETT: Well, most of them didn't do it, I mean, in the sense that-- if you take the leaders of these institutions that got them in, a lot of them are gone. Now, they're gone with more money than I would like to have them gone with. And I think what's infuriating to the American public -- if you take the people in Omaha, you know, they have seen lots of unemployment. They've seen in many cases their homes or friends' homes foreclosed. They've seen all these things happen to them, and nobody's going to jail. And as far as they're concerned, the leaders of institution A, B, or C, that have in a big way contributed to these problems, you know, they may be worth -- they may be worth $10 million instead of $100 million or something like that, but they don't see anybody going to jail. They don't see -- they don't see anybody being held very responsible for it.

CHARLIE ROSE: And they don't believe that if they were in the same place, a much lower investment, that anybody would have come along and taken care of them.

WARREN BUFFETT: Well, yeah, and they're right about that. I mean, if I have a tiny little business that fails, it doesn't affect the United States. But if you have Freddie Mac and -- Mac and Fannie Mae ...

CHARLIE ROSE: Or AIG.

WARREN BUFFETT: Or AIG.

CHARLIE ROSE: Or Citicorp.

WARREN BUFFETT: Yeah, they -- and they -- it would have affected us. I mean, we could not stand those dominoes falling. And it drives people crazy that we couldn't, but we couldn't. I mean, if those -- if a few more dominoes had fallen, if that weekend of September 12 to 14th, or whatever it was, if one more domino then, you know, Merrill Lynch going, Morgan Stanley would have been next -- if the dominoes were so lined up, and they were so big that ...

CHARLIE ROSE: Without the government, they would have gone down.

WARREN BUFFETT: They would have gone down. But bear this in mind -- they talk about moral hazard on this. There isn't any moral hazard. If you look at Citi, 90 percent of the market value has disappeared. If you look at Freddie Mac, 90 percent of the market value -- more than that.

CHARLIE ROSE: Look at AIG.

WARREN BUFFETT: Fannie Mae, AIG, all of them. So, the stockholders have gotten totally creamed. The owners have gotten totally creamed. So, it's not like anybody who was a stockholder of Citi or Freddie, or Fannie, or AIG or you name it, is thinking, ha-ha, you know, the system is going to save me. Because it didn't save them. They got killed. But the guys at the top did not get -- you know, in most cases, did not get killed. And they're the ones that made the mistakes.

CHARLIE ROSE: And should they have gotten killed, so to speak?

WARREN BUFFETT: It should have been harder for them.

CHARLIE ROSE: And so, how would the government have done that?

WARREN BUFFETT: I would probably have something with those kinds of institution where no one got rich from running an institution like that until about five years after they left. I mean ...

CHARLIE ROSE: Yeah.

WARREN BUFFETT: And I'd have had a very restricted and I'd have clawbacks, and I'd be plenty tough, and I'd be tough on the directors if they hadn't put in those kind of arrangements.

CHARLIE ROSE: And they say that now, if you listen to the financial executives today, they say we're in favor of clawbacks, and we've instituted those kinds of things. I don't know whether they have or not...

WARREN BUFFETT: Well, they've done some, but I'd probably square it.

CHARLIE ROSE: Make it exponentially.

WARREN BUFFETT: Well -- and I wouldn't let them buy -- against this sort of risk, I wouldn't let them buy directors officers insurance -- liability insurance.

CHARLIE ROSE: Right.

WARREN BUFFETT: We don't have that at Berkshire. I mean, if our shareholders are going to go down, I want me to go down with them and the directors to go down with them. You know, we've taken on the job. And, you know, if the ship goes down, we should not get the first lifeboat.

CHARLIE ROSE: When you look at that year -- this is a book by Andrew Ross Sorkin ...

WARREN BUFFETT: It's a very good ...

CHARLIE ROSE: It's a very good book.

WARREN BUFFETT: It's a very good book.

CHARLIE ROSE: And you're in there. Moments for you, I mean you were at the other end of phone calls from people who ...

WARREN BUFFETT: Who wanted money.

(LAUGHTER)

CHARLIE ROSE: Who wanted money. And in some cases advice, but mostly money.

WARREN BUFFETT: Mostly -- yeah, they'd take money before -- if there was a choice between money and advice, right...

CHARLIE ROSE: They'll take money. So, they mostly wanted money. Are there moments you look back in which you said no that you might have said yes? I mean, do you have any sense of ...

WARREN BUFFETT: You just ....

CHARLIE ROSE: I know you do.

(CROSSTALK)

WARREN BUFFETT: I mean, it's just like standing at that plate and the pitch comes in and you have got a half a second to decide whether to swing.

CHARLIE ROSE: Yeah.

WARREN BUFFETT: You know. No.

CHARLIE ROSE: I know you're not a man to agonize, but I mean have -- I mean ...

WARREN BUFFETT: Or, I could have done way smarter things.

CHARLIE ROSE: Like?

WARREN BUFFETT: I did not optimize the period.

CHARLIE ROSE: Right. Because you had money and they needed money and they would have given up a lot for that money.

WARREN BUFFETT: Yeah, plus, the bottom of the market was six months later, I mean, and it was significantly lower. So if I just saved the money, just put it in the market six months later, I would have done way better than making these deals.

CHARLIE ROSE: Right. Right.

WARREN BUFFETT: But I didn't know that at the time.

CHARLIE ROSE: So you said I'm optimistic, but I'm not sure my optimism is justified.

WARREN BUFFETT: Well, I don't try to pick bottoms. No, I really -- when something -- when I get a call and it makes sense and I've got the money, I do it. You know.

CHARLIE ROSE: Yes.

WARREN BUFFETT: And I don't think I can do this better tomorrow or the next day, or that sort of thing. But most of the things didn't make sense.

CHARLIE ROSE: But here's something else you taught me as well -- you don't get that many swings at the bat.

WARREN BUFFETT: Not with big sums.

CHARLIE ROSE: With big sums.

WARREN BUFFETT: Yes, with big sums.

CHARLIE ROSE: So if you look at Burlington Northern, is that-- that was a big - that was a big sum.

WARREN BUFFETT: Yeah. And you don't get bargains on things like that. It's not cheap.

CHARLIE ROSE: But that was a bargain?

WARREN BUFFETT: No, it's not a bargain.

CHARLIE ROSE: I didn't think so. That's what I'm asking you.

WARREN BUFFETT: No, but it's a good asset to own for Berkshire over the next century.

CHARLIE ROSE: But does it restrict how many -- suppose tomorrow a great thing came along that you didn't know. Would you say, "oh, my God..."

WARREN BUFFETT: Well, it could happen. I mean, if the Union Pacific came along at half the price - you know, but I don't worry about that sort of thing at all, Charlie.

CHARLIE ROSE: So when we look back at this time, for one who loves-- who loves understanding what's going on and where it's going -- you said to me before, you know, you might sacrifice the last year of your life if somebody would come along and say, "Warren, I can tell you what the next 40 years are going to look like. All the questions you have, I can answer."

WARREN BUFFETT: Or just let me watch. Just let me watch the next 40 years. The last year, you know, you don't get to be here, but the next 40 years you get to watch. Kind of like Chauncey Gardiner, he liked to watch.

CHARLIE ROSE: So as we put a cap on this, we're going to come out of this OK.

WARREN BUFFETT: Absolutely.

CHARLIE ROSE: We've got some real problems we have to deal with. The deficit is one. How we learn the lessons of this in terms of finding some kind of regulation that works. And have confidence that we got here because we had unique kinds of skills. Go back to 1776 and see what a few group of people did and where we are today, makes you an optimistic about America, but also optimistic about the world.

(CROSSTALK)

CHARLIE ROSE: As the center of gravity moves to Asia.

WARREN BUFFETT: It's wonderful that the lessons we learned over the last couple of hundred years are being absorbed in many parts of the world. I mean, people have seen success and they've had the sense to copy some of it, and get into their own system those ingredients that have done it for us. But we haven't lost the ingredients. The fact that they're able to use the ingredients does not take it away from us.

And every year of my life, I could sit down at the start of the year and write on a pad a dozen things that were looming over the economy. When people say, "I'm not buying stocks now because times are uncertain," I say to them, so, I say to them, "well, on September 10th, 2001, were times certain?" You thought they were certain, but you found out the next day they weren't. On October 18th, 1987, before the -- the day the Dow took that 22 percent -- things are always uncertain in the short term. What really is certain is the things that worked over time will continue to work over time. So the next day is always uncertain. The next hour is always uncertain. The longer term is pretty darn certain.

CHARLIE ROSE: Warren, thank you.

WARREN BUFFETT: Thank you.

CHARLIE ROSE: It's always great to see you. Warren Buffett for the hour.

Thank you very much for joining us. We’ll see you next time.

END

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